



## Transatlantic Trade—the Emergence of an EU Goeconomic Strategy

*By Elisabeth Winter*

One year after U.S. President Donald Trump and European Commission President Jean-Claude Juncker struck a transatlantic trade armistice, tensions between the two sides are high again. It seems there is little left of the “new phase” of transatlantic trade relations the two men announced in a joint statement on July 25, 2018. Last week, the European Union used the one-year anniversary of the statement to take stock of the progress achieved and to look ahead. Sabine Weyand, the European Commission’s new director general of trade made her first official trip to Washington; Trade Commissioner Cecilia Malmström delivered a statement to the members of the International Trade Committee of the newly elected European Parliament; and the European Commission published a progress report on the implementation of the 2018 joint statement.

Weyand and Malmström were unambiguous in their assessment: transatlantic trade relations are again in a very tense situation. Weyand summed up the state of the EU-U.S. trade talks “a mixed picture”. The [commission’s report](#) seeks to highlight the issues where progress has been achieved and the planned next steps on certain issues such as conformity assessments and standard setting in so far unregulated areas. However, it also shows that there has been little movement on bigger issues such as industrial tariffs. The so far limited achievements have pushed the EU towards a more assertive stance against the United States and prompted a novel discussion on an EU goeconomic strategy.

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What the report did not show but the speeches by Weyand and Malmström did is the EU’s growing willingness to exploit its economic power for political purposes. Both stressed that the union is keen to avoid a spiral of escalating tariffs and—citing mutual concerns about China—prefers to cooperate with the United States on global trade governance. In the next breath, however, they also reiterated that it would not be intimidated by the threat of U.S. sanctions that it views illegal under World Trade Organization rules. They warned that



Brussels would respond with retaliatory tariffs on goods worth €35 billion if Washington pushed ahead with its threat to raise auto tariffs to 25 percent.

In line with the latest discussions on European strategic autonomy and calls for more European economic sovereignty, Malmström and Weyand underscored that the EU is willing to pursue a more assertive trade policy. It seems the union is bracing for a trade war with the Trump administration and is hammering out its geo-economic strategy to respond to the increasingly aggressive U.S. geo-economic behavior.

## Geoeconomics as an Instrument of Foreign Policy

Purposeful geoeconomics is relatively new to the EU's foreign policy toolkit. It is also a new trend that confrontational geoeconomics defines its relations with the United States. Given its revival as a foreign policy strategy, it is worthwhile to reflect about the concept of geoeconomics and its meaning for transatlantic ties.

First, **geoeconomics** or **economic statecraft** is commonly defined as the use of economic instruments to promote and defend national interests. For example, it includes the threat of tariffs to ensure international support for military action. Next to diplomacy and warfare, it is a form of statecraft that should be considered as a viable alternative by governments. Geoeconomics can offer an attractive third way: with usually fewer costs than military action, it can provide more leverage than diplomatic negotiations. All three also are not mutually exclusive. Which combination is appropriate depends on the context and the issue at hand.

Second, geoeconomics makes use of a broad range of positive and negative economic instruments. Geoeconomic “sticks” work usually as a threat of punishment through tariffs, embargos, and sanctions. Current examples include the U.S. sanctions against Iran to impede its nuclear program, the sanctions imposed by the United States, the EU, and others against Russia following its military intervention in Ukraine, and the UN sanctions against North Korea concerning its nuclear weapons program. Geoeconomic “carrots” include inducements such as foreign aid and free-trade regimes that open markets. For example, EU development assistance in Africa has been linked to specific domestic political changes in the recipient country, such as democratization and the implementation of the rule of law.

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Third, geoeconomics and cooperation can go together. Governments can employ economic instruments and leverage their economic power to achieve foreign policy goals in a cooperative manner. The most famous example of cooperative geoeconomics was the Marshall Plan and the U.S. multilateral strategy after the Second World War. In addition to diplomacy and military means, the United States used trade policy to shape the international postwar order. The Marshall Plan—a primarily economic instrument—promoted economic as well as political recovery in Western Europe and strengthened military alliances against the Soviet Union. Thus, the promotion of free markets and free trade has proven as a successful instrument for the United States to achieve its geopolitical objectives.

Fourth, geoeconomics assumes that there is a relationship between economics and security politics. Though not connected in every aspect, it is hard to separate the two. Military spending or bargaining power in all kinds of international negotiations (e.g. at the United Nations or within the EU) depends on economic performance.

In addition, many argue that economic interdependence can help to promote and maintain peace. Pointing to this nexus of economics and security, Sabine Weyand emphasized in her Washington speech that trade is never just about trade, but about politics, alliances, strategy, and power. The nexus of economics and security should therefore not be neglected when making foreign policy.

Fifth, geoeconomics is not a new phenomenon in transatlantic relations and it certainly does not mean their death knell. The transatlantic partners, however, now have to deal with two new trends. On the European side, it is the first time that the EU considers geoeconomics as a foreign policy strategy purposefully and publicly. On the U.S. side, purposeful geoeconomics is not new and, as foreign policy objectives have changed over time, so have its instruments. Yet, President Trump differs significantly from his predecessors. While they considered the maintenance of free and open markets through multilateral institutions as the best geoeconomic instrument, he prefers unilateral actions such as tariffs, sanctions, and trade agreements that he considers as 'fair'. And this applies even to dealings with the United States' transatlantic allies.

## A Geoeconomic Strategy for the EU

A geoeconomic strategy of the EU can and should include the objective to secure its interests not only concerning China but also the United States. In view of global power shifts, positive and negative instruments are required. The speeches by Malmström and Weyand indicate that the EU is pursuing a twofold approach. On the one hand, transatlantic trade talks continue on less contentious issues such as regulatory standards. Considering the current preferences in the White House, on the other hand, the EU is taking an active and hard stance on essential issues where transatlantic interests diverge; for example, on the environmental and social aspects of tariff reductions.

Finally, it is important to remember that a more assertive EU geoeconomic strategy does not automatically imply the termination of transatlantic trade cooperation or exclude a joint transatlantic geoeconomic strategy toward China. The EU and the United States should aim to continue their already successful cooperation on regulatory standards in the areas of cybersecurity and expand it on other strategic sectors such as emerging technologies including 3D printing, robotics and connected vehicles. Successful transatlantic cooperation in such strategic sectors could then function as a mutual transatlantic geoeconomic strategy toward China. Ideally, a more confrontational approach on certain issues within the transatlantic partnership should not hamper its global perspective.

# Transatlantic Take

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