

Working Paper

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Transatlantic economic relations – a cornerstone of the world economy

Challenges for the German American
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1. Thanks to their mature state of development and diversification, transatlantic economic relations have become the world economy's major stabilizing element. Their role as global stabilizer, however, is about to face a major test given the current weakness of the world's economic pillars.

Stagnation or even recessions in major EU economies, especially in Germany, on the one hand, and growing macroeconomic imbalances (budget deficit, current account deficit) in the U.S. on the other hand, place a huge burden on both sides' ability to restore global growth. Especially in consideration of the additional strain on the global economy that may result from the Iraq war and its aftermath, the G 8 summit in Evian on June 1-3, 2003 would be well advised to address those challenges in a clear and unmistakable way. Doing so would be a highly appropriate way of going back to the G-8's roots at Rambouillet, in 1975.

2. Transatlantic trade and investment relations derive their particular strength from their breadth and depth and their balanced nature. Except for the respective regional trade agreements, the US and the EU are each other's major partners in trade and investment. This should reduce their vulnerability to disruptive political developments.

While any institutionalized transatlantic regional integration may not be the right solution for this particular and strong relationship, there remains a lot to be done with regard to trade facilitation and the removal of regulatory impediments to trade. Mutual recognition agreements like those that have been reached already are clearly one of the most efficient ways of attaining this goal.

3. Most noticeably since the Reagan era, transatlantic economic relations have taken on another dimension: regulatory competition.

The deregulation policy initiated by the Reagan administration spurred EU members to engage in an even more ambitious deregulation venture, the creation of Europe's single market. As the East-West division of Europe and Germany came to an end and the vision of "Europe '92" was about to become – almost – reality, Europe was briefly considered the most dynamic and promising of the major economic power centers, thus for a short time turning the tables on the U.S.

As the 90s went on, the U.S. economy proved again to be the more dynamic, adjusting with stunning speed to the new technologies and business challenges of the Internet age. Its growth rates outclassed by far those of any other major industrial country, raising again the pressure for systemic and structural reform in those countries.

This pressure has become almost irresistible during the current economic downturn, especially in Germany. In an ironic twist of events, while public objections in Germany to US foreign policy, on the one hand, have increased, disparaging talk of a negative American model ("Amerikanische Verhältnisse") with regard to labor market and social policy has, on the other hand, almost subsided among Germans. The willingness to heed some of the formerly unwelcome advice on labor market and welfare reforms coming from the U.S. has grown substantially.

But the next turn in the ongoing regulatory and economic policy competition may already loom around the corner. If – a big if – Germany succeeds in implementing the necessary structural reforms, thus creating a new impetus for economic growth from within that might possibly spill over into other EU countries, Europe could well be in a position to shoulder more of the burden of reanimating the sluggish world economy – at the very time when the United States is facing significant macroeconomic and structural problems of its own.

Responsibility for keeping the world economy on track cannot and should not rest with one country alone.

4. In other areas, too, such as regionalism, transatlantic competition or – as some would say – rivalry has been, on balance, beneficial to the world economy. Far from eroding the multilateral trade order, EU integration on the one hand, NAFTA, the APEC and FTAA initiatives on the other, have provided the political momentum for ratcheting up US and European support for multilateral trade liberalization.

For this momentum to continue, however, both sides will have to place the same emphasis on the multilateral process as they do on regional trade agreements (RTAs). Moreover, the procedures of GATT Article 24 should be strictly applied, differences on its interpretation should be resolved expeditiously and the WTO Committee on Regional Trade Agreements should be put in a position to finally take on its task of assessing GATT conformity of current and new RTAs.

5. While the U.S. economy commands a clear lead in most major advanced technologies, except for some defense technologies, the EU countries as a whole are not far behind – if at all. Deepening intra-industry trade and direct investment relations therefore is bound to be mutually beneficial.

Restrictions on investment and technology transfer should be applied in the least restrictive manner as possible since they will almost inevitably result in lost economic opportunities and growth on each side of the Atlantic.

The wider informed public in the United States tends to chronically underestimate the level of technological sophistication and prowess in Europe. Those American companies that have engaged in high technology trade and investment with firms in the major European countries do not share this misperception. They should contribute to a more realistic assessment of European technological capabilities by airing more widely their own positive view of those capabilities in Germany, Britain, France and other advanced European countries.

6. The transatlantic dialogue on trade, investment and other issues of US-EU economic relations, in particular the Trans-Atlantic Business Dialogue (TABD), should not be allowed to languish. It has been a source of mutually beneficial and stimulating proposals to policy makers.

Moreover, this dialogue has been one of the most important catalysts and vehicles through which transatlantic competition in regulatory issues, taxation and corporate governance issues has worked its way into policy and law. For regulatory competition to translate into benefits through better (or simply less) legislation and rule-making, competitors have to shed their "not invented here" attitude. Large integrated firms that have significant operations on both sides of the Atlantic are particularly well positioned to help legislators and administrations to overcome this hurdle.

7. Globalization, it has turned out, is not a state of "fair weather forever". Both the United States and Europe, and within the latter in particular Germany as its largest economy, have to face the challenge of enduring and mastering "globalization under stress". They will have to withstand the temptation of resorting to "buy local"-policies and to protectionism – policies that will ultimately hamper growth and welfare in both regions and worldwide.

Most of all, the United States on the one hand, Germany – within the EU – on the other, should avoid the dangers inherent in shifting political priorities that may risk turning competition into rivalry and rivalry into disruption. In particular, both sides bear the responsibility for keeping intact and eventually further strengthening the international trade regime and the WTO.