FOREIGN AFFAIRS

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A Chance to Preserve the World They Made

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On their face, transatlantic relations over trade, investment, and technology seem sturdy. The United States and the European Union are among each other's largest trading partners, as well as the largest source and destination for their companies' foreign investments. Decades of policy cooperation have resulted in remarkable economic interdependence, job growth, and expanding investment.

Take, for example, the successful rollout of COVID-19 vaccines on either side of the Atlantic. Over one hundred million Americans have received doses of the Pfizer-BioNTech jab, a vaccine based on European innovation and made at Pfizer's plants in Massachusetts, Michigan, and Missouri; a similar number of Europeans have received the same vaccine made at Pfizer's facility in Belgium. Moderna's messenger RNA (mRNA) vaccine was invented in the United States; it is also being bottled for distribution in plants in France and Spain and has become increasingly essential for the EU's response to the coronavirus pandemic. The Johnson & Johnson vaccine was co-developed at the Janssen R & D lab in the

Netherlands and a hospital in Boston and is also produced on both sides of the ocean.

Unfortunately, the success stories of interdependence don't get the same attention as the friction. The imperatives of domestic politics encourage leaders to assail foreign targets and dwell on asymmetries. European officials bristle at the actions of U.S. technology giants Amazon, Apple, Facebook, and Google (there are no comparable European companies), while their U.S. counterparts worry that Americans are buying too many German cars and that Europe refuses to accept genetically modified farm products from the Midwest.

The inordinate focus on such bilateral irritants has had damaging consequences. The United States and the EU have ignored the decline in their combined influence over global trade. The two made up over 50 percent of global exports in 1990; by 2020, that had fallen to roughly 40 percent. Such a decline need not be a bad thing, except that it largely reflects the growing economic power of China, which does not share their transparent, rules-based, nondiscriminatory, and market-oriented approach to international commerce. Beijing's increasingly opaque, nonmarket, and economically coercive style is mounting a challenge to the trading system and multilateral order that the United States and Europe developed together over the last 75 years.

This concern should motivate Americans and Europeans to get out of their own way. In late September, U.S. and European Union officials met in Pittsburgh to try to patch up their differences on trade. Four years of Trump administration policy had left ties strained and in need of restoration. Both the administration of U.S. President Joe Biden and the European Commission under its current president, Ursula von der Leyen, hope to rebuild transatlantic cooperation in areas as varied as climate change, digital transformation, workers, technology, supply chain resilience, and human rights, all under the rubric of trade. But as the uncertain outcome of the Pittsburgh summit suggests, strengthening transatlantic ties in the age of an assertive China could be the most difficult trade task these two longtime collaborators have ever taken on.

TROUBLED WATERS

The recent struggles in U.S.-EU trade go back at least as far as the second term of the Obama administration. At the time, the United States and the EU attempted to circumvent an insurmountable impasse in global talks under the auspices of the World Trade Organization. In early 2013, they launched the ambitious bilateral initiative known as the Transatlantic Trade and Investment Partnership.

The TTIP aimed not just to strengthen transatlantic trade ties but also to encourage greater foreign direct investment and regulatory cooperation. But it foundered in the rocky shoals of politics. The revelations in 2013 that the United States had allegedly been spying on German Chancellor Angela Merkel had devastating consequences for U.S. relations with Germany, a necessary trade advocate. Separately, European civil society quickly mobilized against the TTIP itself. Hundreds of thousands of protesters took to the streets of Berlin and other European capitals, stoking fears that giant U.S. corporations would use the agreement to gut Europe's hard-fought consumer and environmental protections. Negotiations never reached the finish line, and the deal died quietly under its own weight.

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Transatlantic trade relations deteriorated further under the administration of President Donald Trump. Its "America first" policies prioritized attacking partners with whom the United States "suffered" bilateral trade deficits. Less than 100 days into his administration, Trump kicked off an investigation into steel imports under a Korean War–era law that allowed the government to impose import tariffs in the name of defending national security. NATO allies warned Washington of the consequences of such a move, but Trump nevertheless imposed duties on European steel and aluminum in June 2018. (Brussels immediately retaliated, as promised.) The tariffs in and of themselves were not new—European companies had dealt with U.S. steel protections for decades—but their imposition under a national security law rankled the Europeans. How could Washington treat its NATO allies as security threats?

Trump quickly used the same law to threaten even more duties on billions of dollars of BMWs, Mercedes-Benzes, and Volkswagens. In July, tensions reached such a pitch that European Commission President Jean-Claude Juncker rushed to Washington, and both parties agreed to launch negotiations over what could have turned into another one of Trump's minor trade deals. The EU also promised to buy more American soybeans and liquefied natural gas, allowing Trump to claim a political victory. But by the time his administration got around to asking Congress for formal permission to negotiate with Brussels, it was clear these talks would go nowhere. Congress wanted the negotiations to include European restrictions on U.S. farm exports, but the commission had no mandate from member states to negotiate over agriculture, let alone the political appetite to engage with Trump. There were talks for almost a year, but nothing was agreed apart from a very modest deal to abolish tariffs on lobsters and ceramics.

The Trump administration also hurt EU and U.S. interests by dismantling the World Trade Organization's system for resolving disputes by refusing to appoint arbitrators to a key appeals body. Since the mid-1990s, Brussels and Washington had leaned heavily on the WTO to manage their bilateral trade tensions. Brussels decided it had had enough when the Trump administration went around the WTO process for the first time in decades to threaten tariffs in response to France's imposition of a digital services tax on U.S. technology firms in December 2019. The Europeans suddenly felt the need for protection not just from the likes of China and Russia—but also from the United States.

A FRESH START?

Trump's defeat in the November 2020 U.S. election offered a fresh start. Brussels quickly sought to capitalize on Joe Biden's campaign pledge to "work with allies." In early December, the EU offered up a new and detailed blueprint for transatlantic trade and technology cooperation that also signaled it was coming around on some of Washington's key concerns, including those regarding China.

But then Brussels miscalculated. Later that month, the European Commission surprised the world by announcing a bilateral investment agreement with Beijing. The Biden team—now in transition mode and unable to speak directly to their European counterparts until it assumed power on January 20—was left furious. All that Jake Sullivan, Biden's choice for national security adviser, could do was tweet, and the Americans were left wondering: Was Europe a willing partner after all?

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To be sure, there have been some positive signs since Biden assumed office. In March, the United States and the EU implemented coordinated sanctions over China's alleged human rights abuses in Xinjiang. Janet Yellen, Biden's choice for Treasury secretary, has shepherded discussions surrounding global corporate tax reform to wide applause in many European capitals. (The progress on this front has allowed the United States to back off from imposing retaliatory tariffs on European digital services taxes.) The two sides also decided to settle the decades-long rancor over their respective subsidies to aeronautics firms Boeing and Airbus. Finally, Brussels delayed imposing a scheduled round of retaliatory tariffs against Trump's steel tariffs until December, with recent reports suggesting a more durable negotiated settlement to the problem may be in the offing.

But the biggest boost was the announcement made during Biden's June visit to Europe of a summit that would establish the U.S.-EU Trade and Technology Council, or TTC. This council would serve as the means to launch a new era of transatlantic policy cooperation.

THE PITTSBURGH SUMMIT

The TTC remains inchoate even after the recent summit in Pittsburgh, but both sides agree that it will not be a rehash of the failed Obama-era TTIP. Officials steered clear of controversial topics, such as investor-state dispute settlement—the controversial special court proposed in the TTIP that sparked protests across Europe—the United States' genetically modified foods, or even tariff reductions. Instead, they were intent on prioritizing new and immediate areas for collaboration. Ten working groups covered a range of important topics, including artificial intelligence, 5G, and pharmaceutical supply chains.

One area of particular concern to both sides is the current global shortage of semiconductors, which has badly affected automobile industries. The United States and the EU are both now attempting to direct tens of billions of dollars to boost domestic production of these chips to better compete with the likes of South Korea and Taiwan, as well as with China, which is also ramping up funding of this sector. The United States and the EU agreed to coordinate their semiconductor subsidies so that they don't simply drive up the bill for American and European taxpayers by chasing the same firms and segments of the market.

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On artificial intelligence, the United States and the EU committed to work together to develop guardrails that promote innovation but also make sure the technology is used responsibly, with respect for shared values and human rights. But this agreement went only so far. Both sides may be concerned that authoritarian regimes might abuse artificial intelligence by using it for unlawful surveillance and "social scoring" of individuals, but they are yet to agree to any sort of joint framework or common standards to regulate the technology. The risk is that these discussions about artificial intelligence turn into exchanges of ideas bereft of any concrete commitments, even as both the United States and the EU fall behind a China that has made significant investments in the field.

Trade ties will also need to accommodate climate policy now that the Biden administration has rejoined the Paris agreement. Brussels rolled out a carbon border adjustment mechanism in July that would tax foreign exports of carbon-intensive products from countries that themselves do not implement a domestic carbon tax. This current proposal could hurt U.S. exports to Europe, simply because the United States may choose to reach its climate objectives through a mix of regulations and subsidies and not through carbon taxation. U.S. and EU officials can use the new trade council to better understand and support each other's approaches to meeting their overall carbon-reduction targets and not let minor differences in strategy mushroom into trade conflicts.

A FLEXIBLE RELATIONSHIP

The Pittsburgh summit did not produce many immediate results, but that was to be expected. The two sides did commit to set up routine meetings for ministers and a framework for staff to tackle issues before they escalate into larger political problems. Policy mistakes happen in the absence of communication. During the Trump administration, senior U.S. officials were so fixated on the trade war with China that they often stood up visiting EU trade delegations. As a refreshing contrast, Katherine Tai, Biden's U.S. trade representative, has famously emphasized the need for U.S. policymakers "to walk, chew gum, and play chess at the same time."

China did come up in Pittsburgh, of course, albeit obliquely. The 6,000-word joint statement released after the summit was largely about China but did not mention the country once. Brussels had been worried the council would turn into an unproductive, China-bashing exercise, simply another plank of the U.S. trade war. For its part, Washington had been concerned that the EU may still be refusing to treat seriously the threat posed by China. The United States would do well to heed the European view that obsession with China will lead to policy mistakes. Many European countries have navigated the pitfalls of state-centered capitalism; European policymakers may have a finer sense of which Chinese policies will be better off left to fail on their own rather than provoke overreaction in Washington and Brussels to the detriment of the transatlantic alliance.

The United States and Europe will not always see eye to eye. Tensions in other areas flared after the June announcement of the TTC, with transatlantic disagreements over the handling of the U.S. pullout from Afghanistan, travel restrictions due to the pandemic, and the Nord Stream 2 pipeline, which brings Russian gas to Germany. A September spat between Washington and Paris over the United States' submarine deal with Australia nearly scuttled the Pittsburgh meeting altogether. The council needs to become a flexible institution that can manage these sorts of transatlantic strains. In so doing, it can provide the United States and the EU with the impetus to collaborate on shared global challenges that neither can tackle alone.