



ECONOMICS

THE TRANSATLANTIC ECONOMIC AREA

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The European Union and the United States of America form by far the largest economic area in the world. However, their economic relations do not take full advantage of this potential, due to the continuing existence of both technical and regulatory barriers. Furthermore, more intense cooperation between the EU and the United States within institutions for multi-lateral economic cooperation would re-launch the global agenda for trade liberalization and promote the economic and social development of developing and underdeveloped countries.

The FAES Foundation heads an ambitious project to design and promote a Transatlantic Economic Area, whose aim is two-fold: 1) to create a large economic area made up of the EU and the United States, one that is open to the rest of the world, and 2) to promote their joint support for the Agenda for Multilateral Economic Cooperation.

Economic Relations between the EU and the United States: Cooperation and Prosperity

The EU and the United States together form by far the largest economic area in the world. In spite of everything that has been said about NAFTA, about the “emergence of China”, about the “Pacific Century” (in relation to last century) and about “large up-and-coming economies taking off” on the global economic scene, **the trade, investment and financial dealings between the two sides of the Atlantic highlight the existence of an enormous gulf between those nations that form part of the transatlantic economy** (made up of the EU and the United States) **and other trading areas throughout the rest of the world**, let alone any other trading links that may exist between these other economies.

Furthermore, contrary to what is generally believed, the transatlantic economy has witnessed strong growth in terms of both size and scope since the end of the Cold War and continues to grow rapidly at the present time, in spite of political differences and trade disputes.

“The largest proportion of direct US investment abroad takes place precisely within the EU, and vice versa. Nearly 70% of foreign capital invested in the United States comes from Europe. The main destinations for direct foreign investment on the part of these two large economic blocs are not, therefore, up-and-coming countries with low salary levels. For example: in 2003, direct US investment in Ireland was over two-and-a-half times the amount invested in China”

The rigorous and detailed figures recently published by Hamilton y Quinlan¹ speak for themselves and refute certain unfounded ideas.

- The transatlantic economy generates nearly 2.5 billion dollars a year in commercial transactions and provides employment to some 12 million individuals, featuring jobs that result from direct mutual investments.
- Contrary to what is sometimes believed, bilateral trade in its traditional sense accounts for only 20% of the transatlantic economy.
- Although they frequently appear in newspaper headlines, trade disputes only affect 1-2% of the transatlantic economy.
- The core of the transatlantic economy consists of direct foreign investment, not trade.
- Sales carried out through foreign subsidiaries (US subsidiaries in the EU and European subsidiaries in the USA) constitute the backbone of the transatlantic economy. In 2001, commercial transactions between companies based on the two sides of the Atlantic rose to 2.8 billion dollars, five times the total bilateral trade figure.
- Also contrary to what is often believed, the largest proportion of direct US investment abroad is aimed precisely at the EU, and vice versa. Within the EU, the United Kingdom is the main destination for direct US investment.

- The main destinations for direct foreign investment on the part of these two large economic blocs are not, therefore, up-and-coming countries with low salary levels. For example: in 2003, direct US investment in Ireland was over two-and-half times the amount invested in China.
- 60% of the 5.8 billion dollars of capital invested abroad by the United States up until the year 2001 was in the EU. A further example: the volume of US capital invested in the United Kingdom is over 50% greater than the total amount of US capital invested in Asia.
- The EU is an essential source of capital for the United States: nearly 70% of foreign capital invested in the United States comes from the EU.
- In 2001, US companies provided direct employment to some 3.2 million workers throughout the EU, whilst European subsidiaries provided direct employment to 4.2 million workers throughout the United States.
- 60% of expenditure on R+D carried out by US companies abroad is spent in the EU.
- The EU and US service economies are closely connected within the following industries: banking and investment, telecommunications, insurance, advertising and the information technologies, among others.

In spite of transatlantic differences regarding the Iraq War in 2003, American companies injected 87,000 million dollars of direct investment into the EU, accounting for 65% of US direct investment abroad in that year and 30% more than in the year 2002. At the same time, 2003 was a record year in terms of the activity of subsidiaries of European companies in the United States. Thus, European companies invested 36,900 million dollars in the United States in that year, 40% more than in the year 2002.

In short, the EU and the United States are more closely interconnected and interdependent in economic terms than ever. We can also observe how **economic matters have taken precedence over politics. The EU and the United States are, therefore, “Partners in Prosperity”**, as the title of a recent book by Hamilton and Quinlan claims.

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Even so, the transatlantic economy has not yet fulfilled its true potential. The continuing existence of barriers and obstacles with regard to trade and investment between the EU and the United States means that they are unable to derive all the benefits that would result from an entirely free exchange of trade (in the widest sense of the term) and investment between the two economic blocs. This must be the first important objective of the Transatlantic Economic Area,

which will be achieved through the implementation of two initiatives, the first being the “Transatlantic Economic Agenda”.

The second important objective consists of the joint promotion, on the part of all the countries that make up the transatlantic area, of multilateral institutions that work towards enhancing free trade throughout the world and supporting the development of underdeveloped countries. The “Agenda for Multilateral Economic Cooperation”, the second initiative for promoting the Transatlantic Economic Area, is designed to work towards this goal.

The Transatlantic Economic Agenda

The Transatlantic Economic Area **must be founded on the far-reaching transatlantic economic links that already exist**. In this respect, the Transatlantic Economic Agenda must be based on two wide-ranging lines of cooperation between the EU and the United States:

1. Free Trade Initiatives to Complement GATT-WTO Measures.

The final objective of **entirely free transatlantic trade relations demands, first of all, the complete elimination of traditional trade barriers throughout the entire world**, a goal pursued by the WTO and the Doha Round negotiations.

An even more important target within a trading bloc such as the Transatlantic Economic Area, in which tariff barriers are minimal, would be **non-traditional trade barriers**. One objective of the Transatlantic Economic Area would be to **completely eliminate such barriers**.

We should clarify the fact that the Transatlantic Economic Area does not aspire to setting up a “free trade area” according to the legal GATT-World Trade Organization definition (based on the provisions contained in Art. XXIV of GATT), since it fully shares the spirit of this Treaty, which lays down the rules for free trade and the free market. However, it **is possible to raise transatlantic trade relations to a higher level**, for example, **through the renunciation of the “anti-dumping” clauses in mutual trade**. Given that this mechanism is very often used to disguise protectionist policies, “anti-dumping” policy vis-à-vis third parties must also be subject to joint review.

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2. Enhancing Non-Commercial Economic Relations.

Given that the core of the transatlantic economy is based on investment, the Transatlantic Economic Area aims to eliminate obstacles to mutual direct foreign

investment and facilitate the activity of multinational companies on both sides of the Atlantic, as well as removing barriers regarding the provision of services and multiplying job opportunities both in the United States and in Europe.

Technical and regulatory barriers constitute the main obstacles when it comes to extending and intensifying economic relations between the two sides of the Atlantic.

The **Transatlantic Economic Area seeks to completely eliminate barriers imposed through the regulation of certain services, such as those based on professional qualifications within regulated sectors.** The mutual recognition of professional qualifications would represent a very significant step forward towards achieving this goal.

Furthermore, among the matters that are currently on the Doha Round agenda, certain fields present opportunities for substantial progress to be made.

Among these, **we might highlight the elimination of technical barriers that derive from the existence of different standards.** Standards relating to mobile telephone technology, electrical energy, TV tuning equipment and other electronic devices, not to mention vehicle emissions or clothing sizes, are just a few examples. The establishment of joint standards, or the mutual recognition of standards and promotion of their compatibility through the necessary “interfaces”, would not only boost trade, but also facilitate the use of these products throughout the rest of the world, featuring obvious economies of scale and distribution.

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Legal barriers are also important. There is a considerable way to go with regard to the **mutual recognition of judicial verdicts and decisions issued by competition regulators and authorities**, a goal that the Transatlantic Economic Area aims to achieve.

These same bodies that are set up to regulate and safeguard competition can sometimes constitute powerful barriers when it comes to attracting foreign investment. The Transatlantic Economic Area aims to eliminate those mechanisms that are often used as hidden protectionist barriers.

It is also possible to move forward by **establishing shared minimum accounting rules**, whilst the application of international accounting rules will enable us to observe the progress that is made in the future.

Something similar could be carried out within the field of financial supervision and rules relating to the “good management” of companies. The **Transatlantic Economic Area would consider the possible creation of mutual exchange rate coordination or intervention agreements or agreements relating to other monetary policy instruments to be counterproductive**. Neither would it be advisable to establish mutual agreements for fiscal coordination or standardization. All of these policies should continue to be applied independently on the two sides of the Atlantic by the respective authorities, because they encourage competition and place a limit on excessive public intervention.

3. The Transatlantic Economic Area: An Area of Prosperity Open to the Rest of the World.

As an essential principle, the Transatlantic Economic Area must have the vocation of being an area that is open to the rest of the world. Third countries could aspire to joining the Area in the future, committing themselves to complying with the principles on which it is founded.

The Agenda for Multilateral Economic Cooperation

The Transatlantic Economic Area must not simply aspire to eliminating all the obstacles to free trade and investment that exist between the EU and the United States. **These two global economic powers can and must jointly promote the Agenda for Multilateral Economic Cooperation.**

“The Agenda for Multilateral Economic Cooperation aims to promote free trade throughout the entire world and ensure that the wealth and welfare improvements generated by international trade benefit the less developed countries in particular, as well as jointly re-launching the multilateral financing initiatives aimed at these countries”

This Agenda aims to promote free trade throughout the entire world in addition to ensuring that the wealth and welfare improvements generated by international trade benefit the less developed countries in particular, as well as jointly re-launching the multilateral financing initiatives aimed at the underdeveloped countries and development aid for the poorest nations.

In this respect, it is essential for the EU and the United States today to join forces in promoting the activities of multilateral organizations that work to establish free trade throughout the world (essentially, the WTO) and boost the growth of the less developed countries (the multilateral development banks, including both the World Bank group and regional banks), at the same time as

promoting a free world economy by opening up its markets. We must, of course, **be careful to ensure that liberalizing processes carried out within the framework of the WTO do not harm the poorest countries throughout the world, which might lose their privileged access to the United States and Europe.**

This goal is essential for two blocs that aspire to becoming increasingly close “Partners in Prosperity” but that also wish to support the economic and social development of the rest of the world and play their part in the battle against poverty, thus rejecting the idea of becoming “fortresses of prosperity”.

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The Agenda for Multilateral Economic Cooperation encompasses four initiatives:

1. The joint promotion of the liberalization of global trade within the framework of the WTO.

In the short term, this means that the EU and the United States must provide a definitive boost to the Doha Round negotiations.

2. A joint commitment to promoting the full integration of the up-and-coming economies within global trade.

In addition to making a joint and renewed effort to bring the Doha Round negotiations to a successful conclusion, the EU and the United States must ensure the continuation of a delicate system of balances and compensatory measures for the developing countries, thus maintaining their privileged access to the EU and US markets.

Concessions with regard to agricultural policy made by the EU and the United States, in terms of reducing protection against imports and eliminating subsidies for exports, are quite essential in realizing both this and the previous objective.

3. Joint application of the Monterrey Programme for promoting the development of the poorest countries throughout the world.

The Monterrey Agreements laid the foundations for a credible financing framework for the developing countries. The EU and the United States must jointly implement these agreements.

Furthermore, the eradication of poverty, focusing especially on the endemic plight of the most poverty-stricken nations on the African continent, must be made a joint priority of both the EU and the United States.

4. Support for the establishment of a multilateral framework for the protection of direct foreign investment in the developing and underdeveloped countries.

Global trade is becoming increasingly complex and traditional trading patterns are gradually losing ground to investment-led approaches. A significant amount of capital is being invested in the developing and underdeveloped countries. However, investments require security. Bilateral agreements represent a step forward, but they are not enough. In this respect, **it would be worth creating regulations to protect investments within a multilateral framework**, something that can only be done with the joint support of the EU and the United States at the multilateral forum considered most appropriate.

The FAES Foundation is heading this initiative in Spain, working alongside a number of prestigious think tanks and universities located in the United States and various European countries in promoting the academic study and analysis of all aspects relating to the Transatlantic Economic Area.

¹ **Hamilton, Daniel S. y Quinlan, Joseph P.** (2004), "Partners in Prosperity. The Changing Geography of the Transatlantic Economy", Center for Transatlantic Relations, Johns Hopkins University-SAIS.