

# **The Framework for Advancing Transatlantic Economic Integration**

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# **Structural Shortcomings in an Experimental Form of International Governance**

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## Introduction

Transatlantic economic relations are a less widely studied part of the broader subject of transatlantic relations. Depending on the political agenda, the focus of attention in the relationship between the United States (US) and Europe shifts between policy fields. Since the 9/11 attacks on the Twin Towers in New York, differences between the responses of the US and the European Union (EU)<sup>2</sup> to the new global security situation and the related 'Global War on Terrorism' have been most prominent and have diverted attention from other policy fields. Therefore widely unnoticed, transatlantic economic cooperation – a process that started in the early 1990s – has evolved resulting in the signing of a new agreement – the 'Framework for Advancing Transatlantic Economic Integration' (FATEI) – in April 2007.

This paper discusses the new framework agreement giving special attention to the lack of any social dimension in the FATEI as well as structural shortcomings in its governance system and overall rationale. The institutional setup of transatlantic economic relations will be analyzed on three levels: the intergovernmental level (heads of governments and other high-ranking officials), the transgovernmental level (lower-level domestic officials and their transatlantic counterparts) and the transnational level (private players such as businesses and other civil society organizations).<sup>3</sup>

What is the transatlantic marketplace and what political relevance does it have? The first part of this paper addresses these questions by providing a general overview of transatlantic economic relations. This overview includes the scrutiny of core economic data and the analysis of trends in the economic relations between the two biggest economic blocks in the world as well as an assessment of the political importance of this relationship.

Subsequently, the latest transatlantic agreement FATEI is subject of investigation on the basis of a brief outline of the politics of the transatlantic economic relationship between 1990 and 2007. This overview will particularly focus on the institutional development of transatlantic relations and the political agenda of the partnership. The Transatlantic Declaration of 1990 and the New Transatlantic Agenda of 1995 are of crucial importance in this context.

As mentioned above, the lack of any social dimension in the new as well as previous agreements determines the angle of inquiry in this paper. First, the link between wider economic relations and social standards is established outlining why there should be a social dimension in bilateral economic

agreements. Secondly, the limited scope and functionality of transatlantic economic links and institutions are discussed and policy proposals for improvements are developed.

The development of transatlantic economic institutions and closer links are highly political matters and therefore need strong commitment from the political leadership. This commitment will probably be re-evaluated when a new US President enters the White House in January 2009. This paper will therefore end with some suggestions about how this window of opportunity – before a new US President assumes office - could be used to put the transatlantic economic partnership onto a broader footing.

### **The Economic Relevance of Transatlantic Economic Relations**

Although the political dynamics of transatlantic economic relations are closely linked to the general political climate, the core economics of the partnership are not. There is no evidence that the recent political frictions in the fields of security and foreign policy have had any significant impact on the volume of transatlantic trade and investment.<sup>4</sup>

This economic stability is to a large extent due to the particular characteristics and sheer size of the transatlantic marketplace. The transatlantic economic partnership is the biggest and possibly the most important one in the world. Comprising roughly 800 million people, the US and the EU accounted for 56 per cent of world Gross Domestic Product (GDP) (see Figure 1) and 49 per cent of global trade in goods in 2006.<sup>5</sup>

The two biggest economic blocks in the world also show a very high degree of interdependence and dynamism in their bilateral trade and investment flows. In terms of trade in goods and services, the overall volume has increased significantly since the New Economy crisis at the beginning of this century (see Figures 2 and 3). Especially if compared to general GDP growth in the EU (with 15, 25 and 27 member states) and the US, it becomes clear that transatlantic trade is an important driver of economic dynamism and growth. Since 2003, the volume of transatlantic trade has grown roughly three times as much as the EU and US economies overall showing again the high and further increasing level of interdependence (see Figure 4).

In terms of Foreign Direct Investment – an indicator for long-term economic interests in the respective areas – there is a clear tendency of recovery after the economic crisis a few years ago, although the investment levels of the turn of the century have not yet been reached (see Figure 5).

Another important economic factor is consumption. According to data from the World Watch Institute, North America (including Canada) and Western Europe (excluding the new Eastern EU member states) whilst accounting for only 11.6 per cent of world population were responsible for 60.2 per cent of world private consumption of goods and services in 2000.<sup>6</sup> This data suggests that although consumption is likely to grow faster in the emerging economies in Asia and elsewhere, the combined consumer demand of the EU and the US will remain crucial for the world economy in the foreseeable future as many emerging economies pursue their development with strategies based on strong exports into the North American and European markets.

The broad economic indicators presented above show the vital importance of the transatlantic marketplace. Most relevant for this paper, however, are the political implications of the transatlantic economic relationship. This relationship has internal and external effects. A research report written for the US Congress summarized the external effects quite well when the authors concluded that the ‘combined weight of these two economic superpowers means that how the US and EU manage their relationship and the difficult issues involving domestic regulations, competition policy, and foreign investment could well help determine how the rest of the world deals with similar issues’.<sup>7</sup> In other words: within a weak framework of global governance institutions, with World Trade Organization (WTO) talks often unsuccessful or deadlocked, the transatlantic relationship has the potential to set the rules for international economic activities using the two blocks’ combined powers as biggest producers and consumers of goods and services in the world. This external impact is very important and deserves further study. In this paper, however, problems related to internal effects are the focus of attention. These problems become clear when looking at the development of transatlantic economic relations since 1990.

### **From the Transatlantic Declaration (TD) to the FATEI**

The roots of transatlantic cooperation can be traced back to the early Twentieth Century. But it was first put into the political spotlight with President John F. Kennedy’s ‘Declaration of Interdependence’ in the 1960s. In a speech in Philadelphia on 4<sup>th</sup> July 1962, he stated ‘that the United States will be ready for a

Declaration of Interdependence, [and] that [the US] will be prepared to discuss with a united Europe the ways and means of forming a concrete Atlantic partnership, a mutually beneficial partnership between the new union now emerging in Europe and the old American Union founded [...] 175 years ago'.<sup>8</sup>

The transatlantic partnership before 1990 was predominately inspired by the Cold War and the shared security interests of the US and Western Europe. When the Soviet Empire collapsed, the cohesive force of the common enemy subsided and the transatlantic partnership had to be put onto a new basis. At this point, the relationship previously dominated by security issues shifted more and more into the economic field.

The Transatlantic Declaration of 1990 was the first official agreement in the new era of transatlantic relations after the Cold War. It was mainly a statement of shared values, emphasizing that the US and the European Union are 'mindful of their common heritage and of their close historical, political, economic and cultural ties' and 'recogniz[e] that the transatlantic solidarity has been essential for the preservation of peace and freedom and for the development of free and prosperous economies as well as for the recent developments which have restored unity in Europe'.<sup>9</sup> The Transatlantic Declaration also laid the foundation for the institutionalization of the transatlantic partnership. It created intergovernmental institutions by establishing:

- bi-annual consultations to be arranged in the United States and in Europe between, on the one side, the President of the European Council and President of the EU Commission, and on the other side, the President of the United States;
- bi-annual consultations between the European Union Foreign Ministers, with the Commission, and the US Secretary of State, alternately on either side of the Atlantic;
- ad hoc consultations between the Presidency Foreign Minister or the Troika<sup>10</sup> and the US Secretary of State;
- bi-annual consultations between the Commission and the US Government at Cabinet level;
- briefings, as currently existing, by the Presidency to US Representatives on European Political Cooperation meetings at the Ministerial level.<sup>11</sup>

The beginning of a formal institutionalization of the relationship was also necessary as the shift in transatlantic relations from security to economic issues was not without problems. These problems are rooted in the nature of the post-Cold War global economy that entered a phase of accelerated

globalization and growing interdependence in the 1990s. Neo-liberal economic policies became widely spread leading to a double-edged situation. As Barry Eichengreen of the University of California at Berkeley observed in 1998: 'Economic globalization in the aftermath of the cold war may be causing tariffs, capital controls, and transport costs to decline, but it is also putting firms in the United States and Europe into closer competition.'<sup>12</sup> He further argued that therefore 'policies on one side of the Atlantic - be they central bank decisions over the interest rate, congressional and parliamentary decisions about the budget, or government decisions about competition and regulatory policy - are having strong repercussions on the other. The scope for conflict in such an environment is considerable'.<sup>13</sup>

The shift from security to economic cooperation thus made the transatlantic partnership more complicated. Not only did the basic rationale of the partnership shift to a new policy field, the new field was also much more conflict-laden than the shared security interests during the Cold War. The new framework not only brought down economic barriers but also highlighted differences in regulatory regimes and political preferences, which will be important when the problem of the missing social dimension is scrutinized.

The year 1995 brought a major evolution of transatlantic economic relations and the institutionalization of the bilateral partnership with the agreement of the New Transatlantic Agenda (NTA). By signing the NTA, US President Bill Clinton, EU Commission President Jacques Santer and EU Council President Felipe Gonzáles committed to organized cooperation in four key strategic areas:

- Promoting peace and stability, democracy and development around the world;
- Responding to global challenges;
- Contributing to the expansion of world trade and closer economic relations;
- Building bridges across the Atlantic.<sup>14</sup>

In order to address these priority areas effectively, a series of institutional innovations were created in the wake of the NTA. As Mark Pollack commented, the 'establishment of a new and novel institutional architecture linking Washington and Brussels across a wide range of issue-areas, represent[ed] the most systematic effort at genuine bilateral governance in the history of the transatlantic partnership.'<sup>15</sup> The NTA complemented the intergovernmental institutionalization of the TD with transgovernmental and transnational institutions by creating a variety of civil society dialogues to strengthen bridge-building across the Atlantic and more structured networks of lower-level officials. After the NTA, the three level structure of transatlantic governance looked as follows:<sup>16</sup>

#### INTERGOVERNMENTAL LEVEL:

- Regular summit meetings between the US President and a delegation of EU officials (mostly the EU Commission President and the rotating Presidency of the Council of Ministers plus the High Representative for the Common Foreign and Security Policy)

#### TRANSGOVERNMENTAL LEVEL:

- Transatlantic networks of lower-level US and EU officials working on foreign policy and especially economic issues. These networks work largely unaffected by the dynamics of transatlantic high politics;

#### TRANSNATIONAL LEVEL:

- Transatlantic Business Dialogue (TABD) – consisting of European and American Chief Executive Officers (CEO) lobbying for the liberalization of the transatlantic marketplace;
- Transatlantic Consumer Dialogue (TACD) – network of EU and US consumer organizations;
- Transatlantic Labor Dialogue (TALD) – Dialogue of trade unions – (has had only a handful of meetings with limited agendas but has not been formally abolished);
- Transatlantic Environmental Dialogue (TAED) – Dialogue of environmental stakeholders – (ceased to exist in 2001)<sup>17</sup>;
- Transatlantic Legislator’s Dialogue (TLD) – created in 1999 as a formal response of the European Parliament and US Congress to the NTA commitments, its main aim being to enhance the level of discourse between members of the European Parliament and the US Congress.<sup>18</sup>

Apart from the institutional structure, the political agenda is of vital importance for transatlantic relations. When looking at the political mission of the transatlantic partnership in the domain of economic policy, the NTA and especially the Transatlantic Economic Partnership (TEP) agreement of 1998<sup>19</sup> made the political objective very clear: the main purpose of transatlantic economic relations has been to bring down tariff and non-tariff barriers to trade and investment. In this sense, the political agenda has been ideologically charged carrying the message of trade liberalization and de-regulation. This narrow and ideology-laden agenda was not without consequences for the institutional structure.

As indicated above not all institutional innovations were successful. The TAED only had a very short life and the TALD, the only institution in the transatlantic setup representing the interests of employees and workers in the two largest economies in the world, never played a relevant role and became inactive

shortly after its introduction. This meagre outcome however was no coincidence. The narrow political agenda made a more active role of the TALD impossible. As Jody Knauss and David Trubek commented: 'The fundamental essence of the NTA is the neo-liberal project of transatlantic product and financial market integration. The TALD is not a serious effort to moderate the enthusiasm with which this task is carried out; nor is it designed to encourage the input of organized labor into these efforts.'<sup>20</sup> Hence the example of the TALD showed that the narrow political agenda had a dissolving effect on the institutional structure. The trade unions simply had no interest in promoting a neo-liberal economic agenda and an alternative agenda in a field of interest for the unions was not on offer.

Most of the progress in the 1990s was made in the area of Mutual Recognition Agreements (MRAs). But as Mark Pollack and Gregory C. Schaffer have made clear: 'In the view of many participants, the "low-hanging fruit" for economic cooperation had been picked. Governments on both sides now found it difficult to move beyond symbolic agreements and rearguard efforts at conflict resolution. Enhanced cooperation among regulators had not prevented new and bitter trade disputes from arising.'<sup>21</sup> And again the connection between the agenda and the institutional structure became clear. Even the TABD, the NTA dialogue with the arguably biggest interest overlap with the agenda, nearly 'ran aground' when it seemed increasingly difficult to deliver progress in the business community's interest.<sup>22</sup>

In view of the mutually reinforcing negative effect of an ideologically charged agenda and an agenda-sensitive institutional structure, it was no big surprise that the results of transatlantic economic cooperation were commonly judged as sobering. Therefore, the EU Commission issued a 'Review of the Framework for Relations between the European Union and the United States' in 2004. The report pointed out more agenda-setting problems. It criticized that transatlantic economic cooperation had the tendency to become overloaded with too many issues in very specific economic sectors and as a result failed in prioritizing issues of strategic importance. The ongoing transatlantic disputes about subsidies for the aircraft manufacturers Airbus and Boeing for instance were never dealt with by the transatlantic institutions. The lack of political ownership was another problem that was detected in the Commission report of 2004. Without renewed political commitment at the highest level, the authors of the report feared that the more strategic agenda-setting they proposed would be impossible.<sup>23</sup>

The report also made some detailed suggestions in the specific field of economic relations. It, however, failed to identify the destructive consequences of a too narrow agenda. Instead of proposing a broadening of the agenda, the authors of the report followed the logic of the existing agenda and proposed new mechanisms to bring down non-tariff trade barriers: 'The need to eliminate them [non-

tariff trade barriers] makes it worthwhile to launch something like a “Regulatory Partnership Initiative”. [...] the goal must be an agreement that commits each side to specific, feasible, market-opening measures – including, if necessary, the amendment of primary legislation – without making it hostage to other ambitions.’<sup>24</sup>

Concrete proposals to implement their market-opening proposals were the appointment of high-profile ‘Regulatory Cooperation Enforcers’ to ensure progress on the economic agenda and the creation of an effective early warning system for potential future disputes at early stages of the regulatory and legislative processes.<sup>25</sup> Effectively, these proposals amount to a transatlantic impact assessment evaluating whether a regulatory or legislative proposal would have negative consequences for the neo-liberal economic agenda pushed by the transatlantic institutions. If this was the case the ‘Regulatory Cooperation Enforcers’ could presumably be used to exercise political pressure.

Some of the report’s recommendations were taken on board in the latest important transatlantic economic agreement: the Framework for Advancing Transatlantic Economic Integration (FATEI), adopted in April 2007. The FATEI brought major novelties on the political as well as the institutional level. On the political level, the FATEI represented an important shift of rationale. Additionally to reaffirming the shared value basis also emphasized in the previous transatlantic initiatives, the FATEI stressed the potential external effects of the transatlantic partnership. It stated that deeper transatlantic economic integration ‘will encourage other countries to adopt the transatlantic economic model of respect for property rights, openness to investment, transparency and predictability in regulation, and the value of free markets’.<sup>26</sup>

This new awareness of the potential external impact of the transatlantic economic partnership can be interpreted as a defensive move in view of rising economic competition, especially from China. As a report of the Congressional Research Service made clear: ‘Given quite similar interests in bolstering the multilateral trading system, many analysts say that both sides could cooperate more in addressing the rising challenge posed by China.’<sup>27</sup> The Congressional researchers made a fundamentally important point: in view of rising economic challenges, the economic interests (especially external ones) of the EU and US are seemingly converging. Although the internal problems in the partnership remain, the changing external framework might well drive transatlantic economic cooperation forward.

The continuing institutionalization of the partnership is a further driver for closer integration. In this area, the FATEI created the most high profile transatlantic institution to date: the Transatlantic

Economic Council (TEC). The TEC represents the new political ownership at the highest level the 2004 Commission report called for. It is co-chaired by EU Commission Vice President Günter Verheugen and Dan Price, Assistant to the US President for International Economic Affairs. Permanent TEC members are the European Commissioners for External Relations, Trade as well as Internal Market and Services. The US side is represented by the US Secretaries of the Treasury and Commerce as well as the US Trade Representative.<sup>28</sup> The TEC co-chairs also convene a group of advisers 'consisting of the co-chairs of the three existing transatlantic dialogues'<sup>29</sup> (TLD, TACD, and TABD). It is interesting to note that the two other dialogues founded under the NTA – the TALD and the TAED – are not mentioned at all.

In agenda terms, the work of the TEC focuses on regulatory cooperation in addition to deeper integration in the areas of intellectual property rights, trade, financial markets, innovation and technology as well as investment.<sup>30</sup> Accepting that the easily implementable steps have been made ('the low-hanging fruits have been picked'), deeper regulatory cooperation has the potential to lift the transatlantic economic partnership onto a qualitatively new level. Similar to what was called for in the 2004 Commission report, a 'High Level EU-US Regulatory Cooperation Forum' was established to 'facilitate early warning about diverging regulatory approaches'.<sup>31</sup> Policy-makers on both sides of the Atlantic are currently also looking into how their impact assessment mechanisms can be used to identify potential regulatory conflicts at an early stage.<sup>32</sup>

The FATEI brought some major institutional developments on the transgovernmental level of transatlantic relations, reinforced the commitment to shared values and added a greater awareness of the external leverage of transatlantic economic cooperation. It emphasized again the aim of dismantling non-tariff trade barriers and introduced first steps towards an early-warning system in the policy-making processes.

But the transatlantic partnership still fails to address strategic issues. It seemed very odd for the second TEC meeting, which took place in Brussels on 13 May 2008, to discuss investment policies, accounting standards and the assessment of securities regimes without even mentioning the current financial crisis.<sup>33</sup> Given that the origin of the crisis lies in the US and many of the negative effects materialized in Europe, a transatlantic economic council might seem to be the appropriate framework to address these issues but it was not to be.

The latest steps to deepen the transatlantic economic partnership also highlighted an important aspect that has been completely omitted so far and that becomes increasingly important given the progressing

deepening of transatlantic economic cooperation: a social dimension to the economic partnership. The rest of this paper will focus on this particular omission.

### **Why should there be a Social Dimension in Transatlantic Economic Cooperation?**

The transatlantic political agenda of economic liberalization and regulation adjustment towards the goal of harmonizing standards and increasing competitiveness is part of the wider process of neo-liberal economic globalization. This can be easily identified in the transatlantic agreements themselves, for instance when the FATEI makes direct reference to the ‘transatlantic economy remaining at the forefront of globalization’.<sup>34</sup> It is now well established that this type of globalization needs reform because its purely economic rationale has produced negative social and environmental<sup>35</sup> consequences in the developing as well as in the developed world.<sup>36</sup>

Many of these negative consequences can be traced back to the collateral effects of the almost dogmatic belief of many political leaders in the benefits of free trade. The reality of economic relations, however, is much more complicated than free trade theory assumes. In the real world, many areas are politically sensitive to trade, for instance the defense, energy and food industries. And above all the gains from trade are highly unevenly distributed between and within countries, producing a large group of globalization losers with fewer, very successful, winners.<sup>37</sup>

In democratic political systems, such an uneven distribution of new wealth creates political backlashes, especially in the absence of effective social protection. Or as Nobel Laureate Joseph Stiglitz put it in a lecture at the Asia Society in February 2008: ‘We need social protection for those who are going to be losing because if we don’t give them the social protection they are going to vote against it [globalization]. That’s the point about democracy, if you propose reforms that make most people worse off, they are not going to be happy. [...] So you have to think of this as a package. And the package that we have to be talking about is opening globalization and social protection.’<sup>38</sup> Stiglitz alludes to a fundamental point: without accompanying social protection, many policies associated with neo-liberal globalization are simply not in the interest of the majority of society.

The requirement of more social protection leads to another problem: the very same process of economic globalization that has created the abovementioned negative consequences has been responsible for increased pressure on different social protection and welfare regimes, especially in

Europe.<sup>39</sup> In the current economic climate, it has become very difficult to maintain, let alone develop, the social protection needed to balance some of the negative effects of globalization. And the political reactions Stiglitz referred to are already evident in many countries across Europe, where radical parties are benefitting from the political climate of dissatisfaction and disillusionment.<sup>40</sup>

Under these circumstances, a new social dimension can only be created with strong political commitment to moderating the effects of globalization and taking into account social and environmental needs additionally to economic interests. If this is not the case, international institutions face problems of political ownership and acceptance. There are already examples for this: a large part of the reason why the European Union has been struggling to connect to its citizens is exactly because it has been unable to balance its economic with a social role. The competencies of the Union predominantly lie in the area of (completing) the single market – effectively bringing down national barriers to economic freedom. But its social agenda has always lagged behind and resulted in the EU being perceived as the Europe of businesses rather than the Europe of citizens.<sup>41</sup> This creates a problem of political acceptance.

Where does this leave transatlantic economic cooperation? This background indicates that it is crucially important how the transatlantic relationship is politically shaped. In its current configuration, transatlantic economic cooperation is more likely to reinforce the negative effects of globalization because its narrow agenda does not take social and environmental requirements sufficiently into account. But this is not engraved in stone. With some political and institutional changes and strong political commitment, transatlantic economic cooperation could become a model for integrating economic, social and environmental concerns in a bilateral governance framework.

### **A Social Dimension for Transatlantic Economic Cooperation**

What changes are needed? First, the transatlantic economic partnership needs a strong social dimension, which ought to include two aspects: transatlantic agreements should enshrine a social polity and should limit their potentially negative impact on different social policies by reforming the political agenda and institutional structure.

A social polity for transatlantic economic relations would include the setting of minimum social standards in bilateral agreements. This is especially important in view of the potential external effects of

transatlantic institutionalization. In contrast to arguments often heard by free traders, there is no strong evidence of social standards necessarily rising in the wake of economic growth. This is particularly true in the developing world. As Lance Compa of Cornell University wrote in the *Washington Post* in 2001: 'Social justice is not a byproduct of economic growth. We have to choose it and build it into the architecture of trade and investment systems. Our elected representatives have to decide if they want their constituents to be objects of impersonal trade and investment forces, or if they want to make worker and human rights a priority for the global economy.'<sup>42</sup>

In order to set a positive global example and integrate a social polity, the transatlantic economic partnership should take the lead and enshrine social rights. These social standards already exist. The International Labour Organization (ILO) – a tripartite<sup>43</sup> United Nations agency - offers the best existing framework with its Decent Work Agenda.<sup>44</sup> These minimum ILO standards should be an important part of transatlantic agreements.

The second aspect of a social dimension is more complicated and is closely linked to the narrow political agenda of eradicating transatlantic market distortions. Geoffrey Denton already recognized the problem in a 1999 report for the Trans-European Policy Studies Association: 'MRAs are primarily concerned with health and safety and environmental regulations; whether differences in labour and social standards create market distortions that the marketplace should concern itself with is more controversial. But worker organisations may insist on compensations for the sacrifices they perceive they make in accepting agreements to maintain free flows of trade and investment. To seek to exclude the issue of labour and social standards could thus jeopardise political acceptability.'<sup>45</sup> Denton revealed two fundamental points: first, the question of whether different social standards, including welfare regimes, are considered non-tariff trade barriers and should thus be a target for transatlantic harmonization efforts. And secondly, he correctly emphasized that wider political ownership is highly unlikely if this is the case.

The link between social standards and non-tariff trade barriers makes clear how transatlantic economic cooperation could put social policies under even more pressure. How could this pressure be eased? The political agenda and the institutional setup of the partnership both need reform. The dissolving effect of a narrow political agenda on the institutional structure was examined earlier in this paper. A solution for this particular problem could be to turn this mechanism around.

The global context makes clear that social and environmental needs must be represented in the institutional architecture of transatlantic economic relations. Therefore, the TALD and the TAED – which were already introduced with the NTA and disappeared for the reasons given - should be revived and play an important role in the institutional setup around the TEC. The dialogues should also be better equipped than previously. This includes the creation of jointly funded (small) secretariats, which would show political commitment and put the dialogues in a better position to contribute to the transatlantic agenda without taking too many resources away from other places.

It has also become clear, that the revitalization of parts of the transatlantic institutional structure only makes sense if the political agenda is significantly broadened. The goal of abolishing obstacles to economic activity does not need to be abandoned but must be complemented by wider economic, social and environmental topics and issues of general strategic importance. This would reform the TEC into an institution that truly covers the whole breadth of economic themes and would also be helpful to overcome the problem of political ownership, especially on the key transnational level. It would make the transatlantic institutions a forum where all relevant aspects of economic life can be addressed and not a place where one wonders how the harmonization of financial regulations and standards can be discussed without mentioning the biggest financial crisis in decades that originated in one of the partner countries.

## **Conclusion**

This paper discussed the transatlantic marketplace and its political significance. It also identified some fundamental issues with the FATEI and its predecessor agreements. Especially the mutually dependent dynamics of the political agenda and the institutional structure were examined, explaining why some transatlantic dialogues died shortly after they were introduced. This paper also made the case for including a strong social dimension as a fundamental pillar of the transatlantic institutional structure and made some specific policy proposals.

Implementing these proposals is certainly not an easy task and would require a strong political commitment for a new direction in transatlantic economic relations. But what is the alternative? If the current design prevails, it will be very hard to achieve further success. As indicated, the easily implementable steps have been made and breaking into more sensitive areas will be hard to achieve, especially if significant resistance from important societal stakeholders is likely. On the other hand, if the

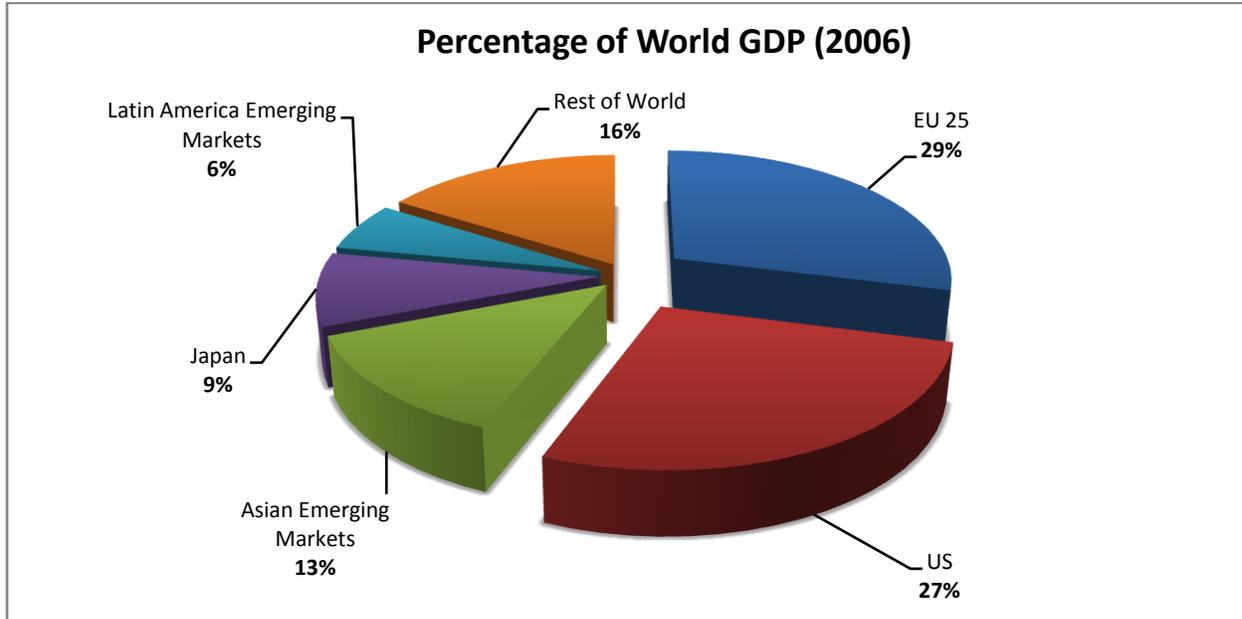
political agenda and institutional structure are broadened and a social polity is enshrined, there would be more space for political tradeoffs between stakeholders. This would open up the possibility for transatlantic economic relations to take a leading role in formulating governance responses to economic, social and environmental issues.

The second half of 2008 is the right time to discuss the future of the transatlantic economic relationship. Until the new US President takes office in early 2009, there is a window of opportunity to debate the problems currently associated with transatlantic economic relations. It looks as if US politics is more open for discussions in the areas of social and environmental policies than it has been for a long time. This opportunity should not be missed.

The external circumstances for closer cooperation look quite good. As demonstrated, the transatlantic marketplace is by far the most important one in the world today. And the EU and the US rarely miss an opportunity to stress their joined cultural heritage and shared commitment to economic and political values. Additionally, economic interests seem to be converging in view of rising competition from emerging economies. The circumstances look supportive for deeper integration. But this positive external scenario can also make failure more costly. The development of transatlantic economic relations could be an important indicator for the likelihood of effective global governance regimes also including other geographical areas. Or as Dan Price put it at the second TEC meeting: 'Given the foundation of shared values, given what is at stake economically in this shared relationship; [...] if our two sides can't get it right on regulatory issues, on liberalization issues, who will get it right?' Whether the EU and the US can get it right remains to be seen.

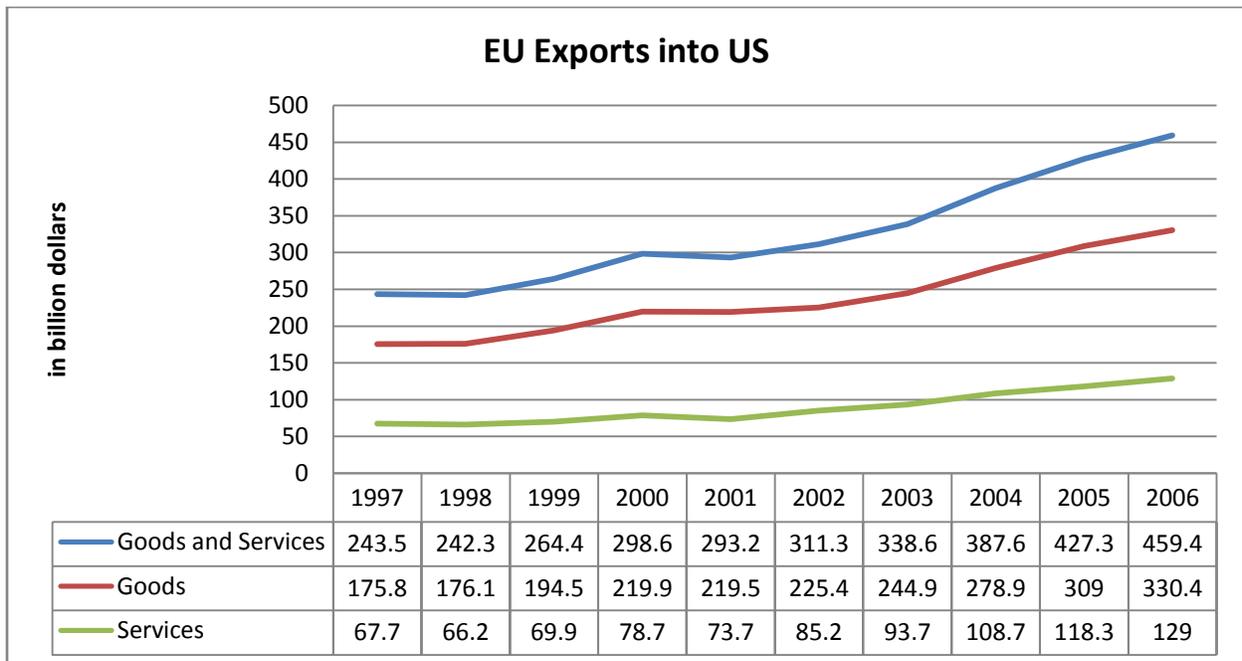
## Appendix

Figure 1



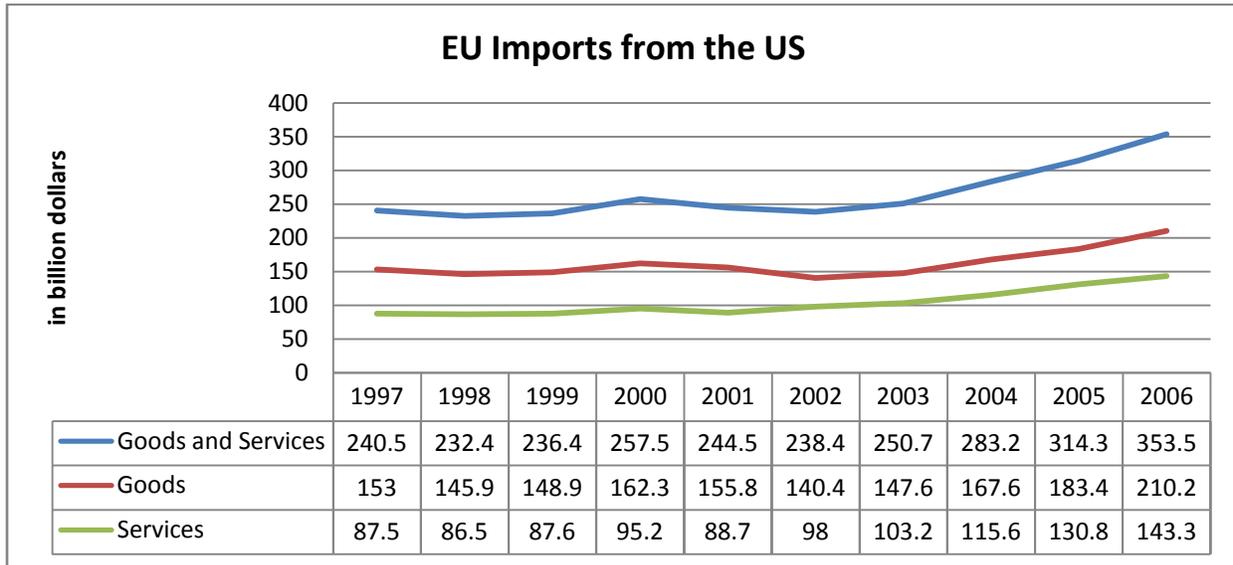
Source: International Monetary Fund

Figure 2



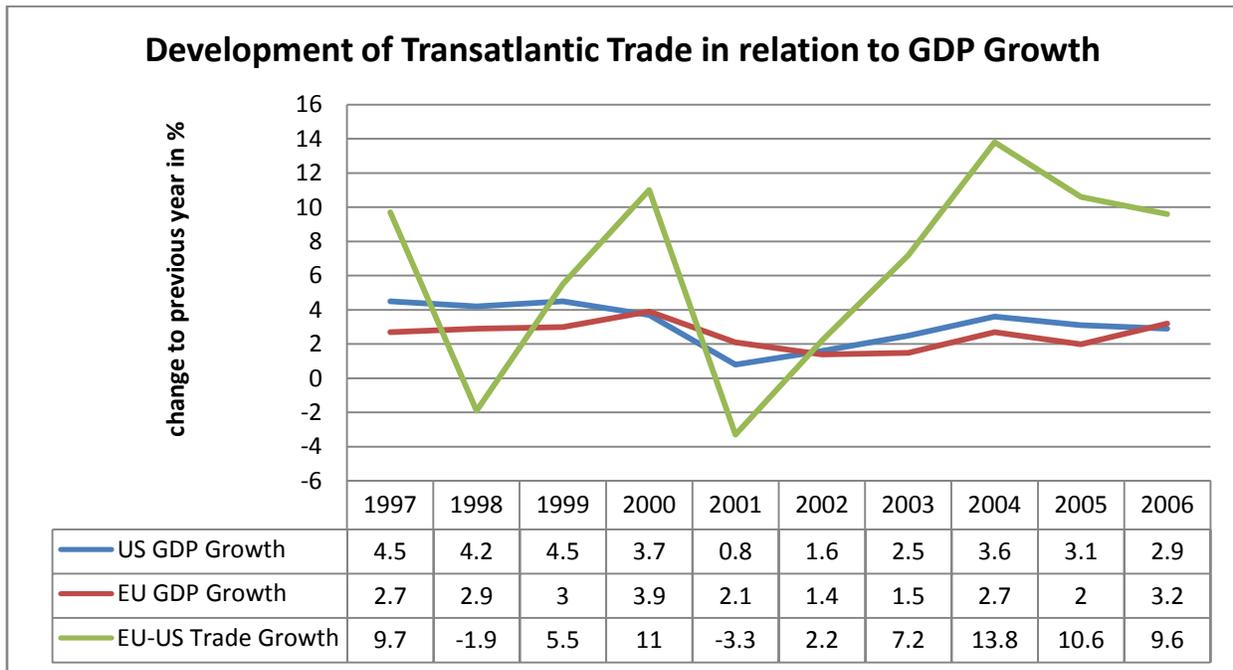
Source: US Department of Commerce, Bureau of Economic Analysis

Figure 3



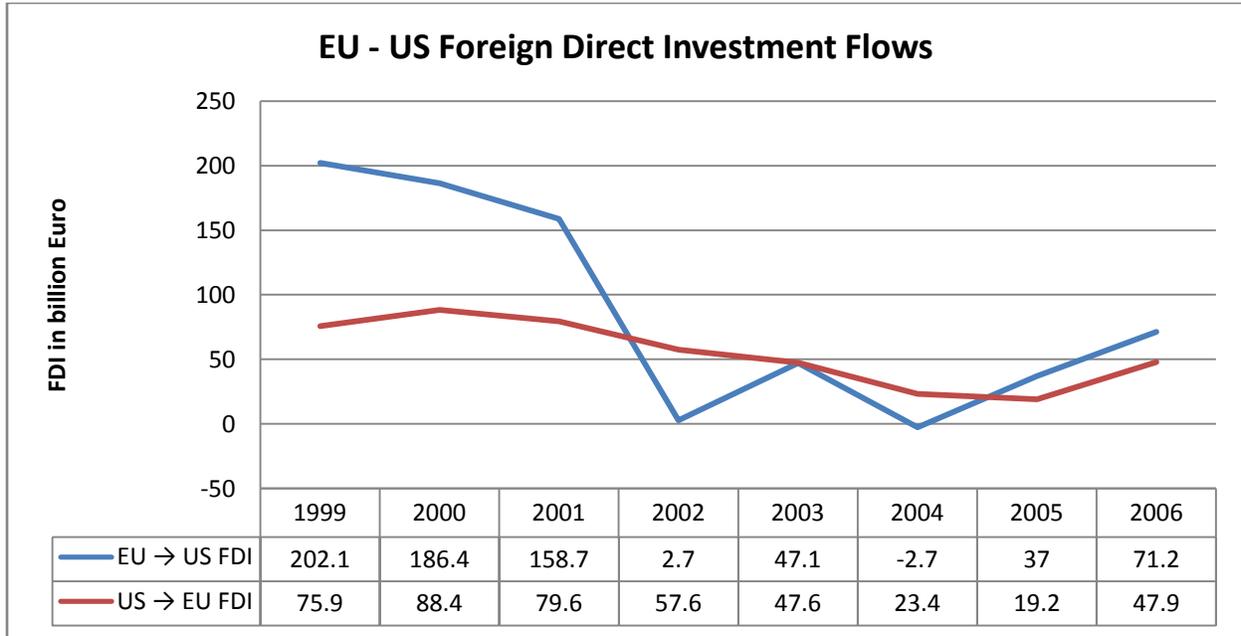
Source: US Department of Commerce, Bureau of Economic Analysis

Figure 4



Source: US Data: Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov)), EU Data: International Monetary Fund, World Economic Outlook Database, Trade Data: author's calculation on the basis of data from the US Department of Commerce, Bureau of Economic Analysis

Figure 5



Source: Eurostat

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Of course, the views expressed in this paper are those of the author.

<sup>2</sup> For simplicity reasons, the term ‘European Union’ (EU) is used for the European integration project although the EU was only founded with the Maastricht Treaty of 1992.

<sup>3</sup> See Pollack, Mark, Gregory Schaffer (2001): *Transatlantic Governance in Historical and Theoretical Perspective*, in: Pollack, Mark, Gregory Schaffer (2001): *Transatlantic Governance in the Global Economy*, Rowman & Littlefield, Lanham, p. 5.

<sup>4</sup> See Mark Pollack, Gregory Schaffer (2005): *The Future of Transatlantic Economic Relations: Continuity amid Discord*, in: Andrews, David, Mark Pollack, Gregory Schaffer, Helen Wallace (2005): *The Future of Transatlantic Economic Relations: Continuity amid Discord*, European University Institute – Robert Schuman Centre for Advanced Studies, Florence, p. 5.

The book is available in full text at [http://www.iue.it/RSCAS/e-texts/Future\\_Transat\\_EconRelations.pdf](http://www.iue.it/RSCAS/e-texts/Future_Transat_EconRelations.pdf).

<sup>5</sup> See CRS Report for Congress (2008): *European Union – US Trade and Investment Relations: Key Issues*, available in full text at [http://www.usembassy.at/en/download/pdf/eu\\_invest.pdf](http://www.usembassy.at/en/download/pdf/eu_invest.pdf).

<sup>6</sup> See <http://www.worldwatch.org/node/1783>.

<sup>7</sup> See CRS Report for Congress (2008): *European Union – US Trade and Investment Relations: Key Issues*, available in full text at [http://www.usembassy.at/en/download/pdf/eu\\_invest.pdf](http://www.usembassy.at/en/download/pdf/eu_invest.pdf), p. 3.

<sup>8</sup> For a full text of the Kennedy speech see <http://www.jfklibrary.org/Historical+Resources/Archives/Reference+Desk/Speeches/JFK/003POF03IndependenceHall07041962.htm>.

<sup>9</sup> See [http://ec.europa.eu/external\\_relations/us/economic\\_partnership/declaration\\_1990.htm](http://ec.europa.eu/external_relations/us/economic_partnership/declaration_1990.htm).

10 The 'Troika' includes the EU Commissioner for External Relations, a representative of the presidency of  
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The environmental aspects of transatlantic economic cooperation are also crucially important but are only  
mentioned sporadically due to the particular focus of this paper.  
This point cannot be developed due to the limited scope of this paper, but there is a vast and growing  
literature on globalization and its consequences. See for instance Stiglitz, Joseph (2006): *Making  
Globalisation Work. The next steps to Global Justice*, Penguin, London and Held, David, Anthony McGrew  
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See Stiglitz, Joseph (2006): Social Justice and Global Trade, *Social Europe Journal*, Vol. 2, No. 2.  
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40 See for instance recent election results in the Netherlands and the rise of the *Linkspartei* in Germany.  
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