



**ECONOMIC AFFAIRS**

**NEW APPROACHES TO FREE TRADE:  
IN FAVOUR OF AN OPEN ATLANTIC PROSPERITY AREA**

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*We propose the creation of an Open Atlantic Prosperity Area to remove all economic, trade and financial barriers between the United States and the EU, and advance the cause of free trade. It must be based on a new-generation agreement, i.e. a WTO-plus agreement open to the rest of the world, an advance on the concept of a free-trade area, and one which promotes progress towards removing the barriers that are most damaging to trade. Our aim is to target those regulations that are covertly protectionist, including regulations on public procurement, agricultural policies that work against the market, incompatibility of standards and the perverse use of 'trade defence' mechanisms. These measures would result in gains of up to 3.5% in per capita income for the EU.*

Experience shows that countries which open their economies to foreign trade and dismantle their protectionist structures achieve significant welfare gains. China, India, Vietnam and South Korea have all learned this lesson, and as a result have offered substantial improvements in living standards to millions of people who formerly lived in misery under regimes with self-sufficient economies. In Spain, we also enjoyed the fruits of the liberalization processes that took place in 1959, 1970, and following Spain's entry into the European Community. The

adoption of correct economic measures after 1996 and Spain's entry into Monetary Union in 1999 enabled the country to obtain all the benefits of trade liberalization, raising its average income to 98.5% of that of the Community as a whole. A true European economic integration entails the removal of all economic, trade and financial barriers between the Member States, and it is no coincidence that the European Union is the second most prosperous economic bloc in the world, behind the United States.

**“Nobody debates the fact that economic liberalization is a source of prosperity. China, India, Vietnam and South Korea all provide clear examples of this: millions of people have escaped poverty and experienced substantial improvements in their living standards”**

However, does this mean that the economies of the European Union and the United States are entirely liberalized? No. There are still many barriers that prevent the two blocs from making the most of the advantages of free trade. These barriers no longer take the form of tariffs or quotas. Rather, they permeate the entire economic system. The three authors of this paper have recently published a book under the auspices of the FAES Foundation in which we propose a new approach towards free trade throughout the European Union and the United States: an *Open Atlantic Prosperity Area* (OAPA). The basic idea is that these two huge economies should agree to dismantle the barriers which impede trade, progressing towards the goal of ‘far-reaching integration’ and correcting ‘Atlantic drift’, the gradual distancing between Europe and the United States which does so much damage to both regions. This proposal is not simply an academic exercise. It would enable the European Union and the United States to reap tangible rewards in the form of higher per capita income and the creation of more and better jobs. A study carried out by the OECD quantifies these gains: we are talking about thousands of euros a year per worker and millions of new jobs.

**“Despite appearances, in fact trade disputes between the United States and the EU affect barely 2% of all trade. The North Atlantic is the most prosperous area on Earth, the main engine of the world economy. Who would have thought that in the year 2003, direct US investment in Ireland would be more than two and a half times the amount invested in China?”**

### **The Transatlantic economy**

The North Atlantic continues to be the most prosperous area on Earth and the main engine of the world economy. Trade links are much more far-reaching and dynamic than is commonly believed. The figures are categorical in this respect:

- 1°** Considered together, the EU and the United States accounted for 42% of world GDP in the year 2003.
- 2°** The EU and U.S. were the source of 62% of direct investment throughout the world (flows); and 79% of accumulated assets abroad (stocks) in the year 2003.
- 3°** The EU and U.S. between them negotiate 79% of all securities transactions, and are the source of 70% of global mergers and acquisitions.

Who would have thought that in the year 2003, direct US investment in Ireland would be more than two and a half times the amount invested in China? If we take into account accumulated capital assets, the volume of US capital invested in the United Kingdom is one and a half times larger than the amount invested by the United States throughout the whole of Asia. With regard to mutual trading links, exports of goods and services from the EU to the United States in the year 2003 accounted for one quarter of all European exports; in the opposite direction, the EU received one third of all American exports. In spite of the considerable press attention they generate, trade disputes between the two Atlantic partners are in reality somewhat marginal, affecting barely 2% of the total volume of operations.

### **Two profoundly integrated economies**

An analysis of the Transatlantic economy reveals an extremely interesting fact: the core of Transatlantic economic relations does not reside in traditional trade, which accounts for no more than 20-25% of the total. In fact, the heart of the Transatlantic economy lies in mutual direct investment. This is a distinctive feature of the far-reaching integration that has been achieved by both economies. It has created a relationship that goes well beyond traditional trade relations and is manifested in the disappearance of the traditional distinction between foreign borders and domestic borders, since foreign companies are physically present in the domestic market.

**“Numerous barriers still restrict free Transatlantic trade and prevent us from reaping further gains in the form of higher income and better jobs. Our proposal promotes an Open Atlantic Prosperity Area between the United States and the European Union, dismantling all barriers impeding trade and enabling both regions to progress towards a far-reaching integration of their economies. This Area must be open to all friendly states wishing to participate”**

Public opinion is not always aware of the importance of one essential fact: US companies provided direct employment to 3.2 million EU workers in the year 2001, whilst in 2002, European subsidiaries provided jobs to some 3.6 million workers in the United States. If we add indirect employment, it is estimated that mutual Transatlantic investments provide up to 14 million jobs on both sides of the Atlantic. And Europe alone has nearly 20 million unemployed.

Let us consider the situation in Spain. Very few people know that American companies have a turnover in Spain of 57 billion euros (equivalent to 7% of Spanish GDP) or that they generate more than 330,000 direct jobs and account for 40% of the direct foreign investment that flows into Spain. What would happen if Ford closed its Almusafes factory in Valencia? If General Motors did the same in Zaragoza? Or if Daimler-Chrysler, HP, IBM, Accenture and Coca-Cola followed suit? These are just a few examples, but the same principle applies to hundreds of other US companies in Spain. It is an important point to consider, especially in view of the recent warnings by the US Ambassador in Spain regarding the possible exit of US investment from the country as a result of a series of foolish decisions taken by the Spanish Government.

However, whilst US companies in Spain and throughout the rest of Europe, and European companies in the United States, are already contributing a great deal, we should now undertake measures to ensure that the gains are even greater. In spite of the size of the Transatlantic economy and its far-reaching degree of integration, much can still be done to strengthen economic links between the EU and the United States and open up the possibility for other nations to enjoy the resulting prosperity.

**A new proposal for open regional integration: A WTO-plus agreement**

Our proposal, published under the title *A Case for an Open Atlantic Prosperity Area*, is to create an Open Atlantic Prosperity Area as a way of completely liberalizing economic relations between the United States and the European Union, and serving as a prelude to the greater integration of world trade. Efforts to liberalize trade no longer focus on reducing tariffs or eliminating quotas, except in the case of agriculture. It is unquantifiable non-tariff barriers that are impeding free trade. The average tariff within the Transatlantic economy is low, at less than 5%. Quotas are not that significant either. That is why we do not propose the bilateral elimination of tariffs or quotas and we do not seek to establish a ‘free-trade area’, in spite of the fact that this is an option enshrined in Article XXIV of GATT, as well as in GATS. We do not propose an area without domestic barriers but protected by tariffs set up against the rest of the world. Nor are we suggesting a European-style common market, with a central authority and a political dimension. We are not promoting a preferential Transatlantic link either. The tariffs applied to Transatlantic trade should continue to be those that are applied under the most favoured nation (MFN) clause. What we hope to achieve is to reduce these tariffs multilaterally to the lowest possible level in the Doha Round and in successive WTO rounds.

**“This proposal for complete liberalization, published under the title *A Case for an Open Atlantic Prosperity Area*, aims to promote greater world trade integration. A mere Transatlantic free trade area is not desirable. What we propose is a new-generation agreement, a ‘WTO-plus’ agreement capable of removing the barriers that the WTO agreements are incapable of eliminating”**

A Transatlantic free trade area is not desirable for a number of reasons: it could divert the demand for products and services towards more expensive producers nestling behind a series of new tariff barriers; it would multiply accusations against the ‘Atlantic fortress’ as a rich man’s club; the Doha Round would be condemned to failure; and, in all probability, this would mark the end of the WTO as well. Let us restate our position: we are not proposing a free trade area, but a new-generation agreement, a ‘WTO-Plus’ agreement based on eliminating those barriers that the WTO agreements are incapable of removing and that are damaging to Transatlantic trade.

We would like to see the United States and the EU applying all the liberalization measures agreed by all parties at the Doha Round. However, we would also like them to dismantle other barriers affecting services, regulations claiming to protect consumers and the environment, regulations on public procurement, ‘anti-dumping’ regulations, standards and fair competition regulations and sectoral regulations. We want to ensure that differences in technical standards, different competition policies, golden shares, safeguard measures for threatened

industries, and intervention measures aimed at creating national leaders and national favouritism under the guise of public contracts, no longer impede economic relations between the United States and the EU.

Furthermore, this agreement would keep the door open to anyone who wished to join in the future. The consequences of a possible failure or dissolution of the Doha Round would be lessened, and the goals of the WTO could be achieved from the top down, instead of seeking to achieve a difficult agreement based on maximum commitment from all 149 members of the organization. This is a multilateral proposal. Advocates of free trade are concerned by the proliferation of bilateral free trade agreements, which have come to resemble what Professor Bhagwati has called a ‘plate of spaghetti’, a veritable jumble of concessions and privileges, in which traders, producers and investors find themselves trapped and confused. It is essential that third countries willing to seek out the benefits of liberalization should be able to join the Transatlantic project, but it is also important that the United States and the EU should set an example by leading the way and applying the entire Doha Agenda.

**“Our aim is to remove existing barriers that take the form of alleged consumer or environmental protection and ‘anti-dumping’ measures. Differing technical standards, competition policies, golden shares, safeguard measures for threatened industries, intervention measures designed to create ‘national leaders’ and national favouritism in the adjudication of public contracts should no longer impede economic relations between the United States and the EU”**

### **Agricultural barriers**

Both the United States and the EU award export and production subsidies, and sustain prices by means of tariffs. Export subsidies are one of the main obstacles being discussed at the Doha Round negotiations. By subsidizing exports, the EU competes unfairly with farmers in more productive countries, such as those of the Cairns Group or the poor farmers of Africa and Latin America. The United States is another sinner in this respect. Our proposal reduces tariffs on imports of agricultural goods, which in the EU more than quadruple, and in the United States more than double, the average tariffs imposed on industrial goods. It also establishes the year 2010 as the date by the EU and the United States should commit themselves to entirely removing these tariffs.

### **Harmful public intervention**

In our publication we criticize various types of State intervention. We focus on aspects such as consumer and environmental protection regulations (which are in reality protectionist), public procurement, public subsidies, the fraudulent recourse to ‘anti-dumping’ regulations and the underhand use of safeguard measures. Many regulations use the excuse of protecting consumers or the environment, but are really just further powerful barriers against foreign products. As far as public procurement is concerned, governments tend to favour national corporations, either legally or illegally. In the United States, ‘Buy American’ Acts are applied against foreign competitors. In the EU, much remains to be done if foreign contractors are to be able to compete on equal terms with local enterprises. Public subsidies are used to favour domestic companies and attract foreign capital. We propose that

these practices be eradicated. A good step forward would be for the new Open Atlantic Prosperity Area (OAPA) to eliminate any trade safeguard clauses and anti-dumping measures, which are quite unjustifiable between developed economies.

### Sectoral non-tariff barriers

We propose dismantling non-tariff barriers, and turn to ‘mutual recognition’ as the way forward. If goods or services fulfil the rules of the country of origin, they should be accepted throughout the entire Area. The open nature of the OAPA would mean that a Brazilian vehicle could be sold throughout the Area without any modifications, as long as Brazil were able to demonstrate fulfilment of a number of local requirements equivalent to those agreed in the EU and the United States. The same would apply to professional services.

### Horizontal non-tariff barriers

Horizontal non-tariff barriers also abound within the Transatlantic economy. With the excuse of protecting the public, numerous rules have been implemented dealing with financial regulations, corporate governance etc., and in the process setting up barriers to free international trade. Conflicts of jurisdiction and corrective measures against competition are unjustifiable in the Atlantic world. The ‘country of origin’ rule is particularly important in this respect. In spite of the fact that the US system is based on legislation and the courts, and the European system on commissions and administrative measures, it should be possible to avoid conflicts when it comes to approving mergers and acquisitions, as occurred in the case of GE’s merger with Honeywell or in the case of Microsoft. Working groups have been set up to standardize regulations and decisions. However, there is such a difference between the way the two systems work that the best solution would be to recognize the rules of the country of origin.

**“The best way of overcoming the majority of these obstacles is to apply the principle of ‘mutual recognition’: if goods or services fulfil the rules of the country of origin, they should be accepted throughout the entire Area. The open nature of the OAPA would mean that a Brazilian vehicle could be sold throughout the Area without any modifications, as long as Brazil were able to demonstrate fulfilment of a number of local requirements equivalent to those agreed by in EU and the United States. The same would apply to professional services”**

### Poor countries

Both the EU and the United States have created a range of different trade regimes for countries with serious development problems. The Europeans have opened their market to a fair extent to some 69 countries in Africa, the Caribbean and the Pacific (ACP States), brought together under the Lomé and Cotonou Conventions. The Americans have also signed a large number of regional agreements, some of which are preferential trade arrangements, and have recently signed free trade agreements such as CAFTA (USA-Central America Free Trade Agreement). Our proposal suggests that the OAPA encompass all preferential trade regimes in favour of poorer countries within a single programme, enabling the current beneficiaries to widen their options by gaining preferential access to the market of the other Atlantic partner. Aid and soft loans would also be brought under a

joint agreement. The possible success of the Doha Round is even more important when it comes to promoting development. That is why we believe that the United States and the EU should agree a single and joint negotiating platform for the Round and do everything possible to ensure that an agreement is achieved.

### Benefits for all

Our faith in this proposal is based on the benefits it would provide, not only to the Atlantic partners, but to the world as a whole. A 2005 OECD report assessing the costs of insufficient liberalization of the world market gives us an idea of the benefits of the OAPA. The report seeks to evaluate the consequences of the U.S. and EU-15 adopting a series of measures designed to boost competition within the products market, substantially reducing tariffs and loosening the restrictions on direct foreign investment. The main gains in terms of per capita income would be as follows:

- a) For the OECD as a whole, per capita income would increase permanently by between 1.25% and 3% (depending on the method of calculation). This increase is equivalent to a year's average income for a person who has a 40-year working life.
- b) For the United States, the reform package would be equivalent to a permanent increase of between 1% and 3%.
- c) In the EU, the per capita gains are calculated at between 2% and 3.5%.
- d) Within the OECD area but excluding the United States and the EU, the permanent per capita gains could be between 0.5% and 2%, with Canada and Mexico enjoying the biggest benefits.

**“Implementation of the OAPA, which requires urgent and determined political impetus at the highest level, would bring extraordinary benefits for all, even the poorest countries. The success of the Doha Round is fundamental to these countries. The United States and the EU should agree a single and joint negotiating platform for the Round and do everything possible to ensure that an agreement is achieved”**

### Implementation

A solemn initial declaration on the part of the United States and the EU would set in motion the creation process for the OAPA. The following would be the minimum principles included in such a declaration:

- 1° The desire to create an area free of barriers for Transatlantic trade.
- 2° An invitation to third countries to join the open club if they accept the same conditions as the founding members.
- 3° The intention to liberalize the trade of agricultural and non-agricultural products.
- 4° The elimination of non-tariff barriers, applying the principle of the mutual recognition of regulations and the country of origin with regard to standards, whatever the jurisdiction responsible for establishing them.
- 5° The commitment to suspend the creation of any new barrier or obstacle during the OAPA negotiations.

This would be followed up by the creation of a number of forums to serve as information and discussion channels, imitating the model of the Financial Markets Regulatory Dialogue. Private enterprise would need to be fully involved in

the entire process. The official negotiations should be initiated by the Trade Representative of the US Administration using his 'fast track' powers, along with the Trade Commissioner of the European Commission.

### Calendar and Leadership

Although the ideal goal would be a Congressional-Executive Agreement, the President of the United States should declare his intention to sign a trade agreement under his fast-track powers before 30 June 2007 if he wishes to limit Congress to approval or rejection of the proposal within a period of 90 days, without amendments. The remaining time should be used to draft a detailed agreement of principles between the US Administration and the European Commission, developing the five points of the initial declaration in greater detail, and allowing negotiations to continue with the confidence that the resulting agreement would be approved. The agreement would include the following points:

- 1° The Transatlantic Summit of June 2006 would serve to present and debate the project, and to set the negotiations in motion.
- 2° The Summit of June 2007 would approve the essential substance and framework for creating the OAPA, including the consolidation of programmes for poor countries and the single platform for the Doha negotiations, if the latter are still ongoing.
- 3° Before 30 June 2007, the President of the United States would inform Congress of his intention to sign a framework agreement to create the OAPA.
- 4° In September 2007, Congress would have to accept or reject this framework agreement.
- 5° If accepted, a start could be made on the action plans prepared in 2006-07.
- 6° The Transatlantic Summit of June 2008 would offer an initial review of the results.
- 7° The objective would be for the OAPA to be fully operational by 2016.

**“The alternative to implementing the OAPA is for the gap between the United States and the EU to continue growing. Transatlantic political leaders must do everything in their power to convey to the public just how important this initiative is for the entire world, and to encourage all parties to join forces in order to achieve this goal”**

As can be seen, the calendar demands determined and decisive political action. An agenda as ambitious as this requires firm leadership on the part of the US President and the EU Commission. If Transatlantic political leaders are unable to launch this plan with sufficient energy to rally public opinion to the cause, the Atlantic partnership will drift into ever-more dangerous waters.