SWP Research Paper
Stiftung Wissenschaft und Politik
German Institute for International
and Security Affairs

Jens van Scherpenberg

Integrating the Atlantic Economic Area

RP 8
October 2006
Berlin

SWP
Stiftung Wissenschaft und
Politik German Institute for
International
and Security Affairs

Ludwigkirchplatz 3−4
10719 Berlin
Germany
Phone +49 30 880 07-0
Fax +49 30 880 07-100
www.swp-berlin.org
swp@swp-berlin.org

ISSN 1863-1053

Translation by
Fiona D. Wollensack

(English version of
SWP-Studie 24/06)

Table of Contents

Integrating the Atlantic Economic Area

There is no shortage of political visions for the Atlantic Economic Area. The most productive and high-powered, not to mention interlinked, economic region in the world with high levels of consonance in its basic principles of regulatory policy would seem to lend itself to even deeper integration. However, the lacklustre, half-hearted endeavours of the summit meetings between the EU Presidency and the US President, which have been held since 1991 on a biannual, since 2002 on an annual basis, reveal the reality as it emerged again at the most recent meeting in Vienna on the 20th of June 2006: deep-rooted reservations remain on both sides regarding transatlantic integration.

Following the 2002/2003 crisis in EU-American relations, transatlantic economic relations have once again become the subject of increased academic and political attention. The Transatlantic Economic Integration and Growth Initiative, drawn up at the June 2005 summit, was the principal outcome of attempts to make a fresh start of EU–US summit diplomacy and to reinvigorate relations with a new political dynamism.

Can this initiative contribute to overcoming economic clashes between the U.S. and EU? Can it support attempts at a renewed consolidation of the Atlantic foreign and security policy alliance? Does the hypothesis stand that economic relations are the glue holding the transatlantic partnership together? Will the most recent attempts at an institutional deepening of transatlantic economic integration, too, peter out at the administrative level due to a lack of support from the political leadership on both sides, as other similar initiatives have since the end of the Cold War?

These key questions are the starting point of this study. The result: No significant progress in bilateral economic diplomacy can be expected from negotiations between the EU and U.S. as they have been conducted so far. Hopes of overcoming resistances to transatlantic integration within the administrations and from the domestic constituencies of both sides are all the more unrealistic. The EU and U.S. will have to choose, in accordance with their political relations, between two possible paths for their future economic relations:

They can *either* continue the current diplomacy of integration as it is, insulated from transatlantic foreign and security policy divergences. Both sides would have to accept that, if it were left to muddle along, the bilateral negotiation process would not only remain largely insubstantial, but would also be unable to circumvent the strain of continuously recurring economic conflicts upon bilateral political relations. In addition to fomenting normal economic rivalries, such conflicts also foment the subliminal strategic rivalry which has burdened transatlantic relations since before the Iraq crisis. Both sides would have to pay a high price for treading this path: rival regionalism, economic and monetary burden shifting during structural adjustment crises and growing protectionism combined with a breaking apart of the Atlantic economic area in a world economy that is already becoming increasingly multi-polar.

Or they recognise that neither side can afford such rivalry, given current shifts in the global political and economic power structures. Even the U.S. can no longer fulfil its key global security tasks without the EU and its member states as allies and partners in such forums as the UN, NATO, the WTO or the G8. Not least due to the declining political relevance of the G8, bilateral EU–US relations have increased in importance.

This realisation should lead to a more ambitious objective for transatlantic economic diplomacy: to a comprehensive agreement for an integrated Atlantic Economic Area (AEA). Such an agreement should ensure maximum freedom for the transatlantic movement of goods, services and capital, and this should be brought about within an agreed timeframe. The agreement would also have to cover trade in agricultural goods, as well as ensure mutual recognition of norms and standards governing the trade of goods and services. Mechanisms for an expanded cooperation in the development of such norms and standards should be established. Above all, a strong strategic component would have to be an essential part of such an agreement, guiding the coordination of economic and monetary policy (as used to be done in the forum of the G5/G7) and arrangements on trade in strategic industrial sectors. Greater institutional coordination of technology export controls is required, as is greater control of the trade, both transatlantic and with third countries, in armaments and dual-use technologies. This is only possible on a basis of mutual trust amongst strategic partners who are of primary importance to one another.

Closer integration of the transatlantic economic area would be beneficial to both sides primarily because it would provide an answer to the increasing pressure caused by the shift in the balance of power in the international economy that is resulting from the rise of the new Asian trading powers. An integrated Atlantic Economic Area, freed of regulatory as well as strategic-political barriers to trade and investment, could more easily absorb the shocks of economic structural change and offer new economies of scale and scope.

The conditions for a comprehensive integration agreement are now more favourable than they were a year ago. The costs of not integrating the Atlantic Economic Area more closely are becoming increasingly evident. Moreover, brought about by current developments (most notably the reform policies bearing fruit and leading to a higher growth rate in the European, in particular the German economy at the same time as America's economic performance is declining), the hitherto negative perspective of Europe amongst the American political elite is changing to a more positive one.

What is ultimately required, though, are political efforts on the highest governmental level which are bourn out of an underlying consensus in foreign and security policy issues. This is an essential prerequisite if so far-reaching an integration concept is to be strived for. As a result, such an initiative has to be the preserve of that European institution responsible for common foreign and security policy, the European Council.

With a view to this fortuitous window in history, but also to the fact that the EU traditionally holds greater sway amongst Washington's political elite when it is represented by one of the large member states, the German Federal Government should take advantage of the 2007 EU–US summit falling into its EU presidential term to initiate talks about a comprehensive transatlantic integration agreement.

As an important first step, the participants of the June 2007 summit should agree to commission an initial draft agreement for the establishment of a transatlantic economic area as a basis for discussion at the following year's summit. Such a draft should build upon the current dialogue, and be drawn up either by policy advisory institutions or on an administrative level on both sides.

Introduction

With the end of the Cold War, the Atlantic security alliance seemed to have lost its *raison d'être*. Then, at the beginning of the 1990s, as now, following the Iraq crisis, it was the strong transatlantic economic relations which provided politicians on "both sides of the pond" with a starting point for breathing new life into the Atlantic alliance.

The thinking upon which this approach is based has shaped EU-American economic diplomacy of the past 15 years. It is pervaded by the liberal theory of international relations which holds that the foreign policy actions of nation states are largely determined by the influence of interests within that state. By way of illustration: if such deep rifts occur between the EU[1] and the U.S. on a foreign policy level as they did in 2002–2003, then the interests which arise from the strong economic interlinkages on both sides have not been sufficiently emphasised and must be mobilised more effectively.

This theory will be called into question below. An empirical assessment of bilateral economic diplomacy on the one hand, transatlantic economic conflicts on the other, confirm that the retroactive effect of interlinked economic interests on easing foreign and security policy conflicts is minimal at best. The opposite is, however, true of transatlantic foreign and security policy relations which have a thoroughly negative effect on economic relations. This is not necessarily evidenced in the trade in every day and sundry consumer goods—with perhaps the exception of isolated, demonstrative boycotts of particular goods or companies. Even the "normal" transatlantic trade conflicts which are dealt with by the WTO are not an indicator of political tensions. A more sensitive and accurate measure of the levels of mutual trust—or mistrust—in issues of foreign and security policy is the development of economic relations in strategic areas. Such strategic areas are ones which bear influence upon and are of notable import for the capacity of the EU member states and the U.S. to act in foreign and security policy issues: the battle over subsidies for large civil aircraft (built by Airbus and Boeing), the conflict which continues to swell over the construction and future use of the European satellite navigation system Galileo, the export controls of defence and dual-use goods and technologies are examples of such strategic areas.

Also on the macroeconomic level there is potential, albeit latent, for strategic conflict. While in the 1980s the monetary and economic policy of the U.S. and the four leading European economies would be coordinated in times of massive imbalances in the current account and budget, usually within the framework of the G7 process, today this is no longer being done. Moreover, the introduction of the euro has toppled the dollar from its position as the sole major reserve currency—an essential economic platform for America's foreign and security policy predominance. This study builds on the decisions reached at the EU–U.S. summits in the period 2004-2006, places them within the context of attempts over the past 15 years of integration policy in the Atlantic Economic Area aimed at underpinning EU–U.S. political relations, and analyses the preconditions for their success. The most immediate level of negotiations finds itself within the pull of two contradictory forces: In one direction pulls the increasing divergence of both sides' positions vis-à-vis the politics of economic integration—the great emphasis placed in the U.S. on the sovereignty and authority of central government and of the individual states in all areas of regulation contrasts with the EU's emphasis on the single internal market, the EU drawing here on mostly positive experiences with a functioning supranational economic regulatory policy. This contrast puts in question the success of recent initiatives. In the other direction pulls the more or less equal economic strength of the U.S. and EU, combined with their close economic intertwining, that increases the costs of economic conflicts. Under these circumstances, the incentives to reach a mutual understanding and resolve sources of conflict also increase.

By including the strategic dimension of transatlantic economic relations, this study seeks to go beyond

1 In this study, "EU" is generally understood to also mean the European Community (EC) or the European Economic Community (EEC), as far as it is not relevant to the line of argumentation that an explicit differentiation be made between the different levels and treaty bases of the European institutions.

this evidently unsatisfactory result, which ultimately feeds into the mantra of liberal internationalism that one must merely patiently deepen and broaden the bilateral dialogue until such time as national interest structures change.

The test case of how prone European-American economic relations are for strategic conflict will come in the form of an adjustment crisis in the U.S., resulting in a significant slowdown in growth. Such a crisis will also set in motion a new domestic political discussion on the costs of American foreign and security policy. At the latest, the onset of such a crisis would provide the EU and its member states with a chance to offer the U.S. a substantial institutional deepening of relations in the transatlantic economic region, which would open up and consolidate new perspectives for economic growth. This would, however, only be possible if both sides are sufficiently aware that in matters of foreign and security policy they are inextricably dependent upon one another.

The Cyclical Nature of Transatlantic Economic Diplomacy[2]

[2]Due to the central role of the Atlantic security alliance, economic conflicts had few, if any, negative effects on foreign policy relations between the EU and U.S. during the years of the East-West conflict. Having said this, trade spats and economic and monetary policy conflicts did increase in intensity during the 1980s. The new dynamics of the European Community following the introduction of the Single Market Programme led to American fears of the establishment of "fortress Europe." Robert Mosbacher, Secretary of Commerce under President George Bush, in February 1989 even went so far as to call for a "seat at the table" of European standard-setting and regulatory policy-making for the European Single Market. The end of the division of Europe brought with it an economic upturn while at the same time the U.S. faced an economic weakening. This was the cyclical driving power, in both a direct economic and indirect political sense, behind American initiatives to institutionally strengthen the Atlantic alliance through a deepening of economic cooperation. In his speech held in Berlin on the 12th of December 1989, one month after the fall of the Berlin wall, the Secretary of State James Baker proposed a "new Atlantic architecture" which would help transatlantic relations keep pace with European integration. His suggestion was integrated into the Transatlantic Declaration made by the U.S. and EU on the 27th of February 1990.[3]

By contrast, the Clinton administration's main priority upon taking office in 1993 was a reinvigoration of the American economy and, as a result, it considered Atlantic security and economic relations of considerably lesser importance. The administration placed its emphasis in foreign trade policy and integration policy on the conclusion and ratification of the North American Free Trade Area (NAFTA) agreement, on the creation of a pan-American free trade area (Free Trade Area of the Americas – FTAA), on transpacific relations and the extension of Asia-Pacific Economic Cooperation (APEC) to a transpacific free trade area.

During this phase, it was Europe's turn to be principally interested in a stronger institutionalisation of transatlantic economic relations, an interest borne out of its fear to loose its standing and weight in American foreign policy. In 1995, the German Foreign Minister Kinkel, building on the mostly inconsequential Transatlantic Declaration, adopted the idea of a Transatlantic Free Trade Area (TAFTA) which had initially been proposed by the Canadian Minister of International Trade, Roy MacLaren. This should compensate for the loss of identity suffered by the alliance in issues of foreign and security policy and give Atlantic economic relations a new dynamic.[4]

Again it was primarily foreign policy motives, this time on the part of the Europeans, more specifically of the British and Germans, which were behind this idea of strengthened integration within the transatlantic economic area.[5] Economists and economic policy actors remained sceptical.[6] They understood that the

2 The following does not pertain to be a complete overview of all initiatives and levels of institutional dialogue with an economic focus between the EU and the U.S. (Cf. most recently Rebecca Steffenson, *Managing EU–US Relations. Actors, Institutions and the New Transatlantic Agenda*, Manchester 2005) Only the important milestones, subject to developments in the Euro-American balance of power, in this dialogue process are detailed here.

3 See Steffenson, *Managing EU–US Relations,* for details of the Trans-Atlantic Declaration (TAD) and the process this set in motion.

4 See Brian Hindley, "New Institutions for Transatlantic Trade?," in: *International Affairs*, 75 (January 1999) 1, p. 45–60 on the formation of the TAFTA recommendations. Since the 1st of January 2005 TAFTA is, coincidentally, also the abbreviation for the Thailand–Australia Free Trade Agreement which came into force then.

5 For an assessment of the TAFTA proposals in the context of trade rations between the U.S. and the EU, see Youri Devuyst, *Transatlantic Trade Policy: US Market Opening Strategies*, Pittsburgh: University of Pittsburgh, 1995 (Policy Paper Series), www.ucis.pitt.edu/cwes/papers/poli-series/transatl_trade_policy.pdf

6 See Horst Siebert/Rolf J. Langhammer/Daniel Piazolo, "The Transatlantic Free Trade Area. Fuelling Trade Discrimination or Global Liberalization?," in: *Journal of World Trade*, 30 (1996) 3, p. 45–61. For a more recent economic assessment of the TAFTA concept cf. Rolf J. Langhammer/Daniel Piazolo/Horst Siebert, "Assessing Proposals for a Transatlantic Free Trade Area," in: *Aussenwirtschaft*, 57 (2002) 2, p. 161–185; also printed in: Thomas Jäger/Alexander Höse/Karl Oppermann (eds.), *Transatlantische Beziehungen. Sicherheit – Wirtschaft – Öffentlichkeit,* attempts to significantly improve the conditions of market access by means of "negative integration"—simply and merely doing away with trade barriers—would unavoidably lead to "positive integration" in Tinbergen's[7] sense of the term, i.e. to the development of shared political norms, standards and other regulations governing the trade in goods and services.

This did not seem worth the effort, given the differing regulatory environments and cultures on both sides of the Atlantic[8] and the comparatively low effect on economic growth that a free trade area would bring. From the U.S. point of view, regional trade agreements with Asian and Latin American countries seemed to promise more, with in all likelihood similar considerations on the part of the Europeans with regard to the EU's eastern enlargement.

EU–U.S. integration policy, accordingly, entered a far more diffident phase. At the summit meeting held in Madrid on the 3rd of December 1995, the New Transatlantic Agenda (NTA)[9] and a Joint EU–U.S. Action Plan[10] were agreed upon. The agreements, which focussed predominantly on political cooperation, envisaged creating a New Transatlantic Marketplace (NTM) in the area of bilateral economic relations. A series of Euro-American dialogues was to be established so as to facilitate the dismantling of trade and investment barriers and to strengthen cooperation in, amongst other things, government contracts and information services, competition policy and through mutual recognition of standards and certifications. The Mutual Recognition Agreement (MRA), which covered six product groups, was signed in 1997 and came into force on the 1st of December 1998, but its implementation dragged on for many years.[11] In March 1998, the EU Commission put forward a proposal for a comprehensive New Transatlantic Marketplace Agreement (NTMA) which was to facilitate the realisation of the New Transatlantic Marketplace. It sought to draw on experiences made in the context of the Single Market project and to transfer these to the transatlantic economic area[12], but did not make it past the Council of Ministers. Interest in transatlantic integration, notably low on the part of the Americans anyway, also began to dwindle amongst EU members. A far more modest document for a Transatlantic Economic Partnership (TEP) was agreed upon in November 1998[13] and concrete outcomes have, as was to be expected, remained scant and limited to two more MRAs.[14]

It was the most successful of the various accompanying nongovernmental dialogues, the Transatlantic Business Dialogue (TABD)[15], which provided the input for the recommendations made in the context of the NTM and TEP. Having been initiated in Seville on the 11th of November 1995, the TABD was the first such dialogue and was given official backing at the Madrid summit. As a forum for leading business representatives, the EU Commission and the US Department of Commerce, it was to identify political and regulatory hurdles for transatlantic economic relations and make concrete proposals to help overcome these. The TABD

Wiesbaden 2005, p. 217–234; also most recently Horst Siebert, *TAFTA – A Dead Horse or an Attractive Open Club?*, Kiel: Kiel Institute for World Economics, March 2005 (Kiel Working Paper No. 1240), www.uni-kiel.de/ifw/pub/kap/2005/kap1240.pdf.

7 Jan Tinbergen, *International Economic Integration*, 2nd Edition, Amsterdam: Elsevier, 1965.

8 Cf. Stephen Woolcock, "Cultures of Market Regulation in Transatlantic Relations," in: Jackson Lears/Jens van Scherpenberg (eds.), *Cultures of Economy – Economics of Culture*, Heidelberg 2004 (Publications of the Bavarian American Academy, Vol. 4), p. 109–124.

9 New Transatlantic Agenda, www.eurunion.org/partner/agenda.htm.

10 Joint EU–US Action Plan, www.eurunion.org/partner/actplan.htm.

11 It is not, as in the EU, a case of mutual recognition of product norms and standards as being equivalent. Rather, these agreements should allow officially accredited certification bodies in the exporting country to certify the conformity of goods with the standards of the country they are bound for, making sure that the test procedures and certification of conformity be recognised and accepted by the importing country. In the MRA of 1997 it was agreed that this procedure be adopted for standards governing telecommunications, medical equipment, electromagnetic compatibility, electrical safety, pleasure boats and pharmaceuticals. Cf. the text of the agreement: http://trade-info.cec.eu.int/tbt/documents/oth_42_oth_40_1.pdf. For the significance and problems of the Euro-American MRA, see also Steffenson, *Managing EU–US Relations*, p. 123.

12 The New Transatlantic Marketplace, Communication of Sir Leon Brittan, Mr. Bangemann and Mr. Monti, 11.3.1998, www.eurunion.org/partner/ntm/contents.htm.

13 Transatlantic Economic Partnership: Action Plan, November 9, 1998, http://ec.europa.eu/comm/ external_relations/us/economic_partnership/trans_econ_partner_11_98.htm.

14 The agreements on marine equipment of the 27th February 2004 and the agreement on the reciprocal recognition of the professional qualification of architects of the 18th of November 2005 have come into force. For a collection of predominantly favourably analyses of the NTA and TEP processes, cf.: Mark A. Pollack/Gregory C. Shaffer (ed.), *Transatlantic Governance in a Global Economy*, Lanham, Md. 2001.

15 See Maria Green Cowles, "The Transatlantic Business Dialogue: Transforming the New Transatlantic Agenda," in: Pollack/Shaffer, *Transatlantic Governance*, p. 213–233.

followed the model of the European Business Roundtable which at the beginning of the 1980s had given key inputs for the “Europe 1992” project, the program aimed to help establish the European Single Market. During its first years, the TABD presented a series of notable reports[16] which offered practical solutions and recommendations for almost all outstanding areas of conflict between the EU and U.S.—areas which, since the early 1980s, had been listed in the annual reports by the US Trade Representative and EU Commission on their counterpart’s barriers to trade and investment. Only a small number of these recommendations were adopted by politicians and an even smaller number were implemented, effectively placing the TABD on ice until it was revived in 2004.[17]

The idea of an institutional reinforcement of transatlantic economic relations by way of integration policy seemed, in light of the growing dynamism of the transatlantic market in the boom period at the end of the 1990s, superfluous and dispensable. Even in the absence of institutional political integration, economic exchanges grew thanks in no small part to a leap in transatlantic investment flows. Direct investments from the EU into the U.S. increased almost six fold between 1995 and 2000 (See graph 1, p. 16). Interest in positive integration—i.e. interest in agreements on common policies to ease market access for goods, services and capital—fell as sharply as investments rose. Even in those areas where this brought a competitive disadvantage at an international level—for example the refusal to adopt the norms and standards of multilateral standards organisations and the resultant consequences—the United States remained steadfast in its reservations about positive integration.[18]

If the mere fact that a series of constant bilateral dialogues, coaxed into existence through the TAD and NTA, were established is not hailed a success, then the institutional outcome of bilateral relations between the U.S. and EU is a fairly meagre one. In May 2006, the EU’s Council of Ministers was able to list 34 bilateral agreements (See the Appendix for an overview, p. 42f) which, with but a few exceptions, all fall into the category of negative integration. At best, positive integration is talked about in the various forums for dialogue. Only two of the 34 agreements[19] cover “strategic” areas of transatlantic trade and technology relations: the bilateral agreement of 1992[20] which, through application of the 1979 GATT agreement on trade in civil aircraft, regulated the trade in large civil aircraft between the only two GATT members manufacturing them, and the agreement reached in 2004 on satellite navigation systems based on the American GPS and the European Galileo systems.[21] The first agreement was terminated by the U.S. in October 2004, the second is considered more of a

16 Following the declaration of Seville, between 1996 and 2002, the TABD yearly published a detailed declaration following its annual meeting of CEOs. The declaration was then supplemented by an interim report some six months after the last meeting of CEOs. See the declarations of Chicago (1996), Rome (1997) and Charlotte (1998). The so far most comprehensive report—some 65 pages—was agreed upon at the TABD meeting in 1999 in Berlin. It comprehensively and in great detail defines the whole spectrum of integration political desiderata on the part of business. What was actually achieved pales in front of this background. All TABD reports are available via the TABD website www.tabd.com.

17 An analysis of the texts of the declarations of Cincinnati (2000), Brussels (2001) and Chicago (2002) show increasing resignation as a result of the inactivity and disinterest by government and in light of the implementation problems—problems which affected even agreements already concluded such as the MRA of 1997.

18 Cf. Tim Büthe/Jan Martin Witte, *Product Standards in Transatlantic Trade and Investment*, Washington, DC: The Johns Hopkins University, American Institute for Contemporary German Studies (AICGS), 2004 (AICGS Policy Report 13).

19 The remaining 32 agreements include the NTA; three are the MRA mentioned; two deal with market access to government contracts; two deal with cooperation on issues of economic policy. A further 13 agreements deal with predominantly GATT-related trade issues, six with cooperation in the fields of science and technology as well as environmental and health issues, five with cooperation in legal matters and questions of internal security.

20 Agreements between the European Economic Community (EEC) and the United States government on the application of the GATT rules on the trade in passenger aircraft to the trade in large passenger aircraft, *Official Journal of the EU* No. L 301 17 October 1992, p. 31–39. The agreement bans production and marketing subsidies but allows direct development subsidies through the issuing of government grants, to be repaid by the manufacturer and with a ceiling cap of 33% of the development costs. In addition, it introduces upper limits for clearly allocated indirect subsidies for passenger aircraft production in the form of state-funded research programmes. These can represent 3% of the turn-over, as defined and calculated by mechanisms within the agreement, for the aircraft manufacturer.

21 Agreement on the Promotion, Provision and Use of Galileo and GPS Satellite-based Navigation Systems and Related Applications, June 21, 2004, http://ec.europa.eu/dgs/energy_transport/galileo/documents/doc/2004_06_21_summit_2004_en.pdf. More details on this and the agreement on passenger aircraft can be found below, p. 29

ministerial consensus on a still contentious bilateral issue with significant conflict potential.

All this is hardly an encouraging or emboldening backdrop for the initiative of June 2005.

The Atlantic Economic Area in a Changing Global Economy

The 2005 Initiative: A New Beginning Lacking a Clear Direction

From the Irish castle of Dromoland where their summit meeting was held on the 26th of June 2004, the EU and U.S. leaders called for a stakeholder consultation involving firms and business associations with vested interests in a deepening of transatlantic economic relations, in preparation for a major new transatlantic economic initiative. Their declaration sent an important political signal regarding the resurrection of bilateral relations following the Iraq crisis. And by mobilising stakeholders they availed themselves of the mechanisms of the TABD process—the TABD had been reactivated prior to the meeting and had delivered a proposal based on its own initiative for a trade-barrier-free transatlantic market.[22]

Parallel to the summit initiative, the EU Commission had commissioned an independent study evaluating in depth bilateral institutional relations over the previous decade. With the NTA providing the starting point, the study offers a notable overview of both foreign policy and economic bilateral relations, though the focus is on economic integration policy. In particular, the deficits thus far in the transatlantic integration process are very clearly listed:

- The dearth of political commitment and support at the highest political level;
- Insufficient public profile and hence public attention, in particular in the U.S.;
- Lack of prioritisation and an imbalance between extensive negotiation processes and scant results;
- Insufficient transparency, and with that also insufficient support through EU member states;
- Non-integration of the legislative.[23]

According to the study, the NTA had been exhausted. Both sides had shown themselves incapable of establishing a serious dialogue on foreign policy strategy based on the NTA—even with regard to the economy notably little had been achieved.[24]

This sobering stock taking and the recommendations based on it on the one hand, the interests expressed by the stakeholders on the other, all fed into a communication by the European Commission on further dialogue with the U.S.[25]

With their Transatlantic Economic Integration and Growth initiative, launched at the Washington summit on June 20th, 2005, on economic integration and growth[26] and the joint plan of implementation[27], the EU and U.S., however, made clear their intention to limit yet further their integration aims. The focus of the initiative was placed on those issues where a common foundation already existed or where there were at least common interests between the EU and U.S.:

- Product standards and consumers and health protections;
- Market access for the trade in services, including air travel;
- Regulation of financial markets and restrictions to direct investments;
- Competition policy;
- Government procurement;
- Safeguarding intellectual property rights against counterfeiting and piracy.

22 Transatlantic Business Dialogue, *Establishing a Barrier-Free Transatlantic Market. Principles and Recommendations.* Report to the US–EU Summit in Ireland, June 26, 2004, http://static.tabd.com/manilaGems/TABDReportFINAL22AprilUS.pdf.

23 See John Peterson/Richard Doherty/Michael van Cutsem, *Review of the Framework of Relations between the European Union and the United States.* An Independent Study, commissioned by the European Commission, Directorate General External Relations, Unit C1 – Relations with the United States and Canada, Brussels, 2005, p. 5, http://ec.europa.eu/comm/external_relations/us/revamping/final_report_260405.pdf.

24 Ibid., p. 6.

25 Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee: "Strengthening the EU–US Economic Partnership for the 21st Century," Brussels, May 18, 2005, KOM (2005) 196, http://ec.europa.eu/comm/external_relations/ us/revamping/com2005_196_de.pdf.

26 The European Union and the United States Initiative to Enhance Transatlantic Economic Integration and Growth, http://ec.europa.eu/comm/external_relations/us/sum06_05/declarations/eco.pdf.

27 The programme was agreed upon at an informal meeting of ministers on November 30th, 2005 in Brussels; see: Implementation of the Economic Initiative of the June 2005 EU–US Summit: Joint EU–US Work Programme, http://ec.europa.eu/comm/external_relations/us/economic_relations/joint_eu-us_work_prog.pdf.

New common challenges were also to be tackled:
- Counteracting money laundering and the financing of terrorist activities;
- Prevention of terrorist attacks through tightened security measures on the cross-border movement of goods and people;
- Cooperation in the development of new technologies, in particular in the field of information technology and internet security;
- Development of techniques for efficient and environmentally friendly energy use.

Beyond an institutionalisation of dialogue *processes*, it is unlikely that this new initiative will be able to achieve significant institutional *results* in the politics of integration.[28] The bilateral summit in Vienna on June 21st, 2006 at least did not bring any progress.

Ultimately, the yield of this new beginning to U.S.–EU economic relations, with significant political and diplomatic energy invested in it, must be measured against the potential long-term objective of the transatlantic integration process. Wherein lies the deeper meaning of transatlantic integration diplomacy? What is to be achieved? Three potential answers can be considered:

1. Transatlantic integration diplomacy has a genuine integration policy objective. It ultimately strives for an integrated economic area with common rules and regulatory framework—and with a certain structure of common institutions. This view is supported by the institutional process to date. The approach adopted with the NTA, Joint Action Plan, TABD, NTM, TEP and now the 2005 initiative has, in its institutional make-up, been very strongly influenced by the EU and the experiences of European institutional integration. The neofunctionalist logic upon which the European integration process is based and in the analysis of which Ernst B. Haas was so groundbreaking[29] can clearly be seen: When institutions are created on functional grounds, they develop a spillover dynamic for other functional areas.

This logic of integration has, however, hardly worked on a transatlantic level. The largely, and for the EU disappointingly, nonbinding nature of the negotiations to date are expression of the significant American reservations regarding all institutional or even supranational deepening of the market integration which is actually taking place.

2. From a purely economic point of view, it makes sense to use negative integration to dismantle political and regulatory barriers to further market integration. The point in such a move would lie in the welfare benefits enjoyed by both sides and given rise to by such a policy. A dismantling of barriers to market in the Atlantic Economic Area could also provide important incentives for further multilateral trade liberalisation, just like the willingness of the two most significant actors in international trade to liberalise trade has been an important driving force for the development of multilateral trade regulations. With justification the Atlantic economic region has been called the “laboratory of globalisation.”[30]

The problem herein lies in the fact that in transatlantic relations, with a few very notable exceptions (trade in agricultural goods, government contracts, trade in service, direct investments), the scope for policies of negative integration has been almost exhausted.

3. By casting a wide net of institutional dialogue and negotiation processes regarding economic issues—the sphere in which the EU and the U.S. are on an equal footing –, it is hoped that economic conflicts can be kept in check (the metaphorical logic being that in trade conflicts, too, there will be no shooting as long as there is talking). Moreover, the *political* perception of the relevance of the Atlantic Economic Area can be enhanced and the web of interlinkages of markets can be further immunised against the strain of political tensions. Eventually, the whole process might generate a positive political spill-over effect into the contentious and often conflict-laden foreign and security policy relations between the U.S. and EU states. This aim would be served by what institutionalisation stands for in liberal theory of international relations: through a structured process of coordination and cooperation the actors reach a consensus by moving beyond the national focus of their original

28 Langhammer et al. befittingly characterise the process up until 2001 as an attempt “to establish an institutionalized forum for transatlantic cooperation and to increase the scope for joint action without moving toward institutionalized regional integration.” (Langhammer/Piazolo/Siebert, “Assessing Proposals for a Transatlantic Free Trade Area,” p. 162.)

29 For an up-to-date evaluation of Haas’ work on European integration, cf. Philippe C. Schmitter, “Ernst B. Haas and the Legacy of Neofunctionalism,” in: *Journal of European Public Policy*, 12 (April 2005) 2, p. 255–272.

30 Daniel S. Hamilton/Joseph P. Quinlan (eds.), *Deep Integration. How Transatlantic Markets Are Leading Globalization*, Brussels: Centre for European Policy Studies, 2005, p. XVII.

interests.[31] This means mobilising the compensatory or glue-like character of transatlantic economic relations—an issue which this study will critically asses below.

No obvious valid answer to the question surrounding the long-term objective of transatlantic integration policy arises from the integration process to date or the imaginable perspectives detailed above. Phases of a strengthened institutionalisation of the dialogue processes and dialogue forums have followed ones in which this institutionalisation declined in importance and which ended when an institutionalised dialogue was again pursued with renewed vigour. These cycles, however, seem to be influenced in no small part by differing perceptions, on both sides, of the changing balance of power in international political influence and economic dynamics.

Transatlantic Economic Interlinkage – “Deep Integration“?

The still overwhelming superiority within the international economy of the Atlantic Economic Area has been comprehensively documented in recent years by Joseph Quinlan and Daniel Hamilton in several publications that have earned wide attention. During a critical phase in transatlantic relations, in particular for American political decision makers, they aimed to identify the stakes, i.e. the considerable material interests involved and vested in a positive development of these relations.[32]

The authors do not limit themselves to simply detailing the economic significance of the large trade and direct investment flows between the EU and the U.S. They aim to reveal the “deeper structures” of transatlantic economic relations and hence point out that nearly 50% of American capital income is the result of foreign direct investment (FDI) on investments in Europe. They emphasise the large intra-firm trade, which accounts for nearly half of all bilateral Euro-American trade, and which, in no small part thanks to intra-firm accounting possibilities, is barely affected by exchange rate fluctuations. Finally, Hamilton/Quinlan highlight the huge foreign affiliate sales of European and American companies in the U.S. and EU respectively, which, they claim, are roughly four times higher than sales in transatlantic trade.

By stressing that these three factors be signs for deep transatlantic integration, the authors, however, expose themselves to methodological criticism. Thus it is questionable if the volume of mutual direct investment, the scope of transatlantic intra-firm trade and the level of foreign affiliate sales, can be considered valid indicators of the depth and degree of market integration. In so far as FDI facilitates market access and protects against currency fluctuations, it can rather be considered as a reaction to insufficient economic integration.

The foreign affiliate sales in the respective regions may well be “largely invisible for politicians on both sides of the Atlantic.”[33] Whether this factor, having been made visible by the authors as it may be, can be used to ascertain the deepening of transatlantic political and societal relations is a moot point. Not registering on the political radar in this way can almost certainly be attributed to the fact that subsidiaries of European companies in the U.S. or of American companies in the EU deliberately present themselves as good corporate citizens of the country in which they are located, and not as ambassadors of the home country of their parent company.

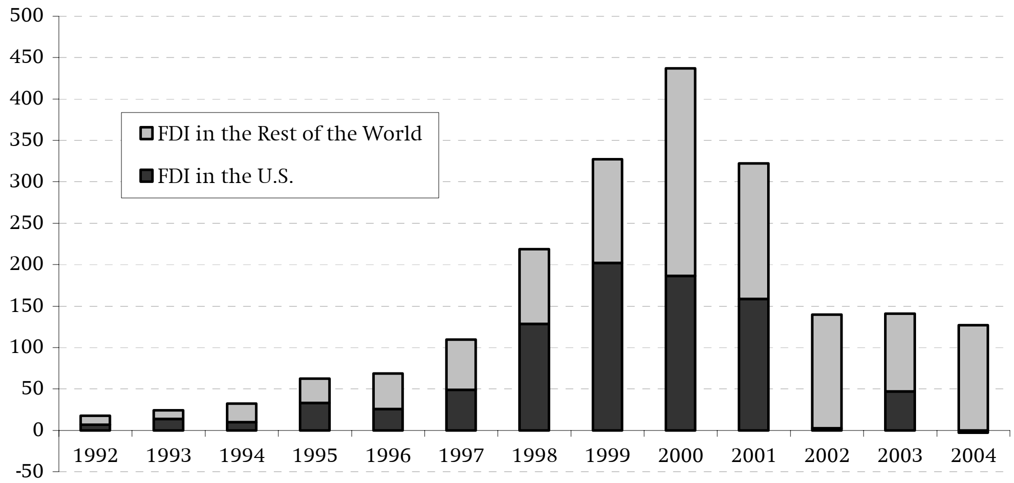
Occasionally foreign direct investments receive greater political attention—if new jobs are created,

31 Cf.: John G. Ruggie, *Constructing the World Polity: Essays on International Institutionalization*, London 1998, p. 54, and Robert O. Keohane, *Power and Governance in a Partially Globalized World*, London/New York 2002. For a comprehensive discussion of the academic literature on the formation of institutions in international relations and in particular on transatlantic level, see Steffenson, *Managing EU–US Relations*, p. 3–24; for details on concrete institution formation in Euro-American relations in the 1990s: ibid., p. 25.

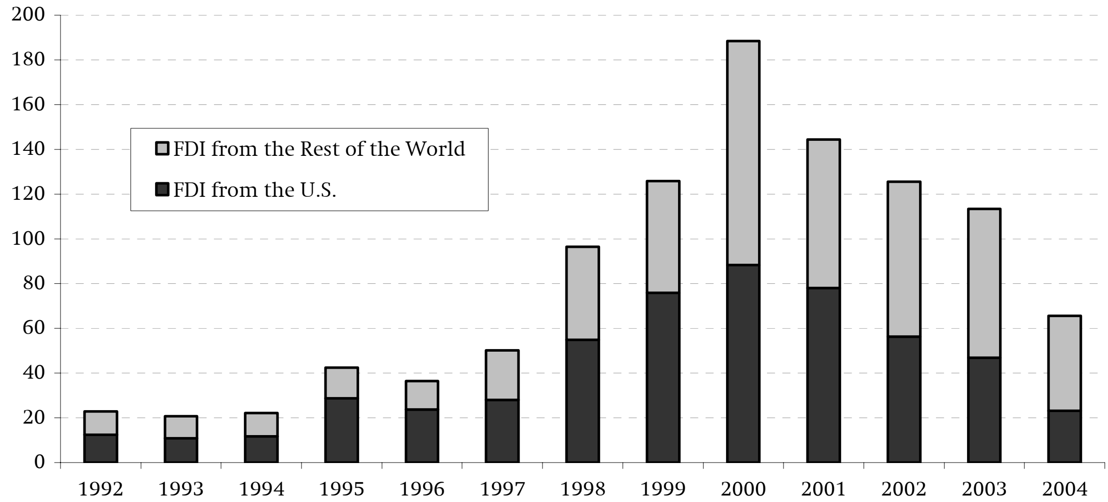
32 Cf.: Joseph P. Quinlan, *Drifting Apart or Growing Together? The Primacy of the Transatlantic Economy*, Washington, DC: Center for Transatlantic Relations, Johns Hopkins University, 2003, and, for greater depth, Daniel S. Hamilton/Joseph P. Quinlan, *Partners in Prosperity: The Changing Geography of the Transatlantic Economy*, Washington, DC: Center for Transatlantic Relations, Johns Hopkins University, 2004, also: Hamilton/Quinlan, *Deep Integration*. Additional authors who draw upon Hamilton/Quinlan include Johannes F. Linn, “Europe and America: The Economic Ties That Bind,” in: *Current History*, November 2004, p. 370–375; also by the author: *Trends and Prospects of Transatlantic Economic Relations. The Glue That Cements a Fraying Partnership?* Paper prepared for the Transatlantic Editors’ Roundtable, April 2004, www.brookings.edu/views/Papers/20040428linn.pdf; Philip H. Gordon, “The Dog That Has Not Barked,” in: *E!Sharp*, May–June 2005, www.brook.edu/dybdocroot/views/articles/gordon/20050504.pdf; Ulf Gartzke, “Die transatlantischen Wirtschaftsbeziehungen: Ein Pfeiler in der Krise?,” in: Jäger/Höse/Oppermann, *Transatlantische Beziehungen*, p. 173–185.

33 Hamilton/Quinlan, *Partners in Prosperity*, p. 22.

Graph 1a
Foreign Direct Investment (FDI) flows from the EU (Bn. Euro*)



Graph 1b
Foreign Direct Investment (FDI) flows into the EU (Bn. Euro*)



* Prior to 1999: ECU
Source: Eurostat.

the reaction is positive. Political reservations towards the foreign acquisition of domestic firms are, however, not uncommon on the part of both the U.S. and EU; reservations often borne out of the fear, amongst others, that important strategic companies and technologies could come under foreign control.[34] Once an FDI has been approved and made, the subsidiaries of foreign companies have the same legal status as domestically owned firms. The history of U.S.–German relations over the past century shows that leave is only taken of this fundamental principle

34 Cf. Jens van Scherpenberg, *Economic Nationalism on the Rise. Foreign Direct Investment in the USA after the Dubai Fiasco* Berlin: Stiftung Wissenschaft und Politik, March 2006 (SWP-Comments 10/2006), www.swp-berlin.org/en/produkte/swp_aktuell_detail.php?id=5661.

when war leads to the expropriation of direct investments and intellectual property of the defeated party.

Despite this seemingly stable foundation, particular features of the American legal system, notably the extraterritorial jurisdiction of American law, are a source of risk for investments by foreign firms.[35] The subsidiaries of foreign firms can be made liable for violations against US law made by the parent company or other companies in the same foreign corporation, in particular if, through their undertakings in third countries, they contravene American sanctions against those third countries.

Changes in the International Economic Balance of Power

If, under the conditions of an increasingly globalised world economy, the stakeholder argument of the liberal internationalism school of thought is applied to a bilateral economic relationship such as the transatlantic one, then significant methodical issue can be taken. This view could only be justified if such bilateral relationships were of paramount significance. Were it to be shown that the relative weight of the economic relationship between the EU and U.S. decreases compared to the relationship of both with other economic partners, such as China or India, then this development could manoeuvre the Europeans into a difficult political and economic decision making position. This would be the case if, say, American political decisions were to generate significant conflicts of interest for European firms, forcing them to choose between doing business with the U.S. or with doing business with such other, also economically important, partner states.

Hamilton/Quinlan base their theory of a special significance of transatlantic economic relations on a static, snap-shot like and selective international comparison of data: on data on high, absolute flows and stock figures as well as on the proportion of transatlantic economic relations as part of the world wide whole. In doing so, they forego an analysis of longer time-spans and the trends which this would bring to the fore—trends depicted in graphs 1 to 3 (p. 16 and 18).

Even though it has been on an undisputedly high level, trade in the Atlantic Economic Area has by no means developed as dynamically as, for example, U.S. or EU trade with China. Whilst the volume of EU–U.S. trade increased nearly two-and-a-half fold between 1990 and 2005, Sino-U.S. trade increased ten fold and Sino-EU trade twelve fold over the same period (see graph 2). The gap between transatlantic trade and foreign trade with China decreased notably for both the U.S. and EU between 1990 and 2005 (see graph 3). Whilst in 1990 both the EU and U.S. trade with China (imports + exports) was only roughly 10% that of transatlantic trade, this ratio had risen to 58% for the U.S. and 50% for the EU by 2005.

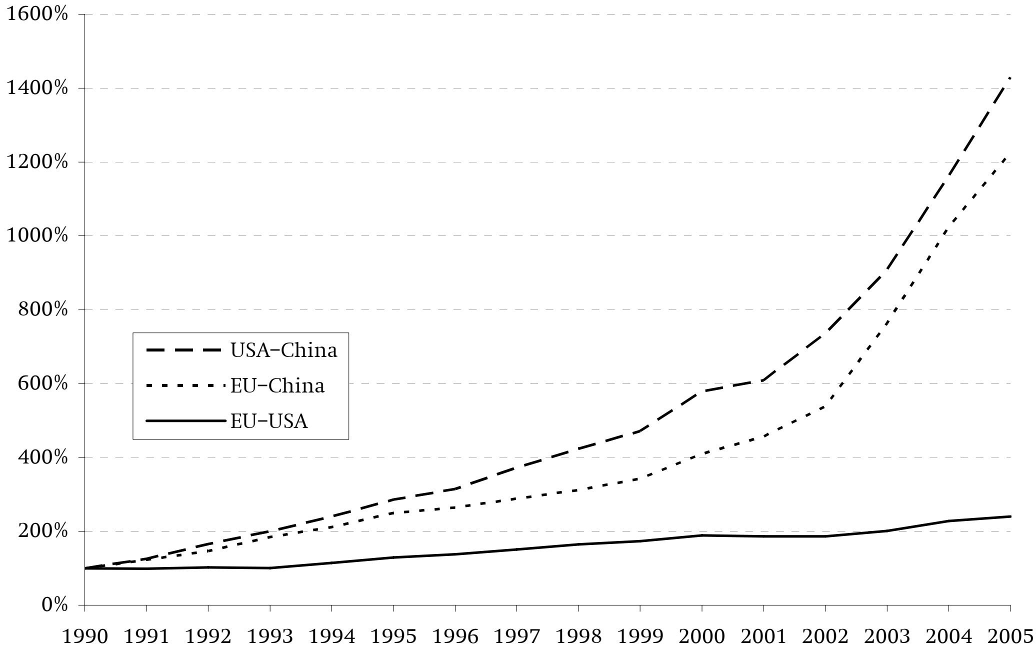
With regard to direct investments and foreign affiliate sales, transatlantic economic interlinkages are still far more dominant. The reason is, amongst other things, that most of the large emerging markets generally begin to liberalise the inflow of FDI only a long time after the establishment of trade relations. But in FDI flows, too, a relative shift to the disadvantage of the Atlantic Economic Area can be seen (see graph 1, p. 16).

Growing regionalism in international trade also contributes to the decrease in the relative importance of transatlantic trade. American exports to the EU as a proportion of all U.S. exports sank from 26% (1990/EU-15) to 21% (2005/EU-25), while in the same timeframe the proportion of exports to NAFTA countries as a percentage of all U.S. exports rose from 28% to 37%.

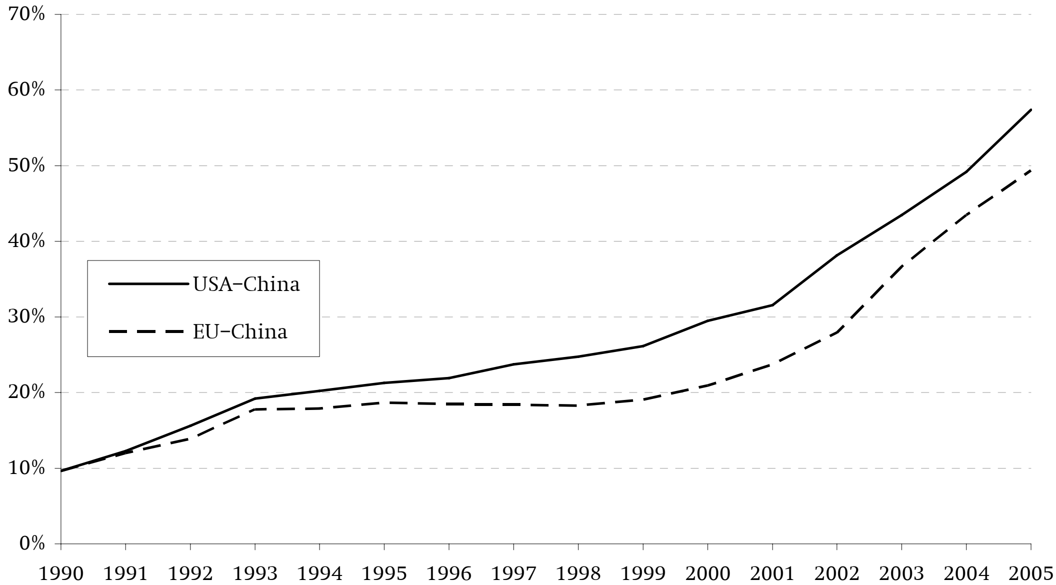
Whilst their influence on a multilateral level is diminishing, the EU and the U.S. have embarked upon numerous bilateral and regional free trade agreements. Until the 1990s, the EU was the more active in pursuing a policy of regional integration but by now the U.S. has, in addition to NAFTA, negotiated 15 further free trade agreements according to a "hub and spokes" model. 13 of these agreements were reached since George W. Bush became President. Applying this model enables the dominant integration power (the hub), by means of bilateral agreements (spokes), to practice a positive integration policy according to its own demands and, like this, to spread its own regulatory framework to other countries. Even if their

35 Cf. the TABD report of 2002: "… the Alien Tort Act as it is being utilized recently in U.S. Federal Courts will be a very real deterrent to free trade world-wide. TABD should begin an examination of this new phenomenon during the coming year." (Transatlantic Business Dialogue, 2002 TABD Chicago Conference Report, p. 49, http://static.tabd.com/manilaGems/2002ChicagoCEOReport.pdf). Cf. also: Gary Clyde Hufbauer/Nicholas K. Mitrokostas, *Awakening Monster: The Alien Tort Statute of 1789*, Washington, DC: Institute for International Economics, July 2003 (Policy Analyses in International Economics, 70).

Graph 2
Growth in Foreign Trade between the USA, EU and China (1990 = 100)



Graph 3
Sino–U.S. and Sino–EU Trade as a Percentage of US–EU Trade



Source for graphs 2 and 3: International Monetary Fund (IMF), Direction of Trade Statistics.

foreign policy implications are not examined,[36] such regional zones of positive integration policy can lead to rival regionalism between the EU and the United States.[37]

Thus, as the Princeton economist Peter Kenen[38] also argues, there is reason to doubt whether transatlantic economic relations, in an environment increasingly changing under the influences of globalisation and regionalism, can still develop the adhesive power which Hamilton/Quinlan and others attribute to them.

36 When the protagonist of the American policy of regional economic integration in the past years, the former United States Trade Representative Robert Zoellick, adopted C. Fred Bergsten's term "competitive trade liberalization," he emphasised that this policy should primarily serve the overarching foreign policy aims of the USA. Cf. C. Fred Bergsten, *Competitive Liberalization and Global Free Trade: A Vision for the Early 21st Century*, Washington, DC: Institute for International Economics, 1996 (Working Paper No. 96-15), www.iie.com/publications/wp/1996/96-15.htm, and Jeffrey J. Schott, "Assessing US FTA Policy," in: Jeffrey J. Schott, *Free Trade Agreements. US Strategies and Priorities*, Washington, DC, April 2004, p. 359–381.
37 Cf. the contributions in: Jens van Scherpenberg/Elke Thiel (eds.), *Towards Rival Regionalism? US and EU Regional Regulatory Regime Building,* Baden-Baden: Nomos, 1998 (Stiftung Wissenschaft und Politik, Aktuelle Materialien zur Internationalen Politik, Vol. 54).
38 Peter B. Kenen, "Transatlantic Relations and the Global Economy," in: *North American Journal of Economics and Finance*, 15 (2004) 2, p. 149–159.

Transatlantic Economic Conflicts

The WTO: an Institution for Coping with Transatlantic Economic Conflicts

It tends to be the numerous transatlantic trade conflicts, rather than the close market integration, which direct public perception to the special importance of Euro-American economic relations. Despite only accounting for roughly 5% of bilateral trade volume,[39] they receive significant political attention. In light of this, transatlantic economic diplomacy could set itself the sensible, if politically more modest, aim of clearing up potential sources of conflict. In many cases this is, however, not necessary; in the remaining it is very difficult.

Trade disputes between the EU and U.S. have existed since the establishment of the European Economic Community. It was upon the insistence of the U.S. that rules governing multilateral trade be codified in the General Agreement on Tariffs and Trade (GATT) of 1947. Regional customs unions and free trade areas, in which the fundamental GATT principles of most favoured nation status and non-discrimination did not apply, were covered by the exemption clause of the agreement's Article XXIV. Ever deeper and ever broader European integration, however, went hand in hand with rising discrimination by the increasing number of EU member states against non-EU states. For this reason, the U.S. placed great emphasis on winning the EU states round to multilateral trade liberalisation within the GATT framework—and made their support of the European integration process dependent upon their European partner following this path. On the one hand this made the EU and U.S. the most important engines for a worldwide opening up of goods and services markets. On the other hand, both sides often fell back on the GATT's Dispute Settlement Mechanism (DSM), frequently paralysing it as arbitration decisions authorising the complainant to retaliate against the defendant also required the latter's agreement. With the establishment of the WTO in 1995 and its strengthened rules-based dispute resolution regime, this multilateral institution has become the most important institutional framework of bilateral transatlantic economic relations and the resolution of disputes which arise therein.[40]

Euro-American disagreements still make up a significant proportion of international trade disputes—nearly 20% of all cases brought to the WTO's Dispute Settlement Body (DSB), and these have significantly shaped the development of this body.[41] Almost all cases were successfully settled by means of the DSB process: either the defendant abided by the DSB decision and brought its policy in line with WTO rules, or the complainant was authorised by the DSB to impose retaliatory measures on the defendant for as long as the latter was in breach of the agreement. This process was often protracted and particularly so when both sides exhausted all legal remedies allowed until such time as the retaliatory measures applied for were actually enacted. This was the case in the first big transatlantic trade conflict brought to the WTO under the new regime, the banana dispute.[42] The dispute settlement regime, within whose framework a large proportion of precedence cases on the interpretation of the terms of the WTO contracts were developed, has, however, on the whole proven itself.

39 Gary Clyde Hufbauer/Frederic Neumann, *US-EU Trade and Investment: An American Perspective*. Paper presented at a conference titled "Transatlantic Perspectives on the US and European Economies: Convergence, Conflict and Cooperation," Cambridge, Mass., April 11–12, 2002 (John F. Kennedy School of Government, Harvard University), www.iie.com/publications/papers/paper.cfm?ResearchID=460?.

40 Cf.: Fritz Breuss, "Economic Integration, EU–US Trade Conflicts and WTO Dispute Settlement," in: *European Integration online Papers (EIoP)*, 9 (14.10.2005) 12, http://eiop.or.at/eiop/texte/2005-012a.htm.

41 Cf.: Marc L. Busch/Eric Reinhardt, "Transatlantic Trade Conflicts and GATT/WTO Dispute Settlement," in: Ernst-Ulrich Petersmann/Mark A. Pollack (eds.), *Transatlantic Economic Disputes. The EU, the US, and the WTO*, Oxford 2003, p. 465–485.

42 See Jens van Scherpenberg, *Die transatlantische Bananenkontroverse – ein Streit um die Zukunft der Welthandelsordnung*, Ebenhausen: Stiftung Wissenschaft und Politik, 1999 (SWP-Aktuell 32/1999).

A Typology of Transatlantic Economic Conflicts

The various transatlantic economic conflicts to date have been analysed in depth and are differentiated between according to their legal nature or according to the economic policy motives of the states involved.[43] They can also be grouped according to their way of resolution in (1) conflicts which fall under the jurisdiction of the WTO and so are governed by the WTO dispute resolution system, and (2) those conflicts which are not subject to WTO rules and which therefore must be resolved bilaterally.[44] In a further analytical step, the conditions and boundaries of conflict resolution for the second group can be investigated. Another categorisation drawn from the field of international political economy is helpful here[45]—the differentiation between purely commercial conflicts and conflicts borne out of the increasing strategic rivalry between the U.S. and EU, a rivalry ushered in at end of the Cold War.

Commercial Conflicts

Commercial conflicts are, at least to some extent, subject to stakeholder influence. They are brought about by a domestic political decision making process, at the end of which particular economic or social interest groups prevail. The result is, therefore, a "public-choice"-decision on the basis of those interests which have managed to assert themselves the most effectively. Most such conflicts can at least be kept under control, if not always be done away with entirely, within the WTO system. The low-level sanctions allowed for in the WTO dispute resolution process are aimed at such domestic political decision making processes. Not only do they enable the compensation of states found to be the victims of a breach of WTO rules, they are also designed to bring a cost, felt in its domestic politics, to bear on the state found breaking WTO rules.

It is very well possible that individual, purely commercial conflicts, due to their high claim value and ensuing high domestic political costs in the defendant state, can only with great difficulty be settled by a decision by the WTO's DSB. This seemed to be the case in the FSC/ETI-conflict[46]—a conflict over tax exemptions for exports to the U.S. This conflict originally stems from the 1971 balance of payments crisis[47]—and, with a sum of over 4 billion US-dollars in dispute, it is the largest transatlantic trade conflict to date. Not only did this conflict bring the U.S. Congress with its power over taxation head to head with the WTO; this particular dispute was deliberately used by the Europeans to corner the U.S. into relenting in other trade conflicts.[48] Though the then U.S. Trade Representative Robert Zoellick in 2001 dramatically compared the conflict potential of the disagreement with that of a nuclear bomb,[49] neither the Administration nor Congress let it escalate to a conflict of principle with an EU already granted the right to impose sanctions by the WTO. Moreover, the *principle of compliance* with WTO norms was confirmed through this conflict, though in the legislative implementation of the WTO ruling, the U.S. adopted, in much the same way as the EU had done in the banana conflict, extreme delaying tactics. The EU for its part maintained the legal pressure of the WTO decision which had gone in its favour, but, so as to avoid a political escalation, only implemented 10% of the $ 4.043 billion worth of sanctions which it had been awarded. This conflict not only showed the limitations of the WTO dispute

43 See, amongst others: Petersmann/Pollack, *Transatlantic Economic Disputes*, in particular: *Part II, Case-Studies on Transatlantic Economic Disputes*, p. 121–447. Petersmann differentiates between (1) traditional conflicts arising from discrimination against imports based on borders, (2) conflicts arising from non-discriminatory domestic regulation, (3) "High Policy"-conflicts arising from divergences in foreign and security policy interests and (4) conflicts arising from the violation of private—material or intellectual—property rights. Cf. Ernst-Ulrich Petersmann, "Prevention and Settlement of Transatlantic Economic Disputes: Legal Strategies for EU/US Leadership," in: Petersmann/Pollack, *Transatlantic Economic Disputes*, p. 3–64.

44 This corresponds with the differentiation between legal and political conflicts in international law; Cf. F. D. Berman, "Legal Theories on International Dispute Settlement and Prevention," in Petersmann/Pollack, *Transatlantic Economic Disputes*, p. 451–464.

45 Cf. Gilpin on liberal versus economic nationalism trade theories and policies: Robert Gilpin, *The Political Economy of International Relations*, Princeton: Princeton University Press, 1987, p. 26 and p. 172.

46 FSC: Foreign Sales Corporation, ETI: Extra-Territorial Income.

47 Cf.: Robert E. Hudec, "Industrial Subsidies: Tax Treatment of 'Foreign Sales Corporations'," in: Petersmann/Pollack, *Transatlantic Economic Disputes,* p. 175–205.

48 Hudec speaks of the "didactic function of the FSC case" (ibid., p. 183 and p. 203).

49 Cf. "The Reprieve," in: *The Economist*, 24.5.2001, www.economist.com/displaystory.cfm?story_id=635440.

settlement mechanism in resolving transatlantic conflicts; it also asserted the supremacy of WTO law when the conflict was finally fully settled through the introduction by Congress of a revision of U.S. tax law acceptable to the EU on May, 12, 2006.

Strategic Economic Conflicts

The limitations of EU-American conflict resolution by means of the WTO are, however, far more clearly visible when it comes to strategic economic conflicts. Even in the event of WTO rules applying to them, such conflicts in practice elude WTO dispute resolution procedures. The American extraterritorial sanctions against Cuba, the Helms-Burton Act, and also the conflict surrounding subsidies for the building of large civil aircraft, the Airbus-Boeing conflict, are all examples hereof.

In this context, strategic conflicts are defined as such conflicts that are either an illustration of economic nationalism as expressed through a mercantilist trade policy or through restrictions on foreign direct investment,[50] or as those which arise directly from security policy concerns. In both cases, the role played by domestic interest groups, though not unimportant, is, nevertheless a secondary one. The political decisions of the conflicting parties are dominated by long-term strategic and security policy considerations. Such conflicts confute the logic of institution building, as Rebecca Steffenson, here taken as the proponent of the "Liberal Institutionalist" school, states with resignation: "no amount of dialogue will eliminate conflict rooted in deep political interest."[51]

In practice, the two types of conflict do not, however, always let themselves be clearly separated. In graph 4, various Euro-American economic conflicts of recent years are illustratively shown and placed into a grid. The X-axis depicts their quantifiable economic weighting, the Y-axis their strategic relevance.

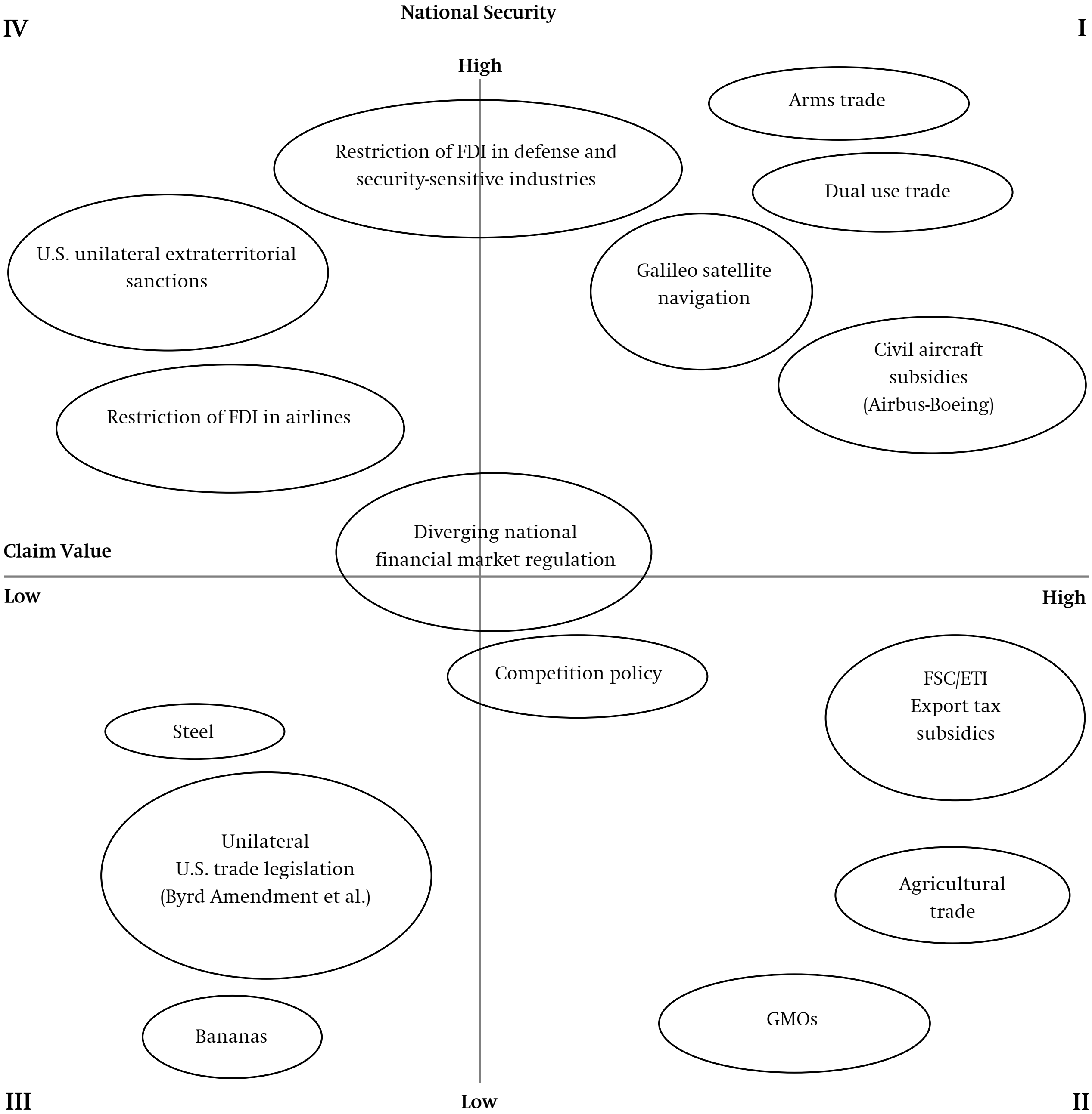
In such a grid, commercial conflicts would be placed into the bottom two quadrants, II and III. Strategic economic conflicts conversely would be found in the upper half, in the quadrants I and IV. The conflicts in the left-hand half have a lesser material weighting,[52] even if they, in part, are the subject of disproportionately high public attention, whilst those in the right-hand half have a greater material weighting. Transatlantic conflicts residing in the lower half usually let themselves be resolved via the WTO, or bilaterally if there are no WTO rules covering them—as is the case for competition policy. Many of the examples of conflicts found in the upper half of the matrix fall either unequivocally under the exemption clause of Article XXI of the GATT, which allows a restriction of free trade on the grounds of national security, such as the trade in armaments. Or the country in question, due to the overarching strategic political significance it attaches to such trade restrictions, justifies these measures by recurring to a very broadly defined, not to mention misused, interpretation of security grounds under Article XXI of the GATT. A third group of such strategic conflicts covers measures that are not subject to WTO rules, as in the case of restrictions on FDI in certain sectors deemed to be of strategic or security relevance—American civilian aviation for example, a sector in which European companies are not allowed to hold a controlling share. Such conflicts therefore imperatively require a bilateral solution, if they are to be resolved at all. And such solutions, given the divergent security policy aims from which they arise, are notably difficult to achieve.

50 See van Scherpenberg, *Economic nationalism on the rise*.

51 Steffenson, *Managing EU–US Relations*, p. 63.

52 Cf. Busch/Reinhardt, *Transatlantic Trade Conflicts*, p. 475, who differentiate between high stake and low stake disputes, based on the criteria of their monetary and their political significance: low stake are conflicts with a claim value (value of the WTO authorised sanction measures) of up to 50 million US dollars; conflicts of medium significance are ones with a claim value of up to 150 million US dollars (25 of the 32 US-EU-WTO-conflicts between 1995 and 2002 fell into this category); high stake-conflicts with a claim value greater than 150 million US dollars include, amongst others, the Banana dispute, conflicts over the use of hormones in meat production, the customs classification of computer equipment dispute, the FSC conflict, the disputes over the American Anti-Dumping-Law of 1916 and over section 301 of the US Trade Law of 1988.

Graph 4
Areas of Conflict in Euro-American Economic Relations



* The exact positioning of individual conflicts within the matrix is based upon an intuitive estimation and therefore has a merely illustrative function. In individual cases the sum in dispute is available in dollars (X-Axis). The following can be offered by way of criteria for the positioning along the Y-Axis: legal status and political attention of the conflict, as can be determined from the positions of the Department of Defense and of the State Department, or the handling of the case according to the Exon-Florio Law on the security policy vetting of FDI into the U.S., or other authorisation procedures of the U.S. or European countries, as well as on the basis of the intervention of Congress (or European Parliament) in the case in question on the grounds of national security.

Regulation of Financial Markets as a Source of Transatlantic Conflict

Conflicts surrounding financial markets occupy in this overview a position which cannot be clearly categorised. On the one hand, financial market regulation is a field of divergent, purely economic transatlantic interests. EU–U.S. negotiations on mutual recognition of accounting regulations—of the American GAAP Standards in the EU and of the European IFRS Standards in the U.S.—have been taking place for a long time. To the U.S., its extremely high performing and overwhelmingly wide and deep financial market, combined with the national regulations governing it, is likely the most important of its international competitive advantages. Allowing EU accounting regulations to apply to the American subsidiaries of EU firms could undermine this competitive position. More broadly, this issue is also a question of which standard will prevail in global institutional competition. The financial institutions of the country that sets the dominant standards in accounting and financial market regulation have, in light of the close interweaving of national financial markets, a clear international competitive advantage.

American willingness to take steps towards institutional regulatory integration in the Atlantic Economic Area is accordingly low, be this with regard to accounting standards or financial market regulation, in particular regulations covering new financial institutions such as hedge funds.[a] The massive downswing on the integration policy cycle of Euro-American economic relations over the past 15 years is also clearly evident here. The passing in 1989 of the second banking directive by the EU as part of the Single Market Project led to fears in the late 1980s/early 1990s in the U.S., itself facing a crisis of its domestic savings and loans banks, that its financial institutions would be at a disadvantage when competing against European “universal banks” operating out of an integrated financial market.[b] Since then, the American financial sector has consolidated strongly and grown in dynamism, whilst integration of the European financial market has ground to a halt.

The European and American financial markets are, therefore, “interlinked but not integrated” as Rolf Breuer, former Chairman of the Supervisory Board of Deutsche Bank AG, put it at a recent transatlantic economic conference.[c]

Insofar as the U.S. manages to maintain its leading position on the international financial markets, and to thus secure its regulatory power, it also offers up unique foreign policy options in the form of financial sanctions. Financial sanctions against foreign property in the U.S. play a large role in American sanction policy and so have become the stuff of transatlantic conflict when there are disputes surrounding unilateral sanctions by the U.S. financial market regulation has therefore also gained a strategic security policy dimension: foreign banks which do not comply with American financial sanctions against third-party states can be excluded from all activity on the American financial market. And the U.S. Stock Exchange Commission (SEC) is legally bound to ensure that foreign companies active on American financial markets inform their investors of any sanctions threatening possible uses of their internationally invested capital.[d]

The institutional competition between the U.S. and EU over the regulation of financial markets is, however, by no means yet decided in favour of the former. The far-reaching company accounting liability regulations—the so-called Sarbanes-Oxley Act, named after its parliamentary sponsors—, introduced in the U.S. in the wake of the accounting scandals of 2002-2003 (Enron, Worldcom etc.), has shown itself to be of limited use and could yet develop into a competitive disadvantage for the U.S.[e] The large American stock exchanges, New York Stock Exchange (NYSE) and NASDAQ, with their interest in taking over European exchanges such as EuroNext and the London Stock Exchange (LSE), are aware of this risk. Attempts to combine the best of both worlds – the productivity of the US financial markets with the current advantages of European financial market regulation – are an expression of this awareness.

a Cf. “EU und USA streiten weiter über Bilanzen,” in: *Handelsblatt*, February 2, 2006, p. 22.
b Cf. Douglas Croham, *Reciprocity and the Unification of the European Banking Market*, New York/London 1989 (Group of Thirty Occasional Paper). See also: Jens van Scherpenberg, “Wirtschaftlicher Aufbruch nach Europa? Die innere und äußere Dynamik des EG-Binnenmarktes,” in: Bernd W. Kubbig (ed.), *Transatlantische Unsicherheit. Die amerikanisch-europäischen Beziehungen im Umbruch*, Frankfurt/Main 1991, p. 79–101.

c Speech by Rolf Breuer at the Conference “Towards a Transatlantic Marketplace” on the 21st March 2006 in Washington, DC.
d Cf. Benn Steil/Robert E. Litan, *Financial Statecraft. The Role of Financial Markets in American Foreign Policy*, New Haven 2006, p. 48. Also see below, p. 25f.
e On September 12, 2006, an independent expert commission (The Committee on Capital Markets Regulation) was, with agreement from the Treasury Department, set up so as the draw up recommendations for changes to the “Sarbanes-Oxley Act of 2002”—changes intended to re-establish the competitiveness of the American capital markets, http://thomas.loc.gov/cgi-bin/query/z?c107:H.R.3763.ENR. Cf. “Panel’s Mission: Easing Capital-Market Rules”, *The Wall Street Journal Online*, September 9, 2006, http://online.wsj.com/article_print/SB115802003723560082.html.

Strategic Areas of Conflict in Transatlantic Economic Relations

Two questions arise at this point: Have the number of transatlantic economic conflicts increased or decreased since the end of the Cold War and, in particular, since the WTO took up its work in 1995? And has there been a shift in the nature of conflicts from purely commercial conflicts to ones with a strategic dimension?

A comparative glance at the annual reports over the past decade by the U.S. Trade Representative and the European Commission on the restrictions to bilateral economic relations shows on the one hand that the sum of conflicts has, in total, remained roughly the same.[53] The number of American barriers to trade and direct investment on grounds of national security has, however, risen in the past years. Thus, their relative weight has increased (see graph 5) as can be seen from the reports of the European Commission. Included in this group are unilateral, extraterritorial sanctions imposed by the U.S. as well as registration requirements and restrictions with regard to government contracts, to exports and to FDI intended to preclude threats to national security.

Graph 5
Proportion (in percent) of strategic conflicts and the number of pages taken up by these in the Annual Reports of the European Commission on U.S. Trade and Investment Barriers (Comparison of the 1995, 2000 and 2005 Reports)

Source: Own Analysis of the Reports.

As the following examples show, the weight of these conflicts has increased in absolute terms, too, both with regard to the commercial value involved as well as to the strategic security policy significance of the conflict.

Sanctions

A source of strain on transatlantic economic relations is the liberty the United States takes in making use of the instrument of economic sanctions to assert its foreign and security policy aims, quite often at the expense of third-party states.[54] This is illustrated by

53 The European Commission lists 131 conflicts in 1995, 134 in 2005. Though the reports of the U.S. Trade Representative suggest a rise in the number of conflicts from 61 (1995) to 103 (1999) to 137 (2005), this rise registered by the US is mainly due to the rounds of EU enlargement. Cf. European Commission, *Report on United States Barriers to Trade and Investment 1995*, Brussels 1996, as well as: *Report on United States Barriers to Trade and Investment 2005*, Brussels 2006, and United States Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers*, Washington, DC 1995, 2000, and 2005.

54 The following passage from the TABD Report from Chicago in 2002 is characteristic of the problem: “Education appears to be the best way of reducing unilateral economic sanctions and extraterritorial sanctions, but such education in the U.S. is very ‚perishable‘. Every two years, new Legislathe examples of the Euro-American-Canadian conflict over the extraterritorial jurisdiction of sanctions under the Libertad (Cuban Liberty and Democratic Solidarity) Act, better known by the name of its congressional sponsors Helms and Burton, and of the Iran-Libya Sanctions Act (ILSA), also known by the name of its principal sponsor, d'Amato. The former's sanctions also applied to companies from third-party states who made use of expropriated, formerly American property in Cuba, the latter sanctioned in a similar way investments made by third-party states in the two countries.[55]

The EU first sought recourse via the WTO against the Helms-Burton Act and the ILSA, only for the U.S. to warn that it would invoke the national security exemption clause of Article XXI in a WTO dispute settlement case. Such a move would have probably placed the whole WTO system under enormous strain. So arbitrary and highhanded an invocation of the exemption clause by the U.S. on the grounds of Cuba posing a threat to national security would have opened the floodgates to an inflated use by other countries of Article XXI as justification for trade restrictions, not least in the agricultural sector. For this reason, the EU and the U.S. agreed at their summit meeting of May 18, 1998 on a compromise which allowed both sides to save face: the Helms-Burton Act and ILSA remained in force, the President would, however, waive the application of their contentious provisions. The 1998 agreement remains in force today but continues to be interpreted by the U.S. in the narrowest possible manner, thus making the compromise very shaky. The deterrent effect of the two laws on European investments in the countries in question that was initially intended by the U.S. has, therefore, not been fully neutralised.[56]

Sanctions unilaterally imposed by the U.S. will continue to be a source of transatlantic conflicts. Not only do views differ on each side of the Atlantic as to the economic and political effectiveness of economic sanctions, but the U.S. can far more easily pass off the costs of sanctions than the EU or even other major economic powers such as Japan, Russia or China. In addition to extraterritorially applying its sanctions against companies of third-party states, America is also far less dependant upon exports for maintaining its own economic strength than most of the other both old and new industrial states. The dominant position of the American financial markets in particular offers significant leverage to force financial actors from third-party states to bide by the financial sanctions imposed. The most recent sanctions against financial institutions that maintained business relations with North Korean financial actors, and the threat of such sanctions against those who did business with Iranian financial actors, have proven to be remarkably effective.[57]

High-Tech and Defence Industries

The fear of being left far behind by American competitors in the fields of civilian and military high technology which spread through Europe in the 1990s should not be underestimated.[58]

The EU states, therefore, endeavoured to maintain or build on their own competencies in the core areas of military technology and civilian high technology and, in doing so, to ensure a minimum level of autonomy from the U.S. On the part of the Americans, this was considered either an unnecessary duplication of already available American products and thus as a waste of public funds, or it was criticised as an illegitimate distortion of competition.[59] This was the case

tors arrive in Washington, DC that have never had experience with the effects of sanctions and every four years, new administrations arrive with the same problem. For that reason, there appears to be no substitute for persistent effort to spread the word about the lack of value and effectiveness of this counterproductive substitute for effective diplomacy and multilateral actions." (Transatlantic Business Dialogue, *2002 TABD Chicago Conference Report*, p. 49).

55 For an analysis of the conflict over the Helms-Burton Act and its difficult bilateral defusing, see: Hugo Paemen, "Avoidance and Settlement of 'High Policy Disputes': Lessons from the Dispute over 'The Cuban Liberty and Democratic Solidarity Act'," in: Petersmann/Pollack, *Transatlantic Economic Disputes*, p. 361–370.

56 On the state of (non)application of the Helms-Burton Act and ILSA see: European Commission, *Report on United States Barriers to Trade and Investment 2004*, paragraph 3.1, p. 12.

57 Cf. "Pressed by U.S., European Banks Limit Iran Deals," in: *New York Times*, May 22, 2006, http://select.nytimes.com/search/restricted/article?res=F40D1FFE3.

58 Cf. Jens van Scherpenberg, "Transatlantic Competition and European Defence Industries: A New Look at the Trade-defence Linkage," in: *International Affairs*, 73 (January 1997) 1, p. 99–122, and, for a more up-to-date analysis: Sorin Lungu, "Power, Techno-Economics and Transatlantic Relations in 1987–1999: The Case of Airbus Industries and Galileo," in: *Comparative Strategy*, 23 (October/December 2004) 4–5, p. 369–389.

59 In a provocative manner Ethan Kapstein reasoned in 1994 in a much noted essay in *Foreign Affairs* why it was economiwith the Airbus project as well all as for other large European armaments programmes—the Eurofighter "Typhoon" or the "Meteor" air-to-air rocket for example, but also most recently the European satellite navigation system "Galileo."

For economic as well as foreign and security policy reasons, such American criticism found little positive resonance in Europe. The high positive externalities for national economies of investments in the establishment of independent, competitive advanced technology can be invoked here. In foreign and security policy terms, having independent systems capabilities in core areas of civilian and military high technology is a given precondition for autonomous action. The Europeans for their part feared being reduced to the role of a valued supplier of highly developed subsystems and components but lacking the ability to develop, maintain and bring to market its own integrated weapons systems, were there a deeper integration of the Atlantic armaments sector.

For the U.S., preserving a strong defence technology advantage over other states has, since the inauguration of George W. Bush, even more so since the Iraq war, once again become a paramount priority. The security policy reservations towards the EU, a potential strategic rival or peer competitor, which follows its own international agenda and is not prepared to keep in line with American security policy interests, have grown with negative consequences for transatlantic cooperation and integration in the high technology and armaments sectors.

It could be claimed that despite the legally binding "buy American" restrictions of the U.S. for this sector, there is none the less a certain east-west transatlantic flow of trade in defence goods. With a few symbolic exceptions like the replacement of the U.S. Presidential helicopter fleet with European helicopters built by a consortium made up of Lockheed Martin and the Italo-British helicopter manufacturer Agusta-Westland, this exchange takes place predominantly on the component level. This is particularly the case for such products for which there is no available American supplier.[60] The volume of trade in question is low, further supplier linkages are hindered not least as a result of the strict export control regulations of the U.S., which cover all exports of goods by other countries that contain controlled American components.

Some of the transatlantic takeovers in the defence sector undertaken by both sides in recent years also seem to disprove the named reservations, in much the same way as the spectacular transatlantic cooperation project "F-35 Joint Strike Fighter" (JSF) did. Upon closer inspection though, this seems to be the exception that proves the rule. In terms of east-west flows, particularly the British company BAE Systems has, by means of acquisitions, broadened its turn-over basis: this increased to almost 50% following the takeover, approved in June 2005, of the American manufacturer of armoured vehicles, United Defense. With the establishment of the U.S.-based company Thales-Raytheon-Systems, there is since 2001 even a Franco-American defence joint venture. These investments are met with mixed feelings on the part of the Europeans, given that with them a part of their research & development capabilities is inevitably transferred to the U.S. and the technological outcomes can hardly be repatriated.[61] In a west-east direction, take-overs of European defence firms by American companies have increased awareness on the part of the Europeans of the problematic nature of such take-overs and prompted a defensive reaction.

The amendment of the German foreign trade law which requires governmental approval of all foreign capital investments above 25% in defence companies, was in no small part spurned on by the surprise takeover of the German submarine manufacturer HDW by the American finance investor OEP in 2002.[62] And the U.S. company General Dynamics, in 2000 still able to take-over the Spanish state-owned company Santa Barbara, licensee of the German military tank Leopard, was hindered in 2004 in buying the British tank manufacturer Alvis: with the informal backing and support of the British government, BAE Systems outbid the General Dynamics offer and took-over Alvis.

cally hopeless and thus a waste of resources for the Europeans to stand ground against the American monopoly in high-tech armaments. See Ethan Kapstein, "Towards an American Arms Trade Monopoly," in *Foreign Affairs*, 73 (May/June 1994) 3, p. 13–19.

60 Cf. "U.S. Weapons, Foreign Flavor," in: *The New York Times*, September 27, 2005, www.nytimes.com/2005/09/27/business/27weapons.html (Last accessed on September 30, 2005).

61 Cf. Laurent Giovachini, "L'Agence européenne de défense: un progrès décisif pour l'Union?," in: *Politique Étrangère*, 69 (2004) 1, p. 177–189.

62 HDW: Howaldtswerke Deutsche Werft; OEP: One Equity Partners. Cf. Diana Dinkelacker/Markus Frenzel/Joachim Rohde, *The US-Armaments Industry Goes Europe? Der Fall der Howaldtswerke Deutsche Werft AG*, Berlin: Stiftung Wissenschaft und Politik, August 2002 (SWP-Aktuell 31/2002), www.swp-berlin.org/de/common/get_document.php?id=444.

The JSF project was thus far a technological one-way street for the European countries involved, despite their 20% participation in the development costs. There is growing embitterment, in particular on the part of Great Britain, who, through BAE Systems, is the largest foreign cooperation partner in the JSF project, over the American refusal to make available technologies that the British need for their adaptation of the JSF to their procurement requirements. In particular, the Royal Airforce is adamant about being fully in control, independent from the principal American contractor or American authorities, of maintenance service for its JSF.[63] The fact that the U.S. does not have sufficient trust, even towards Great Britain and even in so prominent a cooperation project as the JSF, is particular testimony to how weak the strategic basis for a deeper transatlantic integration currently is.

Instead, the business basis of transatlantic defence cooperation suggests a mutual, but none the less uneven distribution of benefits: The U.S. profits from the cooperation through the import of valuable niche and specialised technologies, thus saving themselves the development costs.[64] The costs of this for the U.S. are some very limited technology exports that, moreover, are strongly regulated. Europe's benefit comes in the form of increased transaction volumes and with that an expanded base for the apportionment of the costs of their own development capacities. This, however, has a high price for the Europeans, who generally find themselves in the weaker position: they relinquish their own technology and waiver operational control and corporate integration of the American subsidiary, also losing autonomy over exports to third countries.

This disparate cost-benefit-equation finds expression in a notable decrease in the number of transatlantic merges and acquisitions (M&A) since the end of the Cold War, as an analysis by the Brookings Institution recently showed. Between 1991 and 2000, only 32% of all cross-border M&A activity by the European defence industry involved American firms, as compared to 55% between 1981 and 1990. In the same period, the transatlantic share of cooperation projects by European defence manufacturers decreased from 47% to 28%.[65]

In short: the Atlantic has in recent years gotten wider and deeper for the strategic and defence industries. Given the increasing degree of interlinkage between the armaments and civilian high-tech industries, brought about in no small part by numerous dual-use products and applications, this trend brings with it a negative spill-over effect onto general transatlantic trade relations and onto the ability to resolve conflicts in this field.

Three conflicts of recent years will be analysed below to illustrate the strategic level of transatlantic economic conflicts and their explosive potential: (1) the Airbus-Boeing dispute over subsidies for large civil aircraft, (2) the altercations over the European satellite navigation system Galileo and (3) the conflict over the lifting of the EU's weapons embargo against China, imposed in 1989, and its replacement with a general Code of Conduct for arms exports by EU states.

These conflicts can be considered as highlighting the extremes of the current political constellation in transatlantic economic relations—Europe has the option of falling into place in a world order in which America is politically, economically and technologically dominant, or it can consider itself an ally of the U.S., who can claim to be treated as an economic and technological equal in a multi-polar order. Though all three conflicts would not have developed as they did had it not been for the transatlantic tensions caused by the Iraq war, how they are dealt with offers up possible ways to overcome these tensions.

63 Only upon his visit to Washington on May 26, 2006 did Prime Minster Blair receive confirmation from President Bush for the technology transfer, though this had yet to be approved by Congress. Even in the event of endorsement by Congress, the practical implementation and fulfilment remains to be seen. For a sceptical assessment of the Memorandum of Understanding of May 26 cf. Robin Niblett/Pierre Chao, "Strike Fighter Tests Transatlantic Ties," in: *Financial Times*, May 30, 2006, p. 13. The authors are Executive Vice President and Director, Europe Program and Director and Senior Fellow, Defense Industrial Initiatives at the Center for Strategic and International Studies in Washington respectively.

64 Cf. Michèle A. Flournoy/Julianne Smith, *European Defense Integration: Bridging the Gap between Strategy and Capabilities*, Washington, DC: Center for Strategic and International Studies, October 2005, p. 76.

65 Cf. Seth G. Jones, *The Rise of Europe's Defense Industry*, Washington, DC: The Brookings Institution, May 2005 (U.S.–Europe Analysis Series), www.brookings.edu/fp/cuse/analysis/jones20050505.pdf.

The Airbus-Boeing Conflict

The Euro-American trade conflict over the subsidising of large civil aircraft manufacturers—in the Atlantic economic region nowadays only the American Boeing Corp and the European Airbus SAS—flared up once again in 2004, and is a borderline case which touches on numerous planes of conflict. On the one hand it is a normal trade conflict about competition distorting subsidies, similar to the conflict over American "export subsidies" (FSC/ETI), with which it intersects since Boeing is one of the American companies to have benefited the most under the FSC/ETI regime. On the other hand, it is a conflict which affects two companies of central strategic importance. They supply a multibillion dollar market and, in doing so, are for both economies the source of significant positive externalities, technologically as well as economically.[66] Lastly, this conflict is also a question of the commercial profitability and technological capability of the aerospace industry, the most important subsector of the defence industrial base.[67]

To consider it just a normal trade conflict would, therefore, be to misjudge the essence of the Airbus-Boeing conflict, making it notably difficult to explain why a functional bilateral system that had been intended to curb the incriminated distortions of competition, has failed.[68]

With the termination of the 1992 bilateral agreement on the trade in large civil aircraft, the U.S. in October 2004 initiated a dispute settlement process at the WTO against the EU on the grounds of the latter being in breach of the GATT Agreement on Subsidies and Countervailing Measures (SCM) of 1994. The EU reacted by filing a counterclaim against American subsidies to Boeing.[69] Though both might prevail in their respective cases, each party would in that case neutralise the other.[70]

The two WTO cases lay to bear a deeper conflict over strategic competition in defence-related high-tech industries, which is more likely to damage the WTO dispute settlement regime as such than to allow for a satisfactory resolution within the system.

At the beginning of the 1990s, fear of losing its technological edge—long considered a decisive factor for its military superiority—was widespread in the United States.[71] The Clinton administration therefore followed an aggressive, quasi-mercantilist course of national technology policy and of export promotion of high-tech products, including defence goods. Despite decreasing domestic demand as a result of military spending cuts, the aim was to secure the American position as global market leader in the aerospace and military industries.[72] The Bush administration has upheld this policy in the field of civilian aviation, whilst tightening technology export controls in all other areas for all countries—other than those greatly dependent on American security guarantees such as Japan and Taiwan.[73]

Despite this, in 1999, for the first time ever, Airbus registered more new orders than Boeing—and was able to repeat this success every year between 2001 and 2005. With the new A380, supported by 12 billion Euros in subsidies—roughly a third of the development costs—Airbus also managed to enter the last remaining segment in which Boeing, with the B747, enjoyed a monopoly position.

Parallel to this, the turn-over from Airbus' defence business, not to mention that of its shareholders' EADS and BAE Systems, also grew. The production of the next military transport aircraft A400M as well as the successful development and marketing of a competitive in-flight refuelling system on the basis of the

66 In its first decade, the Airbus project was for economists the prime example of strategic trade policy. Cf. Paul R. Krugman/Maurice Obstfeld, *International Economics. Theory and Policy*, 5th Edition, Reading, Mass. 2000, Chapter 11, p. 275–296. Also cf. Laura d'Andrea Tyson, *Who's Bashing Whom? Trade Conflict in High-Technology Industries*, Washington, DC 1992, chapter 5, p. 155–216.

67 Cf. Philip K. Lawrence/Derek Braddon, *Aerospace Strategic Trade. How the U.S. Subsidizes the Large Commercial Aircraft Industry*, Aldershot: Ashgate, 2001.

68 Cf. Richard Aboulafia, "Commercial Aerospace and the Transatlantic Economy," in: Hamilton/Quinlan, *Deep Integration*, p. 74–90. For the background to the conflict, cf. Jens van Scherpenberg/Nicolas Hausséguy, *The Airbus-Boeing Dispute: Not for the WTO to Solve. The Subsidies Conflict Opens up New Opportunities for Transatlantic Relations*, Berlin: Stiftung Wissenschaft und Politik, July 2005 (SWP-Comment 30/2005), www.swp-berlin.org/en/common/get_document.php?id=1327.

69 On October 17, 2005, following the failure of lengthy bilateral consultations, the dispute settlement panels constituted under the file references DS316 and DS317.

70 A precedence has been set for such a case: the conflict between Canada and Brazil over subsidies to their regional aircraft manufacturers Bombardier and Embraer. Both sides won their dispute settlement procedure, but did not apply retaliation.

71 Cf. Lester Thurow, *Head to Head: The Coming Economic Battle among Japan, Europe, and America*, New York 1992.

72 Cf. van Scherpenberg, "Transatlantic Competition and the European Defence Industries."

73 Cf. Aboulafia, *Commercial Aerospace*, p. 87.

Airbus A330 both promise additional economies of scale. As part of a bidding consortium with Northrop Grumman, EADS will take part in the call for tenders for the medium-term renewal of the American tanker fleet.

The tanker contract for the U.S. Air Force could well lead to the continuation of the Airbus-Boeing conflict, and, beyond this, play a central role in the strategic dimension of transatlantic economic relations. So far both sides have sent predominantly deescalating signals on the project. An amendment to the Defense Appropriations Bill for the fiscal year 2006[74] which was brought before Congress and would have prevented the awarding of contracts to EADS failed, in no small part as a result of White House resistance. Buoyed by the sales success of its new model, the B787, Boeing signalled its interest in a consensual solution, whilst EADS hinted it would forgo subsidies for the new Airbus A350.

In the end, however, the American government's tanker procurement intentions require that difficult decisions be made. It must decide between a strong impulse for the integration of the transatlantic defence industry by paying due consideration to the competitive[75] Northrop Grumman-EADS offer, and a "buy American" policy that would yet further inflame a serious strategic trade conflict with the EU.

The choice of the latter would be all the more significant for Atlantic strategic technology rivalries when considered against the background of the development of U.S.–Japanese relations. When, at the beginning of the 1990s, conflicts over strategic trade policies came to a head, the U.S. considered its economic interests to have been injured by, in particular, Japanese industrial and trade policies. Fifteen years later, Japanese firms are, through numerous joint development programmes and supply relationships, closely tied into the American aerospace industry[76] with American-Japanese cooperation in defence technologies having experienced a dramatic upswing.[77] This corresponds on the demand side with the fact that the Japanese market for large passenger and freight aircraft, one of the largest in the world, is an almost captive market for Boeing.[78]

The Galileo Conflict

The paradigmatic meaning of the Airbus-Boeing conflict is also underlined by a further transatlantic conflict with industrial and techno-political dimensions but with an even more pronounced security political relevance: the dispute over the European satellite based navigation system Galileo.[79] In 1999, the EU decided to establish its own system, directly competing with the American Global Positioning System (GPS).[80] The consequences of this decision on transatlantic relations are not only of a commercial nature though; thanks to its clearly greater precision and reliability, Galileo is expected to be a lucrative venture. Both significant immediate incomes from royalties and substantial positive externalities, be these in the form of new service offerings or through increased productivity in existing economic sectors

74 HR 1815, the National Defense Authorization Act for Fiscal Year 2006, http://thomas.loc.gov/cgi-bin/bdquery/z?d109:H.R.1815.

75 An extensive study by the RAND Corporation seems to reach a more differentiated and so for the EADS offer more favourable estimate. Only the Executive Summary of the study was published; see RAND Corporation, *Analysis of Alternatives (AoA) for KC-135 Recapitalization*, Executive Summary, Santa Monica, Cal. 2006 (Rand Project Airforce), www.rand.org/pubs/monographs/2006/RAND_MG495.pdf.

76 Mitsubishi Heavy Industries for example is the most important industrial partner of Boeing for the development of the new medium sized long-haul aircraft B787 "Dreamliner," upon which Boeing, with over 300 orders already placed, is placing its hopes of maintaining its market dominance. Mitsubishi Heavy, which receives massive state subsidies, will carry about 30% of the development costs and development work for the B787.

77 Cf.—amongst others—Dan Blumenthal, *The Revival of the U.S.-Japanese Alliance*, Washington, DC: American Enterprise Institute, 2005 (Asian Outlook), www.aei.org/doclib/20050228-ao.pdf (last accessed on June 7th 2006).

78 According to company statements, Airbus has sold 77 aircraft to Japan since 1980, 34 of which were the old style A300 and A310 as well as 43 smaller A320. No A330 or A340 have so far been sold, and no orders for the A380 have thus far been received from Japan. Boeing has sold 569 aircraft to Japanese customers since 1980, 119 of those were B747.

79 For an analysis of the parallels between Airbus and Galileo and the transatlantic disagreements surrounding them, see Lungu, "Power, Techno-Economics and Transatlantic Relations."

80 The program was approved for the first time by the EU and the European Space Agency (ESA) in 1999. The official start of the development phase, combined with a first financial instalment, was determined by the Council of Transport Ministers of the EU in March 2002. Cf. Gustav Lindström/Giovanni Gasparini, *The Galileo Satellite System and Its Security Implications*, Paris: The European Union Institute for Security Studies, April 2003 (Occasional Paper 44), www.iss-eu.org/occasion/occ44.pdf.

such as freight and transport are anticipated thanks to Galileo.

With its highly precise world wide navigation properties, Galileo can obviously also be used for military purposes[81] even if civilian cooperation partners are not granted access to signals on the highest precision level. A Euro-American agreement reached at the bilateral summit at Dromoland in June 2004 on the compatibility of GPS and Galileo[82] was unable to allay American fears about the dual-use nature of the Galileo project. The cooperation agreement reached since then by the EU with China, covering the latter's financial and technological participation in the project and its later use, has only served to strengthen American unease.[83] Thus, this case is exemplary of the intertwining of security policy and economic issues in situations of divergent transatlantic interests.[84] In much the same way as in the Airbus-Boeing conflict, the conflict surrounding Galileo is another example of how transatlantic trade solutions that require compromise on both sides are usually only possible when Europe negotiates with the U.S. from a position of relative strength.

Technology Trade Relations with China – "Trading with the Enemy"?[85]

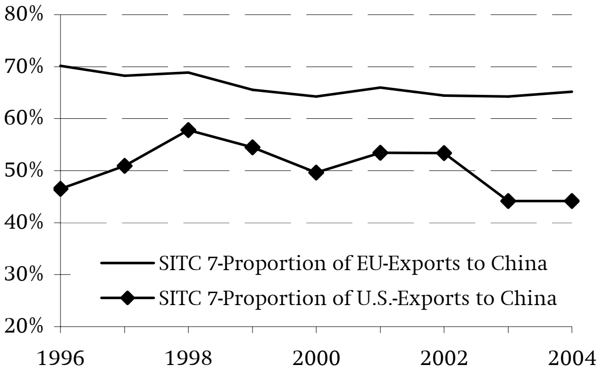
At the end of 2004, the transatlantic conflict over the EU's planned lifting of the arms embargo against China erupted with full force. By the spring of 2005, when a decision on the matter was postponed by the EU Commission, it seemed to have abated at least for the time being. The conflict could well be seen as a security policy conflict—if the only issue in question were the delivery of arms to China.[86]

In its political dimension, however, the conflict reaches far beyond the threatening scenario circulating through the American general public in which a possible military conflict over Taiwan would see American forces fight Chinese forces equipped with European weapons. The conflict is partly fuelled by the perception, galling as it is to the U.S., that the EU, thus far an insignificant actor in East Asia, will take to the international stage with an independent foreign policy to be reckoned with, striving for the establishment of normal relations with and engagement of China.[87] Moreover, the U.S. is concerned that Europe could increasingly export technology with military use to China, thus contributing to an erosion of America's technological edge over a potential peer competitor, China.[88] This fear is not entirely unjustified if the structure of exports from the EU to China is compared with that of American exports to China (see graph 6).

Sino-EU trade largely represents a text-book division of labour between a developing country with an abundance of labour, but a less developed technological standard, and an industrialised country with high labour costs and high technological standards. In the past ten years, roughly 65% of all EU exports to China were of machines and equipment, electronics and transport equipment. In Germany's case it was even 72%.

81 Cf. Lindström/Gasparini, *The Galileo Satellite System and Its Security Implications*, ibid.
82 Agreement on the Promotion, Provision and Use of Galileo and GPS Satellite-based Navigation Systems. The agreement settles a dispute over the transmission frequency that Galileo and a future, expanded GPS system will use. Even though by May 2006 it had been ratified by only 11 of the 25 EU states and the U.S., it is already being provisionally applied.
83 Cf. John J. Tkacik/Neil Gardiner, *Blair Could Make a Strategic Error on China*, Washington, DC: The Heritage Foundation, 7.6.2004 (Backgrounder, Nr. 1768), www.heritage.org/Research/AsiaandthePacific/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=64508.
84 Cf. Seth G. Jones/Stephen Larrabee, "Let's Avoid Another Trans-Atlantic Feud," in: *International Herald Tribune*, January 13, 2006, p. 9.
85 Cf. Gary Milhollin, "Trading with the Enemy," in: *Commentary*, 113 (May 2002) 5, p. 41–45.
86 For an analysis of the economic implications of the defence industry dimension of trade with China as a transatlantic problem, see Ezio Bonsignore/Eugene Kogan, "Fatal Attraction. The EU Defence Industry and China," in: *Military Technology*, 29 (2005) 6, p. 8–15.
87 Cf. Bates Gill/Gudrun Wacker (Hg.), *China's Rise: Diverging U.S.–EU Perceptions and Approaches*, Berlin: Stiftung Wissenschaft und Politik, 2005.
88 "The People's Liberation Army (PLA) is in the process of long-term transformation from a mass army designed for protracted wars of attrition on its territory to a more modern force capable of fighting short duration, high intensity conflicts against high-tech adversaries. Today, China's ability to sustain military power at a distance is limited. However, as the 2006 Quadrennial Defense Review Report notes, 'China has the greatest potential to compete militarily with the United States and field disruptive military technologies that could over time offset traditional U.S. military advantages.'" (Office of the Secretary of Defense, *Annual Report to Congress. Military Power of the People's Republic of China 2006*, www.defenselink.mil/pubs/pdfs/China%20Report%202006.pdf).

Graph 6
Proportion of SITC*-Class 7 goods (machinery and transport equipment) of all goods exports from the EU and USA to China



* SITC: Standard International Trade Classification.
Source for the U.S. figures: U.S. Census Bureau, U.S. International Trade Statistics; for the EU figures: EUROSTAT.

It is quite a different story in the U.S.: over the last decade, the high-tech product class named made up only 45–50% of exports to China, which in total represent just about 60% the value of EU exports.

The most important explanation for this transatlantic difference is in all likelihood American export control policy—it reflects the paramount importance placed upon defending and maintaining a significant technological edge in the national security strategy of the U.S. It could be said that the technology export controls are one of the most important instruments within the containment segment of America's ambivalent policy towards China.[89]

Even within the U.S., the effectiveness of the technology export controls policy is being critically discussed. Not only the direct losses of export opportunities but also the additional stimulus of Chinese technology development, and with that the premature loss of market position to China in the high-tech sector, are feared. It is true that the Chinese catch-up process is already in full flow,[90] albeit with massive state support. In 2004, Chinese Research and Development (R&D) expenditure, adjusted for purchasing power parity, was the 3rd highest internationally (11.8% of all international R&D spending), placing China after the U.S. (32.7%) and Japan (13.0%) but ahead of Germany (5.6%).[91] The increasing integration of China as one of the choice R&D locations for international technology development, as practiced by large multinational enterprises, will advance the technical knowledge of the country yet further and increase its technological potential.

A policy of technology containment will hardly be able to arrest this process. It would, therefore, be advantageous for the U.S., the EU and their interrelation to establish on a transatlantic level a technology export control regime that has a broad geographical reach and which, if possible, applies to all countries outside of the NATO framework or the network of close, equal partners. Qualitatively, such a system should be limited to those few highly sensitive technologies of a directly military nature, which today already are the subject of close controls, even between the Atlantic allies.

Ironically, it is the question of how China, this rising major economic power with growing political ambitions, is dealt with—as exemplified by the controversy surrounding the lifting of the European arms embargo—that offers the EU the opportunity to inject dynamic into transatlantic integration. For it is with regard to China that U.S. interest in closer cooperation with the EU has grown—and with it the EU leverage over the U.S.

89 Cf. Peter Rudolf, *The United States and the Rise of China. The Strategy of the Bush Administration,* Berlin: Stiftung Wissenschaft und Politik, SWP Research Paper 4/2006, April 2006, www.swp-berlin.org/en/common/get_document.php?id=1767.
90 Cf. Organization for Economic Cooperation and Development, *OECD Finds That China Is Biggest Exporter of Information Technology Goods in 2004, Surpassing US and EU*, Paris, December 12, 2005, www.oecd.org/document/8/0,2340,en_2649_201185_35833096_1_1_1_1,00.html.

91 The EU in its entirety is with 24.6% on second place. Cf. Battelle Memorial Institute, "The State of Global R&D," in: *R&D Magazine*, September 2005, p. G1, www.battelle.org/lobalrd.pdf.

Macroeconomic and Currency Issues: Conflict Potential and Cooperation Perspectives

Looking at the Atlantic Economic Area as a closely interwoven economic region, one of its most notable features to meet the eye of the observer is the fact that it is the home of the two largest international reserve currencies, the US dollar and the euro. More than anything else, the two currencies embody America's and Europe's claims to economic sovereignty, even if on the part of the EU this claim has practically, due to a lack of common economic and fiscal policy, and regionally, due to the non-membership of important EU states—most of all the United Kingdom—in the euro zone, not yet been fully staked. Is the macroeconomic foundation of the Atlantic Economic Area therefore inevitably one of rivalry, or can, in light of the shift in the international balance of power towards Asia, this exceptional position, albeit transitory, also provide an impulse to integration? This question is economically but also politically more decisive than the numerous transatlantic trade conflicts which only account for—and could thus potentially only jeopardise—a maximum of five percent of transatlantic trade. The currency issue is far more one of the national economy in its entirety, one of recessions and growth, a question of how the enormous burdens, caused by an eventual adjustment of the thus far accumulated macroeconomic imbalances, will be shared. This question will not just determine the future of some industries but the economic basis of each power's capability to act in the field of foreign and security policy.

Insofar as they are relevant for transatlantic relations, these interrelated issues will be briefly discussed below. A fundamental analysis of current imbalances in the international economy and the potential consequences hereof will, however, not be made.

Initially, the European Monetary Union (EMU) was not taken seriously by the U.S., only to be considered a source of problems—problems for the EU rather than for the U.S.—by various renowned American authors immediately prior to its introduction.[92] After EMU came into force, some authors saw a rivalry between the euro and dollar coming which would pose a significant challenge to America's dominance of the international economy.[93] When the euro began to depreciate against the dollar, a more realistic view of the euro's implications for international economic power distribution took hold on both sides of the Atlantic. This realism prevailed, even when the euro began to appreciate again in 2002.

A new discussion has recently begun among economists and currency experts about the seemingly unstoppable deficit of the American current account. The subject of the debate is whether a current account deficit, projected to reach up to 8% of American GDP in 2006, can threaten U.S. dominance of the global economy and who will carry the inevitable burden caused by an adjustment of the international macroeconomic imbalances.

The current situation is in many ways similar to that of the mid-1980s. Then, under pressure from the rapidly increasing U.S. current account deficit, the G7 states agreed at a meeting of finance ministers and central bank governors on September 22, 1985 in the New York Plaza Hotel to allow a controlled depreciation of the dollar, the Plaza Accord. The six G7 states who had accumulated a corresponding current account surplus expressed with this decision that they did not want a sustained economic weakening of the leading western power during that crucial phase of the East-West conflict—the final phase, as it later transpired. By choosing not to prop up the dollar, they accepted a worsening of monetary exchange relations for their exports, and a corresponding improvement for the U.S. When the dollar nearly halved in value against the deutschmark, a second G7 agreement, the Louvre Accord, was reached in February 1987 which sought to stabilise the dollar through support buying, an expansionist fiscal policy in Japan and the European G7 states and, parallel to this, increased fiscal policy stabilisation efforts in the U.S. Also worth noting and of relevance to today's situation is that this process was flanked by a Saudi-initiated drastic reduction in the oil price from a high of nearly 40 dollars in 1980 to just above 10 dollars in 1986.

92 For one of the most radical statements on this regard, see Martin Feldstein, "EMU and International Conflict," in: *Foreign Affairs*, 76 (November/December 1997) 6, p. 60–73.

93 Cf. C. Fred Bergsten, "America and Europe: Clash of the Titans?," in: *Foreign Affairs*, 78 (March/April 1999) 2, p. 20–34.

Is such a constellation possible again today? For numerous reasons it is more than unlikely.

First: there is no consensus, nor even so much as a dominant opinion, among American experts about a diagnosis of the situation, out of which international macroeconomic policy coordination could then develop. There is certainly even less of a political conviction that such a coordinated line of action is at all necessary. The new head of the Federal Reserve Board, Ben Bernanke, was even prior to taking up this post one of the most important advocates of the theory of a "Global Saving Glut."[94] Proponents consider the problem of international imbalances in the current account not to be one caused by America; far more they see it as one caused by those countries in which significant macroeconomic saving fails to meet sufficiently profitable domestic investment possibilities. The effect is that the surplus savings flow into the American financial market which offers more profitable and at the same time more liquid investment opportunities. For other experts the current account imbalances reflect a precarious co-dependency, in particular for Sino-American relations.[95] In this view, the euro zone countries are likely to be the victims of the Sino-American imbalance, given that the euro would have to bear the brunt of the currency appreciation pressure generated by the dollar.

Second: On the European side, the euro and EMU are the decisive new factors. In contrast to the 1980s, the institutional capacity for action of the European G7 states, on the one hand, has at the very least been impaired as a result of the combination of a common monetary policy and still national fiscal policies, as well as due to British non-membership in the euro zone. One the other hand, the pressure for transatlantic monetary policy coordination should have decreased, given that the euro has largely immunised economic relations within the EU internal market against erratic exchange rate fluctuations by the dollar. The already mentioned fear that, in the absence of political coordination, the euro alone would have to shoulder the external adjustment burden of a possible reduction in the American current account deficit, probably in the form of an ever increasing appreciation against the dollar, has not been founded: For the redeployment of currency reserves from dollars to euro by countries with a significant surplus—Japan, China, the Arab oil exporting nations—has its economic limits.

Third: there is no overarching and guiding security policy motivation anymore, which would engender and ensure a willingness to reach an agreement on sharing the burden of macroeconomic adjustment between the U.S. and the European G7 states. NATO has lost its position as the core institution for mutual influence and consideration in the area of security policy and serves, at best, as an instrument for informal, ad-hoc security policy cooperation. Only Japan, faced with the challenge posed by China, still maintains so cooperative an economic and monetary policy position, rooted in security policy considerations, as was once the "institutional bargain" of the West in the times of the Cold War.[96]

Fourth: the G-7 is no longer a representative institutional framework for agreements on macroeconomic adjustment burden sharing. In the mid-1980s, the most important nations with a current account surplus, Japan and Europe, were members of the G7. Saudi Arabia, as the world's most important oil exporting nation, was already by the mid-1970s closely bound into the American global currency and capital market management. By reducing the oil price, it demonstrated its support and acted as an informal member of the Western security alliance, with vested interests in the American security guarantee. Nowadays it is imperative that China, the country with the largest and in recent years fastest growing dollar reserves, be bound into a macroeconomic policy coordination. This is necessary despite China not having sufficient self-interest in a sustained stabilisation of American security policy dominance, given that such a stabilisation would run counter to Chinese aspirations of autonomous action in foreign and security policy questions. Though Saudi Arabia and the other Gulf states have rapidly increased their dollar reserves thanks to the most recent rise in oil prices, they are neither politically nor in terms of extraction capacity able—or even willing—to accom-

94 Cf. Ben S. Bernanke, *The Global Saving Glut and the U.S. Current Account Deficit, Remarks by Governor Ben S. Bernanke at the Homer Jones Lecture*, St. Louis, Missouri, April 14, 2005, www.federalreserve.gov/boarddocs/speeches/2005/20050414/default.htm.

95 See Catherine L. Mann, "Breaking Up Is Hard to Do. Global Co-Dependency, Collective Action, and the Challenges of Global Adjustment," in: *CESIfo Forum*, (2005) 1, p. 16–23.

96 For the term "institutional bargain" see G. John Ikenberry, "State Power and the Institutional Bargain: America's Ambivalent Economic and Security Multilateralism," in: Rosemary Foot/S. Neil MacFarlane/Michael Mastanduno (eds.), *US Hegemony and International Organizations. The United States and Multilateral Institutions*, Oxford/New York 2003, p. 49–70.

pany an eventual adjustment process with a lower oil price as they did in the 1980s.

If it is argued that there has been no transatlantic economic and monetary policy coordination since the Plaza and Louvre Accords of 1985/1987,[97] then the question is raised: was there no longer a need for such coordination because the necessary adjustment took place via the more efficient and economically less disruptive means of the highly developed and highly integrated international financial markets?[98] Or was there insufficient common interest for policy coordination, given that the participants found themselves in a prisoner's dilemma—uncoordinated individual action being the most attractive option to every single actor?[99] As the number of actors in the game has now increased by at least one (China), a new area of transatlantic cooperation could be tapped into: the formulation of a common monetary policy position, with the aim, through the use of relevant monetary policy measures, of making China carry the main burden of adjustment.

The decisions reached by the International Monetary and Financial Committee of the International Monetary Fund at its spring conference of April 22–23, 2006 in Washington would suggest this to be the intention.

Here again it is questionable if the interests of the EU/euro zone and the U.S. with regard to China's exchange rate policy are sufficiently aligned. From the European perspective, China has actually, through its exchange rate policy, over the past two years brought about a depreciation of the renminbi against the euro. This depreciation has no basis whatsoever in the real economic relations between the EU and China; far more it has actually caused additional adjustment difficulties for those euro countries already suffering under the loss of currency devaluation as an instrument of economic policy, such as Italy. The visible recent rise of the EU's trade deficit with China can be attributed to this depreciation. In the event of China insisting it peg its currency to a basket of currencies, then an at least partial reversal of this depreciation against the euro and a future stabilisation of the renminbi-euro exchange rate through an increase in the euro component of the Chinese currency basket should be called for—as seems already to be done, albeit very cautiously. The Europeans, however, should not join in America's thinly veiled reproach of mercantilist exchange rate manipulation by the Chinese, since the American trade deficit with China clearly has other causes than the renminbi-dollar exchange rate. Therefore here, too, the following applies: American interests in a unified stance on Chinese exchange rate policy should only be followed by the EU if, in doing so, an at least informal agreement ensures that both parties undertake to keep exchange rate fluctuations between the euro and the US dollar within set limits—undertakings which must also include domestic economic measures for a limitation and reduction of America's twin deficit.

97 Cf. C. Randall Henning, "Global Economic Adjustment, the Euro Area and the United States," in: Simon Serfaty (ed.), *Visions of the Atlantic. The United States, the European Union, and Nato*, Washington, DC: Center for Strategic and International Studies, 2005 (Significant Issues Series, Vol. 27, No. 8), p. 152–169. Henning (ibid., p. 154) lists five transatlantic adjustment crises since the Second World War: (1) the breakdown of the Bretton-Woods-System in the early 1970s, (2) the conflict over revaluation settled at the G5 summit held in Bonn in 1978, (3) the adjustment crisis in the mid-1980s that was caused by Reagan's "twin deficit" and was countered with at the G7 with the Plaza- and Louvre-Accords, (4) the recession at the beginning of the 1990s, (5) the current disagreement over macroeconomic adjustment and burden sharing.

98 Martin Feldstein for example suggests that the U.S. should solve the problem of its growing current account deficit with a strict domestic stability policy and a clear signal to the markets that they wish to have a "competitive," i.e. weak, dollar exchange rate, be this achieved unilaterally or in agreement with the Asian states which have a current account surplus. He does not mention how this is to be done. See Martin Feldstein, "The Dollar at Home – and Abroad," in: *The Wall Street Journal*, April 28, 2006, p. A14.

99 Cf. William R. Cline, *The Case for a New Plaza Agreement*, Washington, DC: Institute for International Economics, December 2005 (Policy Briefs in International Economics PB 05-4).

Rivalry or Integration in the Atlantic Economic Area?

The scant progress made in the institutional underpinning of transatlantic economic relations and in the shoring up of the economic basis of the transatlantic alliance so far does little to engendering trust in economic relations as glue to the alliance. Rather, it calls the will of both sides to institutionally deepen the alliance into question. Strong American reservations about being bound by any form of multi- or supranational institution are one of the sources of this lack of resolve. The other source, the EU's lack of attraction as an integration partner in recent years, has numerous causes, including an absence of economic dynamism and the significant problems the EU has had to tackle, be they political (e.g. the crisis over the constitution) or in the field of economic integration (e.g. integration of the financial markets, establishment of a single market for services, integration of a fragmented defence market, economic and fiscal policy in the euro zone). In particular though, the perception that transatlantic economic relations are deep and stable enough to not require an institutionalised integration policy foundation has, in all likelihood, also played a significant role. This perception is doubtful given that the disappearance of trust and the resultant strategic rivalries on international markets, paralleled with a diminishing weight of the Atlantic Economic Area in a dynamically growing international economy, will not have left transatlantic trade and investment relations unscathed. Below, the dangers of inaction will be set against the chances and prospects for integration policy in the Atlantic Economic Area.[100]

100 For a depiction more strongly embedded in scenarios, but which also details in a more general manner the economic and political environment rather than the integration policy perspectives in the Atlantic Economic Area, see Atlantic Council of the United States, *The Transatlantic Economy in 2020: A Partnership for the Future?*, Washington, DC, November 2004.

Rival Regionalism, Competing Exceptionalism?

It has been shown, which structural problems and what lack of trust on a strategic level an institutional underpinning of the integration process in the Atlantic Economic Area is confronted with. Bilateral Euro-American integration politics, already pursued with limited enthusiasm on the part of regulatory bodies and relevant governmental departments, and publicly staged once a year at the ritual of the annual summit meeting between the EU leadership and U.S. President, will continue to fail until such time as the level is changed.

It is, therefore, important to not only comprehensively gauge the possible *economic* advantages of an integrated Atlantic Economic Area—in much the same way as the Cecchini Report did for the European Single Market project—but to also ascertain what *political* costs would have to be met, were substantive steps towards transatlantic integration not taken—costs that would, in the medium term, also make themselves felt economically.

The scenario of a bilateral muddling along[101] not only involves the risk of stagnation—integration dynamism has long since shifted to other theatres. In particular the U.S. uses its economic and political weight to build up a de facto hegemonic integration regime through a series of bilateral free-trade agreements. As a result of the asymmetry of economic and political power between the parties to these agreements, America can secure far more advantageous conditions of market access for goods, services and capital, can push through regulatory rules and standards and can negotiate dispute settlement to greater personal advantage than within, say, the framework of the WTO or within a regional integration agreement with an EU of equal economic strength. Additionally, the foreign policy influence of the U.S. is enhanced by these means and methods.

101 "Washington and Brussels will still find themselves cooperating occasionally on specific issues, including: trade, capital market regulation, health, and terrorist financing [...]. But this will be an uneasy status quo." (ibid., p. 24.)

Under President George W. Bush the longstanding U.S. Trade Representative, later Deputy Secretary of State, Robert Zoellick, forcefully subsumed trade policy to foreign policy interests. In the EU, conversely, trade policy and foreign policy are separated, even institutionally.

U.S. bilateral and regional trade policy is of course not exclusively, by now probably not even so much as primarily, directed against the EU. It is also directed against China and its increasingly analogous politics of active regional integration. In addition to hampering the measly attempts at transatlantic regulatory convergence made so far, this development has in recent years not only increased the danger of a transatlantic rival regionalism developing;[102] it has also weakened the leading role shared and played by the EU and U.S. in the WTO. Their importance in trade policy issues anyway being reduced by the large emerging economies of Brazil, China, India and South Africa, the EU's and America's lead role is being further weakened by rival regionalism with one another. As a result of these developments, the WTO, currently the best functioning and most proven institution for global as well as transatlantic conflict resolution, and its ability to play this role are being eroded.

The Atlantic Economic Area, a business area with an above-average level of economic interlinkage, also seems to lend the Atlantic alliance an exceptional political position—though this economic underpinning should not be taken as given. The problems, which even tentative bilateral Euro-American integration initiatives stumble upon, are rather an accurate expression of that fundamental American self-consciousness of exceptionalism in the world, a position which stands contrary to all deeper integration and which cannot be overcome by additional or enhanced transatlantic dialogues on technical barriers to trade.

Europe's unique integration experience, exceptional, too, for all its imperfections,[103] would suggest that the special role of the U.S. as economic and security policy guarantor of a liberal, open international economy would only be strengthened by and benefit from an Atlantic Economic Area based upon deeper institutional integration, in the sense of pooled sovereignty. A transatlantic rival economic regionalism, on the other hand, would be an expression of a multi-polar world order, based on the establishment of countervailing powers and including strategic rivalry between the U.S. and EU, something thus far unwanted on the part of both the Americans and Europeans.

102 For details, cf the contributions in: van Scherpenberg/ Thiel, *Towards Rival Regionalism?*.
103 For a relativisation of "Exceptionalism" in the transatlantic context, see Tod Lindberg "The Case against the Case against Europe," in: Serfaty, *Visions of the Atlantic*, p. 3–19.

Integration by the Backdoor or Strategic Approach?

It is such fears which stand behind various Atlantic integration initiatives and which extend beyond the current bilateral negotiation process. Two need to be mentioned briefly.

The European Parliament has made the suggestion that a "Transatlantic Marketplace" be established. It would go beyond the levels of cooperation reached thus far in regulatory policy and would be equipped in certain sectors with its own bilateral early-warning and dispute settlement systems for trade conflicts.[104] Such an instrument would then, and only then, be necessary in the event of the WTO-based EU–U.S. dispute settlement mechanism ceasing to function properly and needing to be replaced or supplemented by a new mechanism. Until such time, a bilateral transatlantic dispute settlement mechanism offers few benefits given that it would require an appropriate institutional and regulatory basis. The very scant success of the early-warning mechanism agreed upon in 1998 as part of the TEP does not give rise to optimism.

In the event of a Euro-American dispute settlement instrument being required, it should restrict its activeties to the small group of conflicts currently well served by the WTO rules. The American scholar of international law Berman has noted the following: the more political—in the sense of "high" politics—conflicts are, the greater the disposition to cooperate; conversely the more economic, the greater the disposition to compete, even if in both cases the long-term damage potential for the relationship is equal.[105]

104 Cf. European Parliament, Committee on International Trade, *Draft report on Transatlantic economic relations EU–USA* (A6-0131/2006); Erika Mann, 20.4.2006.
105 "What might be thought pathological in one area of the relationship would be thought natural and healthy in another area—*even though in both cases the potential for longer-term damage to the relationship itself is equally great.*" (Berman, "Legal Theories on International Dispute Settlement and Prevention," p. 462.)

He concludes from this that "in the wide spectrum stretching from security relations for common defence, through political relations more generally, through economic relations, through to trading relations both worldwide and bilaterally, the premium at the security end lies in the *avoidance* or *prevention* of disputes, whereas at the trading end it lies in available and effective dispute *settlement procedures*..." Berman infers "whatever its other merits, a *general* dispute settlement mechanism for the Euro-Atlantic relationship would have an enormous burden to bear, a burden so great that it raises the question whether any single institution or mechanism could be robust or powerful enough to sustain it."[106]

This means: a closer transatlantic integration with political-strategic foundations cannot be created by "integration through the backdoor" as the neofunctionalist logic would suggest. Introducing individual instruments of integration policy and processes in a bottom-up fashion is not what is required to bring such integration about—it must be created out of top-down insight into its strategic necessity. A more gradualist approach like that suggested by the European Parliament and characterised by an orientation according to what is deemed politically achievable given the problems in the bilateral negotiation process so far, will not live up to the requirement to provide this process with a new integration policy dimension.

An integration initiative put forward by the Transatlantic Policy Network (TPN)[107] has a broad vision of a "unified transatlantic market" by 2015 in mind and does not seek to conceal its roots in the politically so effective vision of a unified European Internal Market ("Europe 1992").

This proposal also has a strong gradualist element similar to the 2004 TABD initiative for a "barrier-free transatlantic market." The regulatory framework and procedures of four important submarkets—(1) financial services and capital markets, (2) civil aviation, (3) digital economy (rules governing data protection, security, protection of intellectual property), (4) competition policy—are, under this proposal, to have largely converged by 2010. The idea of a transatlantic free-trade area is, conversely, considered damaging to multilateral trade liberalisation and hence is explicitly rejected.[108] The TPN initiative goes beyond the purely sector-based economic integration politics approach and proposes that the bilateral summit dialogue be expanded to become a formal forum for monitoring the steps in the integration process and for achieving a possible political break-through in the event of stagnation on the working level. This idea too was borrowed from the EU summit process. Finally, a formal Transatlantic Partnership Agreement should commit both sides in a top-down manner to the goal of establishing a "unified transatlantic market," freed of non-tariff barriers, by 2015.

Even the TPN initiative does not deal with the essential issue of "strategic trust." This trust apparently seems to be taken as given and for granted, despite reality having shown that this cannot be assumed.

An Integrated Atlantic Economic Area – Lynchpin for an Open, Dynamic Global Economy

Whoever strives for a renewed strengthening of the Atlantic Alliance, be they from the field of politics or academia, must face the fact that its economic basis, the Atlantic Economic Area, is under-institutionalised.[109] Put another way: given its shallow levels of institutional integration, it is more accurate to define this region as a bilateral economic relationship in a global economy with multi-polar competition—albeit an important relationship—than to lay claim to this being a special community of the most important democratic, market economy based states. If this claim, and with it the special usefulness for the U.S. of the Atlantic alliance as a framework for burden sharing and for conveying political legitimacy, be upheld, then visionary concepts are indeed required.

The today still widespread semantic considerations surrounding the terms in which transatlantic integration initiatives can be couched should cease. Considerations such as ensuring that these initiatives are spoken of in the most politically innocuous, least institutionalised (if possible, also the least supranational) and so least "European" sounding terms should no longer take so prominent a position in the foreground

106 ibid., p. 462; italics as in the original.
107 Transatlantic Policy Network, *A Strategy to Strengthen Transatlantic Partnership*, Washington, DC, 4.12.2003, www.tpnonline.org/pdf/1203Outreach.pdf. Cf. the commentary of the TPN proposal by its founder, James Elles: "The Transatlantic Market. A Reality by 2015," in: Serfaty, *Visions of the Atlantic*, p. 131–151.
108 Elles, "The Transatlantic Market," p. 141.
109 Also Elles, ibid., p. 132.

of the matter. The term "Transatlantic Marketplace" seems to awaken these associations far less than "Transatlantic Market," "Partnership"—as in "Transatlantic Partnership Agreement"—less so than "Community."

It is also time for the U.S. to overcome its angst over an integration policy among equals, not with subordinates, and for the EU, having gotten its economic integration and its constitutional integration act together, to self-confidently show the U.S. the opportunities and advantages that a deeper, institutionally underpinned positive integration would offer both sides when structured in a comprehensive *Agreement on the Atlantic Economic Area*.

Both sides should also openly take up the various economic and regulatory policy convergence processes in the sense of best-practice-oriented reciprocal learning, which have long been set into motion beyond the boundaries of institutionalised bilateral dialogue—in the regulation of goods and services markets, of the labour market, of social, migration and environmental policy. This also means confronting those domestic positions which consider the other side of the Atlantic to be merely the negative countermodel to one's own—"Amerikanische Verhältnisse (American conditions)" versus "Europe in decline."

An *Agreement on the Atlantic Economic Area* could just as well borrow from the European Economic Area (EEA) agreement between the EU and the remaining EFTA states. An inclusion of the NAFTA partners Canada and Mexico—at least of Canada, given that the EU already has a limited free-trade agreement with Mexico—should be considered and potentially brought up in bilateral dialogue with these countries. Within a given timeframe, the free movement of goods, services and capital should be established and should include the trade in agricultural products. A mutual recognition of norms and standards in goods and services trade, as well as cooperation in their joint development, should also be included. Finally such an agreement would also have to include a strong strategic element: economic and monetary policy coordination as once took place within the G5/G7 framework; agreements on trade and competition in strategic industry sectors, in particular in the form of deeper institutional coordination of technology export controls and of the trade in defence and dual-use technologies, among the Atlantic partners as well as with third-party states. In turn, all this is only possible on the basis of mutual trust in each other as the respectively most important strategic partner.

Is such a vision even remotely realistic? It is certainly more realistic now than at any other time in the last 15 years.

The phase of U.S. global unilateralism in the sphere of foreign and security policy is drawing to a close; the relative weight of the European partner is growing once again. Economically, the extreme gap in growth between the U.S. and the large European market economies is closing. It is doing so to the same extent to which the consequences of the large macroeconomic imbalances of the U.S. economy are making themselves felt, and at the same pace at which the European reform policies are being implemented and bearing fruit. It may yet take a while until the current phase in the cycle of perception of Euro-American relations, characterised as it is by American feelings of superiority and an impression of stagnation and decline in Europe, is replaced by a more balanced view within America's broad political public. Politically in any case, the conditions for a less gradualist approach and one more aligned with the visionary strength of the "Europe 1992" project are emerging.

It should be emphasised that just as the European internal market process received a significant impulse in the form of the dual competitive challenges by the U.S. and Japan, the integration of the Atlantic Economic Area could be furthered by the shift in the global economic balances of power resulting from the rise of China to a global economic power and the dynamic developments in other large emerging markets, most of all India and Brazil.

There is a danger that the U.S. and EU will outbid one another in protectionist measures, taken in the face of the challenge posed by China and of ever less dynamic economic growth, and hampered by the burden of global macroeconomic imbalances. It would be more advantageous, and in the interests of free global trade, if the U.S. and the EU were to face the challenge of China and the other emerging markets by creating new competitive advantages for the Atlantic Economic Area through deeper integration, and, in doing so, made use of the competitive advantage offered up by their mature, highly compatible and so more easy to integrate institutions.

The widely made objection that an integrated Atlantic Economic Area would damage the multilateral system of the WTO is not particularly plausible given that according to this logic, the EC/EU would long ago have undermined the GATT. In reality, European integration became an engine for multilateral trade liberalisation not only because the U.S. exerted significant pressure, but also because of its nature as a role model for what the dismantling of trade barriers between states can facilitate and achieve. The same could be true of an institutionally integrated Atlantic Economic Area. For the very reason that within the WTO system the by far and away largest common market with preferential conditions for intra-trade would be established, the weight of the EU and U.S. within the WTO would again increase and their bargaining position for a further dismantling of trade and investment barriers in the multilateral system would improve. Coupled with this would be the offer to partially forego the preferential conditions enjoyed as a result of Atlantic integration. Once again the joint Euro-American responsibility for the functioning of the multilateral trade order would have been proven and would increase the incentive for other large trading powers to themselves become more involved with and engaged in the further development of the WTO system.

Many elements of a deepened integration, which would place the Atlantic Economic Area on a stable political basis, are already part of a common Atlantic consensus. Economic and regulatory policy competition for the better institutional solutions in the fields of regulatory systems, social policy, health care, education and research began long ago and should now be introduced into common institutional processes, not be suppressed by them. The positions of the EU and the United States on a multilateral trade system overlap far more with each other than they do with the positions of most of the significant third-party states.

Important proposals and concepts have already been laid on the table for a fresh, strategic approach to the strengthening of the Atlantic alliance—though largely unconnected and, to stick to one metaphor, laid on different tables of different transatlantic negotiation processes.

There is a growing realisation on both sides of the Atlantic, following the crisis in transatlantic relations between 2002 and 2004, that the EU and U.S. are *indispensable allies* for one another. Within the broad framework of the Princeton Project on National Security, its initiators Francis Fukuyama and John Ikenberry conclude that:

"… in our view, reinvigorating the Western order holds the key to dealing with the two great tasks facing the United States: coping with the shifting balance of power in Asia and reaching inside failing and rogue states to reduce the threats of catastrophic terrorism and weapons of mass destruction. Towards this end, the United States should try to strike a new grand bargain with Western Europe and bridge the gap that has emerged between these two old friends. A reformed NATO would be at the heart of such a deal."[110]

Their inference should not be limited to the realm of security policy. Nor should any calls for a deepened "Transatlantic Partnership" between the EU and the U.S. stop at the plea for better regulatory collaboration. They will have to include the strategic dimension.

From all explanations for the stagnation, during the course of the last decade, in deepening transatlantic relations, a clear common denominator on both sides can be derived: an overestimation of the possibilities outside of and a lack of mutual trust within the Atlantic partnership.

In both areas and on both sides of the Atlantic, there are indications of hitherto common positions being revised. Capitalising on and making use of the opportunities this presents will be a task of great responsibility for German foreign policy in 2007 when, through the EU Presidency and the chairing of the G8, it gets the chance to provide significant impulses.

110 Francis Fukuyama/G. John Ikenberry, *Report of the Working Group on Grand Strategic Choices*, Princeton: The Princeton Project on National Security, 2005, www.wws.princeton.edu/ppns/groups/GrandStrategy/index.html.

Appendix

Overview
Agreements between the EU and USA, 1989–2006

	Agreement	*Signed*	*In force since*
1.	Agreement on the Extension of and Amendments to the Agreement concerning Fisheries off the Coast of the United States	27.02.1989	27.02.1989
2.	Arrangement concerning trade in steel pipes and tubes	20.11.1989	
3.	Arrangement concerning certain steel products	20.11.1989	
4.	Agreement complementing the Agreement between those Parties for the conclusion of negotiations under GATT Article XXIV:6	21.12.1990	21.12.1990
5.	Agreement between the European Economic Community and the Government of the United States of America concerning the application of the GATT Agreement on trade in civil aircraft on trade in large civil aircraft	17.07.1992	
6.	Agreement on the application of the Community Third Country Directive, Council Directive 72/462/EEC, and the corresponding United States of America regulatory requirements with respect to trade in fresh bovine and porcine meat	06.11.1992 (EU) 13.11.1992 (U.S.)	01.07.1994
7.	Agreement on government procurement	25.05.1993	25.05.1993
8.	Agreement on the mutual recognition of certain distilled spirits/spirit drinks	15.03.1994	15.03.1994
9.	Agreement regarding the application of their competition laws	23.09.1991	23.09.1991
10.	Agreement on government procurement	30.05.1995	
11.	Agreement for cooperation in the peaceful uses of nuclear energy between the European Atomic Energy Community and the United States of America		
12.	Agreement establishing a cooperation programme in higher education and vocational education and training	21.12.1995	01.01.1996 Renewed: 01.03.2001
13.	Agreement for the conclusion of the negotiations between the European Community and the United States of America under Article XXIV:6	22.07.1996	22.07.1996
14.	New Transatlantic Agenda	03.12.1995	
15.	Agreement on Customs Cooperation and Mutual Assistance in Customs Matters	28.05.1997	01.08.1997
16.	Agreement on precursors and chemical substances frequently used in the illicit manufacture of narcotic drugs or psychotropic substances	28.05.1997	01.07.1997
17.	Agreement for scientific and technological cooperation	05.12.1997	14.10.1998
18.	International Agreement in the form of an Agreed Minute on humane trapping standards	18.12.1997	
19.	Agreement on Mutual Recognition	18.05.1998	01.12.1998
20.	Agreement on the application of positive comity principles in the enforcement of their competition laws	04.06.1998	04.06.1998
21.	Agreement concerning the establishment of global technical regulations for wheeled vehicles, equipment and parts which can be fitted and/or be used on wheeled vehicles	25.06.1999	
22.	EU-US Veterinary Equivalence Agreement	20.07.1999	
23.	Joint Declaration on US-EU Co-operation in the field of Metrology in support of trade	18.12.2000	
24.	Agreement on the Co-ordination of Energy Efficient Labelling Programmes for Office Equipment	19.12.2000	07.06.2001
25.	Agreement in the form of an Exchange of Letters between the European Community and the United States of America relating to the modification of concessions with respect to cereals provided for in EC schedule CXL to the GATT 1994		27.12.2002

	Agreement	*Signed*	*In force since*
26.	Agreement on Mutual Legal Assistance	25.06.2003	
27.	Agreement on the Mutual Recognition of Certificates of Conformity for Marine Equipment	27.02.2004	01.07.2004
28.	Agreement between the European Union and the United States of America on Extradition	25.06.2003	
29.	Agreement on intensifying and broadening the Agreement on customs cooperation and mutual assistance in customs matters to include cooperation on Container Security and related matters	22.04.2004	22.04.2004
30.	Agreement on the processing and transfer of PNR data by Air Carriers to the United States Department of Homeland Security, Bureau of Customs and Border Protection	28.05.2004	28.05.2004
31.	Agreement on the promotion, provision and use of Galileo and GPS satellite-based navigation systems and related applications	26.06.2004	
32.	Agreement in the form of an exchange of letters between the European Community and the United States of America relating to the method of calculation of applied duties for husked rice and amending Decisions 2004/617/EC, 2004/618/EC and 2004/619/EC		30.06.2005
33.	Agreement on trade in wine	10.03.2006	10.03.2006
34.	Agreement pursuant to Article XXIV:6 and Article XXVIII of the General Agreement on Tariffs and Trade (GATT) 1994 relating to the modification of concessions in the schedules of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic in the course of their accession to the European Union	22.03.2006	22.03.2006

Source: European Council, www.consilium.europa.eu/cms3_Applications/applications/Accords/searchp.asp?cmsid=297&party=US&pname=USA&lang=EN&doclang=EN.

List of Abbreviations

APEC	Asia-Pacific Economic Cooperation (Agreement)
CEO	Chief Executive Officer
DSB	Dispute Settlement Body
DSM	Dispute Settlement Mechanism
EADS	European Aeronautics and Defence Systems Co.
ECU	European Currency Unit
EFTA	European Free Trade Association
ESA	European Space Agency
ETI	Extra-Territorial Income (Act)
EU	European Union
EEC	European Economic Community
EEA	European Economic Area
EMU	European Monetary Union
FDI	Foreign Direct Investments
FSC	Foreign Sales Corporation (Act)
FTAA	Free Trade Area of the Americas
G 7	Group of Seven (the seven leading Western industrial nations)
G 8	Group of Eight (the seven leading Western industrial nations + Russia)
GAAP	Generally Accepted Accounting Standards
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GPS	Global Positioning System
IFRS	International Financial Reporting Standards
ILSA	Iran-Libya Sanctions Act
IMF	International Monetary Fund
JSF	Joint Strike Fighter
MRA	Mutual Recognition Agreement
NAFTA	North American Free Trade Agreement/Area
NTA	New Transatlantic Agenda
NTM	New Transatlantic Marketplace
NTMA	New Transatlantic Marketplace Agreement
R&D	Research and development
SCM	(Agreement on) Subsidies and Countervailing Measures
SEC	Securities and Exchange Commission
SITC	Standard International Trade Classification
TABD	Transatlantic Business Dialogue
TAD	Transatlantic Declaration
TAFTA	Transatlantic Free Trade Agreement (Area); since 1.1.2005 also Thailand-Australia Free Trade Agreement
TEP	Transatlantic Economic Partnership
TPN	Transatlantic Policy Network
USTR	United States Trade Representative
WTO	World Trade Organization

Literature

Aboulafia, Richard, "Commercial Aerospace and the Transatlantic Economy," in: Daniel S. Hamilton/ Joseph P. Quinlan (eds.), *Deep Integration. How Transatlantic Markets Are Leading Globalization*, Brussels: Centre for European Policy Studies, 2005, p. 74–90

d'Andrea Tyson, Laura, *Who's Bashing Whom? Trade Conflict in High-Technology Industries*, Washington, DC 1992

Atlantic Council of the United States, *The Transatlantic Economy in 2020: A Partnership for the Future?*, Washington, DC, November 2004

Bergsten, C. Fred, "America and Europe: Clash of the Titans?," in: *Foreign Affairs* 78 (March/April 1999) 2, p. 20–34

– *Competitive Liberalization and Global Free Trade: A Vision for the Early 21st Century*, Washington, DC: Institute for International Economics, 1996 (Working Paper No. 96-15), www.iie.com/publications/wp/1996/ 96-15.htm

Berman, F. D., "Legal Theories on International Dispute Settlement and Prevention," in: Ernst-Ulrich Petersmann/Mark A. Pollack (eds.), *Transatlantic Economic Disputes. The EU, the US, and the WTO*, Oxford 2003, p. 451–464

Bernanke, Ben S., *The Global Saving Glut and the U.S. Current Account Deficit*, Remarks by Governor Ben S. Bernanke at the Homer Jones Lecture, St. Louis, Missouri, April 14, 2005, www.federalreserve.gov/ boarddocs/speeches/2005/20050414/default.htm

Blumenthal, Dan, *The Revival of the U.S.–Japanese Alliance*, Washington, DC: American Enterprise Institute, 2005 (Asian Outlook), www.aei.org/doclib/ 20050228-ao.pdf

Bonsignore, Ezio/Kogan, Eugene, "Fatal Attraction. The EU Defence Industry and China," in: *Military Technology*, 29 (2005) 6, p. 8–15

Breuss, Fritz, "Economic Integration, EU–US Trade Conflicts and WTO Dispute Settlement," in: *European Integration online Papers (EIoP)*, 9 (14.10.2005) 12, http://eiop.or.at/eiop/texte/2005-012a.htm

Busch, Marc L./Reinhardt, Eric, "Transatlantic Trade Conflicts and GATT/WTO Dispute Settlement," in: Ernst-Ulrich Petersmann/Mark A. Pollack (eds.), *Transatlantic Economic Disputes. The EU, the US, and the WTO*, Oxford 2003, p. 465–485

Büthe, Tim/Witte, Jan Martin, *Product Standards in Transatlantic Trade and Investment*, Washington, DC: The Johns Hopkins University, American Institute for Contemporary German Studies (AICGS), 2004 (AICGS Policy Report 13)

Cline, William R., *The Case for a New Plaza Agreement*, Washington, DC: Institute for International Economics, December 2005 (Policy Briefs in International Economics PB 05-4)

Croham, Douglas, *Reciprocity and the Unification of the European Banking Market*, New York/London 1989 (Group of Thirty Occasional Paper)

Devuyst, Youri, *Transatlantic Trade Policy: US Market Opening Strategies*, Pittsburgh: University of Pittsburgh, 1995 (Policy Paper Series), www.ucis.pitt.edu/cwes/papers/poli-series/transatl_trade_policy.pdf

Dinkelacker, Diana/Frenzel, Markus/Rohde, Joachim, *The US-Armaments Industry Goes Europe? Der Fall der Howaldtswerke Deutsche Werft AG*, Berlin: Stiftung Wissenschaft und Politik, August 2002 (SWP-Aktuell 31/2002), www.swp-berlin.org/de/common/get_document.php?id=444

Elles, James, "The Transatlantic Market. A Reality by 2015," in: Simon Serfaty (ed.), *Visions of the Atlantic. The United States, the European Union, and Nato*, Washington, DC: Center for Strategic and International Studies, 2005 (Significant Issues Series, Vol. 27, No. 8), p. 131–151

Feldstein, Martin, "The Dollar at Home—and Abroad," in: *The Wall Street Journal*, 28.4.2006, p. A14

— "EMU and International Conflict," in: *Foreign Affairs*, 76 (November/December 1997) 6, p. 60–73

Flournoy, Michèle A./Smith, Julianne, *European Defense Integration: Bridging the Gap between Strategy and Capabilities*, Washington, DC: Center for Strategic and International Studies, October 2005

Fukuyama, Francis/Ikenberry, G. John, *Report of the Working Group on Grand Strategic Choices*, Princeton: The Princeton Project on National Security, 2005, www.wws.princeton.edu/ppns/groups/GrandStrategy/index.html

Gartzke, Ulf, "Die transatlantischen Wirtschaftsbeziehungen: Ein Pfeiler in der Krise?," in: Thomas Jäger/Alexander Höse/Karl Oppermann (eds.), *Transatlantische Beziehungen. Sicherheit – Wirtschaft – Öffentlichkeit*, Wiesbaden 2005, p. 173–185

Gill, Bates/Wacker, Gudrun (eds.), *China's Rise: Diverging U.S.–EU Perceptions and Approaches.* Berlin: Stiftung Wissenschaft und Politik, 2005

Gilpin, Robert, *The Political Economy of International Relations*, Princeton: Princeton University Press, 1987

Giovachini, Laurent, "L'Agence européenne de défense: un progrès décisif pour l'Union?," in: *Politique Étrangère*, 69 (2004) 1, p. 177–189

Gordon, Philip H., "The Dog That Has Not Barked," in: *E!Sharp*, May–June 2005, www.brook.edu/dybdocroot/views/articles/gordon/20050504.pdf

Green Cowles, Maria, "The Transatlantic Business Dialogue: Transforming the New Transatlantic Agenda," in: Mark A. Pollack/Gregory C. Shaffer (eds.), *Transatlantic Governance in a Global Economy*, Lanham, Md. 2001, p. 213–233

Hamilton, Daniel S./Quinlan, Joseph P. (eds.), *Deep Integration. How Transatlantic Markets Are Leading Globalization*, Brussels: Centre for European Policy Studies, 2005

— /Quinlan Joseph P., *Partners in Prosperity: The Changing Geography of the Transatlantic Economy*, Washington, DC: Center for Transatlantic Relations, Johns Hopkins University, 2004

Henning, C. Randall, "Global Economic Adjustment, the Euro Area and the United States," in: Simon Serfaty (ed.), *Visions of the Atlantic. The United States, the European Union, and Nato*, Washington, DC: Center for Strategic and International Studies, 2005 (Significant Issues Series 27, no. 8), p. 152–169

Hindley, Brian, "New Institutions for Transatlantic Trade?," in: *International Affairs*, 75 (January 1999) 1, p. 45–60

Hudec, Robert E., "Industrial Subsidies: Tax Treatment of 'Foreign Sales Corporations'," in: Ernst-Ulrich Petersmann/Mark A. Pollack (eds.), *Transatlantic Economic Disputes. The EU, the US, and the WTO*, Oxford 2003, p. 175–205

Hufbauer, Gary Clyde/Neumann, Frederic, *US–EU Trade and Investment: An American Perspective.* Paper presented at a conference titled "Transatlantic Perspectives on the US and European Economies: Convergence, Conflict and Cooperation," Cambridge, Mass., April 11–12, 2002 (John F. Kennedy School of Government, Harvard University), www.iie.com/publications/papers/paper.cfm?ResearchID=460?

— /Mitrokostas, Nicholas K., *Awakening Monster: The Alien Tort Statute of 1789*, Washington, DC: Institute for International Economics, July 2003 (Policy Analyses in International Economics, 70)

Ikenberry, G. John, "State Power and the Institutional Bargain: America's Ambivalent Economic and Security Multilateralism," in: Rosemary Foot/S. Neil MacFarlane/Michael Mastanduno (eds.), *US Hegemony and International Organizations. The United States and Multilateral Institutions*, Oxford/New York 2003, p. 49–70

Jäger, Thomas/Höse, Alexander/Oppermann, Karl (eds.), *Transatlantische Beziehungen. Sicherheit – Wirtschaft – Öffentlichkeit*, Wiesbaden 2005

Jones, Seth G., *The Rise of Europe's Defense Industry*, Washington, DC: The Brookings Institution, Mai 2005 (U.S.–Europe Analysis Series), www.brookings.edu/fp/cuse/analysis/jones20050505.pdf

Kapstein, Ethan, "Towards an American Arms Trade Monopoly," in: *Foreign Affairs*, 73 (May/June 1994) 3, p. 13–19

Kenen, Peter B., "Transatlantic Relations and the Global Economy," in: *North American Journal of Economics and Finance*, 15 (2004) 2, p. 149–159

Keohane, Robert O., *Power and Governance in a Partially Globalized World*, London/New York 2002

Krugman, Paul R./Obstfeld, Maurice, *International Economics. Theory and Policy*, 5th ed., Reading, Mass. 2000

Langhammer, Rolf J./Daniel Piazolo/Horst Siebert, "Assessing Proposals for a Transatlantic Free Trade Area," in: *Aussenwirtschaft*, 57 (2002) 2, p. 161–185

Lawrence, Philip K./Braddon, Derek, *Aerospace Strategic Trade. How the U.S. Subsidizes the Large Commercial Aircraft Industry*, Aldershot: Ashgate, 2001

— /Dowdall, Paul G., *Strategic Trade in Commercial-Class Aircraft: Europe v. America*, London: Royal Institute of International Affairs, August 1998 (Discussion Paper 78)

Lindberg, Tod "The Case against the Case against Europe," in: Simon Serfaty (ed.), *Visions of the Atlantic. The United States, the European Union, and Nato*, Washington, DC: Center for Strategic and International Studies, 2005 (Significant Issues Series, Vol. 27, No. 8), p. 3–19

Lindström, Gustav/Gasparini, Giovanni, *The Galileo Satellite System and Its Security Implications*, Paris: The European Union Institute for Security Studies, April 2003 (Occasional Paper 44), www.iss-eu.org/occasion/occ44.pdf

Linn, Johannes F., "Europe and America: The Economic Ties That Bind," in: *Current History*, November 2004, p. 370–375

— *Trends and Prospects of Transatlantic Economic Relations. The Glue That Cements a Fraying Partnership?* Paper prepared for the Transatlantic Editors' Roundtable, April 2004, www.brookings.edu/views/Papers/20040428linn.pdf

Lungu, Sorin, "Power, Techno-Economics and Transatlantic Relations in 1987–1999: The Case of Airbus Industries and Galileo," in: *Comparative Strategy*, 23 (October/December 2004) 4–5, p. 369–389

Mann, Catherine L., "Breaking Up Is Hard to Do. Global Co-Dependency, Collective Action, and the Challenges of Global Adjustment," in: *CESIfo Forum*, (2005) 1, p. 16–23

Milhollin, Gary, "Trading with the Enemy," in: *Commentary*, 113 (May 2002) 5, p. 41–45

Paemen, Hugo, "Avoidance and Settlement of 'High Policy Disputes': Lessons from the Dispute over 'The Cuban Liberty and Democratic Solidarity Act'," in: Ernst-Ulrich Petersmann/Mark A. Pollack (eds.), *Transatlantic Economic Disputes. The EU, the US, and the WTO*, Oxford 2003, p. 361–370

Petersmann, Ernst-Ulrich, "Prevention and Settlement of Transatlantic Economic Disputes: Legal Strategies for EU/US Leadership," in: Ulrich Petersmann/Mark A. Pollack (eds.), *Transatlantic Economic Disputes. The EU, the US, and the WTO*, Oxford 2003, p. 3–64

— /Pollack, Mark A. (eds.), *Transatlantic Economic Disputes. The EU, the US, and the WTO*, Oxford 2003

Peterson, John/Doherty, Richard/van Cutsem, Michael, *Review of the Framework of Relations between the European Union and the United States. An Independent Study*, commissioned by the European Commission, Directorate General External Relations, Unit C1 – Relations with the United States and Canada, Brussels 2005; www.consilium.europa.eu/uedocs/cmsUpload/MD020b05RevFramforEU_USRelations.pdf

Pollack, Mark A./Shaffer, Gregory C. (eds.), *Transatlantic Governance in a Global Economy*, Lanham, Md. 2001

Quinlan, Joseph P., *Drifting Apart or Growing Together? The Primacy of the Transatlantic Economy*, Washington, DC: Center for Transatlantic Relations, Johns Hopkins University, 2003

Rudolf, Peter, *Die USA und der Aufstieg Chinas. Die Strategie der Bush-Administration*, Berlin: Stiftung Wissenschaft und Politik, April 2006 (S 9/2006), www.swp-berlin.org/de/common/get_document.php?id=1651

Ruggie, John G., *Constructing the World Polity: Essays on International Institutionalization*, London 1998

van Scherpenberg, Jens, *Economic Nationalism on the Rise. Foreign Direct Investment in the USA after the Dubai Fiasco*, Berlin: Stiftung Wissenschaft und Politik, March 2006 (SWP Comments 10/2006), www.swp-berlin.org/en/common/get_document.php?id=1639

— *Die transatlantische Bananenkontroverse – ein Streit um die Zukunft der Welthandelsordnung*, Ebenhausen: Stiftung Wissenschaft und Politik, 1999 (SWP-Aktuell 32/1999)

— "Transatlantic Competition and the European Defence Industries: A New Look at the Trade-defence Linkage," in: *International Affairs*, 73 (January 1997) 1, p. 99–122

– "Wirtschaftlicher Aufbruch nach Europa? Die innere und äußere Dynamik des EG-Binnenmarktes," in: Bernd W. Kubbig (ed.), *Transatlantische Unsicherheit. Die amerikanisch-europäischen Beziehungen im Umbruch*, Frankfurt a.M. 1991, p. 79–101

– /Ausséguy, Nicolas, *The Airbus-Boeing Dispute: Not for the WTO to Solve. The Subsidies Conflict Opens up New Opportunities for Transatlantic Relations*, Berlin: Stiftung Wissenschaft und Politik, July 2005 (SWP-Comment 30/2005), www.swp-berlin.org/en/common/get_document.php?id=1327

– /Thiel, Elke (eds.), *Towards Rival Regionalism? US and EU Regional Regulatory Regime Building*, Baden-Baden: Nomos, 1998

Schmitter, Philippe C., "Ernst B. Haas and the Legacy of Neofunctionalism," in: *Journal of European Public Policy*, 12 (April 2005) 2, p. 255–272

Schott, Jeffrey J., "Assessing US FTA Policy," in: Jeffrey J. Schott (ed.), *Free Trade Agreements. US Strategies and Priorities*, Washington, DC, April 2004, p. 359–381

Serfaty, Simon (ed.), *Visions of the Atlantic. The United States, the European Union, and Nato*, Washington, DC: Center for Strategic and International Studies, 2005 (Significant Issues Series 27, no. 8)

Siebert, Horst, *TAFTA – A Dead Horse or an Attractive Open Club?*, Kiel: Kiel Institute for World Economics, März 2005 (Kiel Working Paper no. 1240), www. uni-kiel.de/ifw/pub/kap/2005/kap1240.pdf

– /Langhammer, Rolf J./Piazolo, Daniel, "The Transatlantic Free Trade Area. Fuelling Trade Discrimination or Global Liberalization?," in: *Journal of World Trade*, 30 (1996) 3, p. 45–61

Steffenson, Rebecca, *Managing EU–US Relations. Actors, Institutions and the New Transatlantic Agenda*, Manchester 2005

Steil, Benn/Litan, Robert E., *Financial Statecraft. The Role of Financial Markets in American Foreign Policy*, New Haven 2006

Thurow, Lester, *Head to Head: The Coming Economic Battle among Japan, Europe, and America*, New York 1992

Tinbergen, Jan, *International Economic Integration*, 2nd ed., Amsterdam 1965

Tkacik, John J./Gardiner, Neil, *Blair Could Make a Strategic Error on China*, Washington, DC: The Heritage Foundation, 7.6.2004 (Backgrounder, no. 1768), www.heritage.org/Research/AsiaandthePacific/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=64508

Transatlantic Business Dialogue, *2002 TABD Chicago Conference Report*, http://static.tabd.com/manilaGems/2002ChicagoCEOReport.pdf

Transatlantic Policy Network, *A Strategy to Strengthen Transatlantic Partnership*, Washington, DC, 4.12.2003, www.tpnonline.org/pdf/1203Outreach.pdf

Woolcock, Stephen, "Cultures of Market Regulation in Transatlantic Relations," in: Jackson Lears/Jens van Scherpenberg (eds.), *Cultures of Economy – Economics of Culture*, Heidelberg 2004 (Publications of the Bavarian American Academy, Vol. 4), p. 109–124