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Moving from contention to cooperation in trans-Atlantic relations  
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**DOLLAR:** Hi, I'm David Dollar, host of the Brookings trade podcast, Dollar & Sense. Today, we are going to talk about the U.S. and Europe. My guest is Constanze Stelzenmüller, a senior fellow in the [Center for the United States and Europe](#) at Brookings. She is a leading expert on trans-Atlantic relations and German foreign policy in particular. So welcome to the show, Constanza.

**STELZENMÜLLER:** Thank you very much for having me, David.

**DOLLAR:** So we are speaking on the eve of Joe Biden's inauguration. In the campaign, he emphasized that he wants to repair relations with allies, and in my view there's no more important ally than the European Union. So let's start with the big picture: What are the most important things for the Biden administration to do in order to restore relations with our European allies?

**STELZENMÜLLER:** It's hard to know where to start, frankly. I was part of [two trans-Atlantic, American-German working groups](#) over the last year, and I think the reports that they produced were more wide-ranging and broader than I think they would have been at any other time in my working life. I think the first order of the day is to undo some of the damage wrought by the Trump administration. One of the reports I was a part of refers to trade policy under Trump as a "trans-Atlantic graveyard." But the larger challenge, I think, is to adapt the trans-Atlantic relationship, including on trade, into something that is more effective, more resilient, and more legitimate in an era that is characterized both by global competition and by deepening interdependence—the latter being something that the Trump administration and many European nationalists simply refuse to acknowledge. I think those are the two key factors we have to keep in mind.

Then the issues, frankly, if you are asking me for two or three, I would say on the institutional level repairing NATO and the U.S.-EU relationship. The overarching issues are democracy and China. And, of course, trade and technology are key to all of that.

**DOLLAR:** I guess I'm a little bit surprised you didn't mention climate change.

**STELZENMÜLLER:** You are quite right. That should come under the overarching issues, absolutely. I'm not a climate change expert, but that is clearly becoming more and more urgent by the week.

**DOLLAR:** So you referred to the economic graveyard. Can you get a little bit more specific about what are some of the issues that have come up in the economic relationship between Europe and the United States? Things that the Biden administration will have to deal with?

**STELZENMÜLLER:** Sure. I think we should keep in mind that the U.S. Trade Representative and DG-Trade, the department of the EU that's in charge of trade and in fact that the European member states have handed the trade responsibility off to, have been at each other's throats for decades. We, I think, all remember how unhappy even the Obama administration's Treasury secretaries were with European trade surpluses. There were always fights. And I think it's also only fair to say that the U.S. has always wielded its economic power, not just against adversaries or challengers, but also occasionally against its allies in the form of sanctions. But it did that in the framework of a principled stewardship of a global free trade system. The high point of that was engineering China's entry into the WTO, the World Trade Organization. But what happened under Trump was

just a complete shift in the framing of the relationship between America and Europe—and not just on trade.

I wrote about some of this in a paper the year before last that I called "[A hostile ally](#)," and that gives you a sense of where I'm going with this. I think the best word for this is one that was identified by Henry Farrell and Abraham Newman, the [weaponization of economic interdependence](#). Again, ironically, since so many of the economic policy officials in the Trump administration were all about decoupling America from globalization. But the ideological framing of the Trump administration's economics with great power competition, suspicion of multilateralism and trade agreements, economic nationalism and sovereignties, and outright hostility to globalization. You remember the famous Trump quote, "trade wars are good and easy to win."

Then, of course, there was a very specific hostility to the European Union, which President Trump essentially viewed as a rival mob. He called it an enemy worse than China but smaller. And of course, most concerning for the Merkel government sitting in Berlin, he viewed it also as a front for Germany. The instruments for this were punitive tariffs, using national security grounds, sanctions, blocking the appellate body of the WTO dispute settlement mechanism, and so on and so on.

All of that made for a really fraught, conflictual relationship. I will say that I think there were more actions threatened than actually implemented. Yes, there were some tariffs on European aluminum and steel, but on car imports, for example, the threats remained threats. I think the most concerning issue of this part of the trans-Atlantic relationship over the past four years looking back was really the incoherence of the Trump administration's approaches.

So I think Europeans, and Germans specifically, are very relieved to know that with Joe Biden the U.S. will have a president who cares about international order and agreements, appreciates not just Europe but the European Union as a partner, and sees the European Union as a potential instrument of American leverage.

**DOLLAR:** I take your point that that was quite remarkable when President Trump said that Europe was worse than China. For me, as an economist, a lot of these disputes really seem very minor. The commonality between the United States and the European Union as big open economies with respect for the rule of law and international institutions—we have so much in common. So, for me, it has been striking to have just all these petty little disputes—Airbus versus Boeing subsidies, taxing U.S. tech companies, steel and aluminum tariffs applied on allies—it really has been quite striking. Hopefully we will see a change now with the Biden administration trying to deal with these kinds of small annoyances.

**STELZENMÜLLER:** David, let me inject, if I may, a note of caution there. As you know, I come from the foreign policy and security field, and I don't think that you or I are going to see a return to a technocratic approach to these problems that is effectively insulated from the politics of these issues. If anything, I think the dispensation of the future is that the architects and implementers of policy will have to pay very careful attention to the politics of this, and in particular to the continuing power of economic nationalists and populists to set the framing and even set agendas and torpedo outcomes.

I think a great case in point is how the T-TIP, the Trans-Atlantic Trade and Investment Partnership that the European Union and the Obama administration tried to pull ashore, basically broke on populist opposition in Europe massively amplified by the incipient wave of social media and conspiracy theories. And I think that will remain with us, and that's going to be a significant constraint for the Biden administration and the EU in designing a resilient trade policy going forward.

**DOLLAR:** I think that's a very important point. We are going to need some compromise on these economic issues. If each side has political forces that are preventing compromise, then we could very well get a very bad outcome.

**STELZENMÜLLER** Absolutely.

**DOLLAR:** Let me shift gears and bring up this new European Union investment treaty with China. It was a bit of a surprise that this got agreed before the end of 2020. And as the 11th hour approached, some of Biden's team were out there on Twitter and in the media—not interfering, but politely suggesting that Europe might want to wait and coordinate with the Biden administration. Then, obviously, that did not happen. The agreement was reached right at the end of 2020.

For me, as an economist, this is actually quite an important agreement. But I'd like to get your sense of why did the Europeans go ahead? Apparently, Angela Merkel played a key role. So give us a little bit of background on this.

**STELZENMÜLLER:** I do think we can talk a little bit about what is possible in the trade and technology realm, but we can come back to that. Let me answer your question on the Comprehensive Agreement on Investment as it is called—or CAI is the acronym. I think the first thing to note is it's an agreement in principle; we don't have the full text. The European Parliament needs to have a say, and, based on what I'm hearing from some of the members of the European Parliament, it has a great deal to say and will say so for many weeks in the coming year. And ratification is not expected before the first half of 2022 under the French half-year presidency, the rotating presidency of the European Union. So, we still have a ways to go on this. And I think that to the degree that there is opposition—and there is some significant opposition both in Brussels and I think in member states—there is still scope for this to play out. In other words, it's not something that is a foregone conclusion.

So, why did this happen? We all know this was seven years in the making. And until a couple of months ago, in fact, it looked as though it might not happen because of the pandemic, because officials have not been able to meet in person, because there were obstacles that seemed insurmountable. And then clearly the German presidency under Merkel, which ended in December, made a huge push to get some form of agreement out of the door. And as soon as that happened, the fight began, and it's not over yet. I have a fat stack here of pieces that either accuse it of being the worst thing since the Cold War or something that is actually quite positive. In other words, this may have been a miscalculation by the German presidency, and indeed by Angela Merkel, that this would be seen as some sort of technocratic agreement that would not generate a lot of public attention. That it certainly has. The question is, how much does it really matter? And that kind of depends on where you sit.

So the German position is: Dear Biden transition team, you knew that we were doing this. Right? This was not a secret. We have been doing this for seven years and this should not come as a surprise to you. Also, this is not something they are going to say publicly, but I think a lot of people are saying, listen, after four years of Trump, if we had just dropped everything and said because there is now a different kind of president and a different kind of team coming in, we are now going to drop everything and wait for directions from Washington? This is not how it works anymore. I'm caricaturing the position for the sake of clarity, but I think it is true that after four years of Trump this would have been hard to sell to European publics and easy to instrumentalize for anti-American propaganda.

I do think it was unrealistic to expect that the Europeans would just suspend the negotiations. On the other hand, the assertion is that this was all about European economic sovereignty that we have heard from Paris I find deeply unhelpful. And I think the triumphalist notes that we have been hearing from Chinese state media like the Global Times have, shall we say, not been helpful to the position of those who want to defend this agreement as somehow innocuous. What I do find interesting is that it's been Americans who have defended it as well. Former trade and sanctions officials who have said this is really just the Europeans leveling the playing field and this does not preclude a larger European-American conversation. Whether I agree with that depends on what the full agreement ultimately says. As it stands now, based on what we have seen, I tend to think that China gains a fairly large symbolic benefit from this and the European Union gains very limited concessions from China on labor rights that also seem not to be obviously enforceable.

On the whole though, I would say that the agreement is limited in scope. It only precludes an American-European conversation on China if we make it so, and I think we shouldn't. And, if I may be a little bit cynical, I think that my bottom line is that this is a European-German own goal that kind of gives the incoming Biden team a lever. I think the rather measured reaction from Jake Sullivan in recent interviews suggests that that is the position they are taking as well. That said, I think the whole episode has reinforced just how important it is and how urgent it is for Washington, Brussels, and European national capitals to have this conversation.

If I may—I don't want to sort of monopolize the airspace here—but maybe a little point on intra-European divisions on this. I think at least five European countries have registered public concern. The reality is that China has, within the last five years or so, managed to both make significant inroads into the European and national European economic and political space, and in doing so, raised a great deal of concern. To make this more specific, the German car industry, which is a significant chunk if not the key chunk of Germany's export machine and its global power, would not exist without Chinese trade. But the other part of this is that the auto suppliers that feed the German car industry are no longer mostly located in Germany. They are located in Germany's neighboring states, in particular in Eastern Europe. And this is true for Poland, it is true for the Czech Republic, Hungary, Slovakia. That puts these countries in a bind. On the one hand, they are concerned about the geopolitical implications of Chinese pressure. On the other hand, they also have significant economic sectors that are dependent on trade with China via the German export machine. So, I expect this conversation to become quite complicated, but I think that it's an opening shot for what will be a very complex and very convoluted conversation between Washington and Brussels from day one.

**DOLLAR:** If I could just add a couple things to that. That was extremely helpful, Constanza. I would also add that I think the environment has been poisoned, in a sense, by the U.S. trade deal with

China. Some of what's in this new treaty between the EU and China are measures that were already agreed between the U.S. and China: Opening up the auto sector, opening up financial services. Plus, that U.S. deal required China to buy a lot of things from the U.S. They are nowhere close to fulfilling the commitment, but China just reported their 2020 trade data and it was very striking that U.S. exports to China went up by about 10 percent, which is a lot less than had been planned. Still, in the global environment, that's a healthy increase. Europe's exports to China last year went down by about 10 percent. So, some of that trade deal is just classic trade diversion—buy stuff from the United States rather than buying it from Europe. And so that aspect of the U.S.-China agreement was quite unfriendly, let's just be honest. So then it is tough for the U.S. to come back, even with a new administration, but to come back and say, okay, don't make a deal with China that essentially lets you catch up to where we are. Let's coordinate on the strategy going forward. I don't think that was really realistic.

I would also add that I actually think this is quite important from the Chinese side. As you say, we don't have all the details. Apparently, it does include some new sectors like health care, for example. Some private investment in health care. I've argued for a long time that, with China's aging of the population, this is exactly the kind of sector where they could benefit by having the top international companies coming in and doing hospitals, assisted living, these kinds of investments. So the French, I gather, in particular, are excited about getting into private health care. So this is some significant opening from the Chinese side. Commitments on not forcing technology transfer. We will have to wait and see what the implementation is, but it is potentially fairly significant for the Chinese economy.

Then the last point I would make is I have been reading a lot of negative commentary that this may very well not be ratified in the end, but actually, China uses these negotiations to manage its own interest groups. So, having reached an agreement on what sectors can be opened up, China is likely to go ahead with that. Even if the treaty takes a long time to be ratified—worst case it's never ratified—this is still a blueprint for what China is planning to do and what it might bring into negotiations with Japan, South Korea, other important partners. So, from the point of view of China, this is really quite significant.

**STELZENMÜLLER:** That's a very interesting point.

**DOLLAR:** The last question, Constanza, to kind of come back to the big picture: You hinted at some of this already, but beyond the treaty, what are the prospects for Europe and the United States to coordinate on policy toward China? We can go big picture, so not just economic. What are the prospects and what are the difficulties? On the economic side, I often wonder about what kind of vehicle we are talking about. What does it mean for the U.S. and Europe to coordinate policy toward China? Are we bringing that into WTO reform, some kind of new agreement, or is it just talk shop?

**STELZENMÜLLER:** So let me set out the larger strategic framing and then go into some of the things that I think are doable. As I said before, and I think this is key because it is a break with what the Trump administration was trying to do with its emphasis on decoupling and the militarization of the relationship on the security side, the Biden administration and the European Union are seeing some convergence on framing the relationship as a balancing of interdependence and strategic competition. Both of them, I think, need to move away from the maximalist positions. I have already said the Trump administration's decoupling is a nonstarter for the European Union because that would mean cutting off the lifeline of much of European exports. It's just not doable.

The EU, I think, would do well to move away from maximalist articulations of European economic sovereignty. I think that's as much an illusion in the economic realm as it is in the security realm. So what they need to do instead is find pragmatic approaches that are based on the understanding that the EU and the U.S. give each other leverage. That they are weaker without each other. And what they, I think, need to do is find a framing that seamlessly incorporates resilience issues at home, trade, and geopolitical and security issues.

All of this is now meshed together, and it's one of the reasons why there is no appetite on either side for a return to the Transatlantic Trade and Investment Agreement (T-TIP). And there's two reasons, really. One is that disagreements that made it fail at the time—over agriculture, consumer protection standards, or dispute settlement mechanisms—those are, if anything, more intense now than they were then.

But also, the concerns have moved to other issues. And there, I think the take from Europe, the way I see it, is they look at the Biden administration, look at the intense political conflict that's still raging in this Capitol. You could, I think with some legitimacy, call it a constitutional crisis. It's been going on since November 3rd. They look at the fact that much of what the Biden administration would have to do, even despite the fact that it now has a majority in the Senate, would require congressional approval or cooperation in one way or the other, and that many of the Democratic seats in this Congress were gained with margins that were exceedingly slim.

All that leads Europeans to conclude that the time window we are looking at may not be broader than two years because seats might flip again in the midterm elections in 2022. That means that it's important to find targeted areas of cooperation where results are achievable within two years without provoking a domestic backlash, a protectionist populist backlash, that scuttles the whole thing. That I think, in the mind of Europeans who are trying to articulate policy proposals, is the general marching order here. And I'm pretty sure the Biden administration team sees it the same way.

So, what are potential low-hanging fruit? One of them is obviously WTO reform. Europeans want the U.S. to stop blocking the appellate body, whereas I think Europeans are now willing to enter into a discussion of larger American ideas for organizational reform in order to prevent China, in particular, from abusing the WTO rules with subsidies, abusive trade and market access practices, and all that. Then rather than an across the board trade agreement, I think it is possible to talk about plurilateral sectoral agreements on things like environmental goods, e-commerce. Another thing that is being talked about is technological standard setting by the creation of a Trade and Technology Council. Yet another idea is cooperation on sanctions; aligning American and European sanctions policies. But that would require the Europeans to create their version of OFAC, and so on.

I mean, I have a couple more ideas, and they are really important issues like countering propaganda, disinformation, AI, privacy. All of those require some sort of conversation where I think it would be possible within two years to at least establish a common understanding of what the issues are and prevent us from torpedoing each other in ways that China could then exploit. Does that make sense?

**DOLLAR:** That makes a lot of sense. I like your practical approach, so I hope we can achieve many of these things.

I'm David Dollar and I've been talking to my colleague, Constanze Stelzenmüller, about U.S.-Europe relations. They are in pretty poor shape, so there is a lot of potential to improve things, but there are political obstacles on both sides of the Atlantic. It's going to take some real practical policymaking and some compromises to deal with the range of global issues, including a common policy toward China. So, thank you very much for joining us.

**STELZENMÜLLER:** It's been an absolute pleasure. Thank you for having me on, David.

**DOLLAR:** Thank you all for listening. We'll be releasing new episodes of Dollar & Sense every other week, so if you haven't already, please subscribe wherever you get your podcasts and stay tuned.

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