

Introduction

For decades the partnership between North America and Europe has been a steady anchor in a world of rapid change. Today, however, the transatlantic partnership itself has become unsettled and unpredictable. Nowhere is this clearer than in the economic sphere.

Voters across the United States and many parts of Europe have grown skeptical of open markets. Concerns about stagnant wages, widening income inequality, and pockets of stubbornly high unemployment have combined with fears of automation, digitization and immigration to swell economic insecurities on each side of the Atlantic.

The cohesion and strength of the transatlantic economic relationship is being tested by the rise of protectionist impulses on each side of the Atlantic, debates over trade deficits and security burden-sharing, differences over sanctions imposed on Iran and on Russia, and different responses to climate change. Such differences are exacerbated by European apprehension about the Trump Administration's calls for "Buy American, Hire American" provisions, "border adjustment taxes" and high tariffs on steel imports, as well as its challenges to the World Trade Organization (WTO). U.S. officials and legislators, in turn, are looking carefully at European voices calling for rejection of the U.S.-EU Privacy Shield governing data flows across the Atlantic, new taxes and fines levied on U.S. companies, and new regulations on the digital economy. Meanwhile, Europeans and Americans alike are still sorting out the implications of the United Kingdom's decision to leave the European Union (EU), commonly known as 'Brexit.' They are also concerned that Turkey, their ally for the past six decades, may be slipping its Western moorings.

For the foreseeable future the transatlantic economic relationship is likely to be marked by continuing uncertainty, and could be punctuated by episodes of sudden crisis. This state of division and mutual inwardness threatens the prosperity and ultimately the position of North America and Europe in the global economy and the broader global security system.

"When the Time is Right"

Over the past quarter century, U.S. and European leaders have sought to improve their economic ties in ways that could generate greater growth and more and better jobs in the North Atlantic space. The most recent initiative, an ambitiously-designed Transatlantic Trade and Investment Partnership (TTIP) between the United States and the EU, made respectable progress, but ultimately ran out of gas when the Obama Administration ended in January 2017.

Donald Trump continues to rail against what he calls "disastrous trade deals"¹ in North America and East Asia. His Administration is renegotiating the North American Free Trade Area (NAFTA) with Canada and Mexico. He cancelled U.S. participation in the Trans-Pacific Partnership (TPP), and he has warned Asian-Pacific leaders that Washington would no longer tolerate "chronic trade abuses" from the region.² He has pressed South Korea to review and revise the Korea-U.S. Free Trade Agreement. He and his advisers believe it was a mistake for the World Trade Organization to admit China, which they view as a predatory economic rival that has, for too long, gamed an international system unprepared to cope with its brand of state-subsidized mercantilism.³

When it comes to economic negotiations with Europe, however, the Trump Administration has been cautiously positive. U.S. Trade Representative Robert Lighthizer has characterized TTIP as "an important negotiation" and "an area where there are a lot of very positive reasons to go forward."⁴ U.S. Commerce Secretary Wilbur Ross has said that the Trump Administration is "open" to resuming negotiations with the European Union. "It makes sense to continue TTIP negotiations and to work towards a solution that increases overall trade while reducing our trade deficit," he said. "It's no mistake that, while we withdrew from TPP we did not withdraw from TTIP."⁵

European officials have been equally cautious, yet open to resuming negotiations with the United States. EU Trade Commissioner Cecilia Malmström made it clear that "TTIP was left in the freezer in January. We have seen

protectionist measures coming from the US...we need time to evaluate and reflect. There's still a case for an ambitious trade agreement between us; not to mention a huge potential. But we both need a bit more time, and to know there is shared ambition and common ground.”⁶

In 2017, that time did not come. 2017 was a year of transition and reorientation for transatlantic economic relations. In the United States, the Trump team was not fully in place. In Europe, a series of European elections, including in France, the UK and Germany, took center stage, and Germany's electoral drama continues. In the meantime, U.S. and EU officials have been working on a plan of engagement that highlights bilateral grievances but

also points to potential areas of common engagement. U.S. and UK officials have also embarked on a scoping exercise to chart their future bilateral economic partnership, even as UK and EU negotiators sort out the terms of Brexit.

Decisions must come in 2018, however, if the two sides of the Atlantic are going to make any positive headway. In that spirit, this study puts the transatlantic economy in global context, draws lessons from past missteps, and takes account of current divides. It charts three possible pathways forward, offers advice for navigating the Brexit detour, offers Turkey and its allies the chance for a U-turn, and warns about the road to nowhere, which is the road we are on right now.