A Unified Atlantic Market

Views of two Economists

Freedom & Union *invited two economists at the World Bank to evaluate the project, agreed between the US and the EU this year, of forming a barrier-free transatlantic market. The views expressed below are entirely the authors' own, and do not necessarily reflect those of the World Bank.*

From Atlantic Market to Atlantic Polity?

Domenec Ruiz Devesa

When European and American leaders met in Washington for their annual summit in April 2007, political analysts, activists, and business leaders on both sides of the Atlantic had already made public their ideas for achieving an ever closer transatlantic community, and, in particular, proposals for its full economic integration. As is well-known, Europe and the US generally already invest and trade more with each other than with anybody else. For example, US investments in Belgium are higher than those in China. So, in that respect, a unified transatlantic economy is already a reality. Close transatlantic economic interdependence is also demonstrated by the rapidity with which financial turmoil crosses the Atlantic. A summer 2007 bank crisis in Europe started because of investments in high-risk bonds issued in the US sub-prime mortgage-market.

Economic integration must and will lead to political integration. An integrated market requires common institutions producing common rules to govern it.

This open economic relationship is, of course, accompanied by ongoing political dialogue underlined by shared values and necessitated by common security threats. But major economic obstacles remain, including both tariff and non-tariff barriers, such as different regulatory and accounting regimes. A 2005 OECD study estimated that per capita income would increase 2.5-3% if these obstacles were removed.

Thus the *Transatlantic Policy Network* – a group of parliamentarians and business leaders from both sides of the Atlantic – advocates "Completing the Transatlantic Market" with full economic integration by 2015 (www.tpnonline.org/TPN%transaltantic%20market%20paper%20FINAL.pdf, report published February 2007, accessed 14 August 2007). This would mean removal of all tariff and non-tariff barriers to trade and investment, including reduction of the regulatory burden.

There are several reasons for the current emphasis on reducing the regulatory burden. Tariffs and quotas have traditionally been applied to agricultural and industrial goods, but the Atlantic economies have become more oriented towards services, where the regulatory burden is likely to be higher. Some traditional trade-barriers – such as the EU's Common Agricultural Policy – are also so resilient that it may be much easier to focus on reducing regulatory differences. Besides, some regulations may be even more costly to the economy than are most tariff barriers. In the automobile industry, companies are forced to test vehicles twice in order to comply with both US and EU regulations. Different investment and banking rules are also a problem. For example, the EU treatment of private equity is substantially more restrictive than in the US, and differences in the regulation of mortgage markets likely lay behind the recent bank crisis mentioned above. Without institutionalized transatlantic consultation and coordi-

nation, such regulatory duplication and discord will likely proliferate.

Perhaps most notably, the 2007 EU-US summit achieved an "Open Skies" agreement to further liberalize transatlantic civil aviation. But it also called for "deeper" – though not "full" – economic integration by 2015, to be advanced and monitored by a newly-created "Transatlantic Economic Council". Leaders on both sides of the Atlantic thus seem to have realized the importance of speeding up the building of a fully integrated transatlantic economy.

However, the Transatlantic Economic Council is supposed to undertake a broad range of activities – preparing a work program, setting targets and deadlines, monitoring progress, and producing metrics and annual reports – and its level of organizational support is not spelled out in the summit documents. It will have two cabinet-level co-chairs, which is a good start. But it will require a permanent secretariat to fulfill its mission.

Other important challenges remain. In the document cited above, the Transatlantic Policy Network envisions "evolution toward an eventual Transatlantic Partnership Agreement embracing the economic, political, and strategic totality of the EU-US relationship." Thus transatlantic economic integration, though important in itself, is not the end. As understood by Jean Monnet, economic integration must and will lead to political integration, since an integrated market requires common institutions producing common rules to govern it.

Removing trade and investment barriers and easing other regulatory burdens can create a more prosperous Atlantic free-trade area. But a fully integrated transatlantic economy will also require shared institutions, such as a unified competition policy, a common external tariff, a common commercial jurisdiction, and perhaps even joint monetary arrangements, such as a dollar-euro parity to reduce transactions costs as well as trade and investment uncertainty. Creation of these institutions will require deeper political arrangements accompanying the purely technical ones, for, in the end, there cannot be a fully functioning common market without a common polity to govern it. □

Prospects for Deeper Transatlantic Economic Integration

Costantino Pischedda

In the aftermath of the US-led invasion of Iraq, diplomatic relations between the United States and the European Union went through some of the most tense moments since the Second World War; only recently, with new governments in Germany and France, on the one hand, and a gradual attenuation of the Bush Administration's unilateralist instincts on the other, have signs of a new, more cooperative, phase emerged. But the political tensions do not appear to have significantly affected the economic dimension of the transatlantic partnership. In fact, over the past few years, transatlantic economic integration has continued at a rapid pace measured in terms of trade–flows, and even more so in terms of foreign direct investment (FDI) and the operations of EU and US multinational corporations (MNCs) in each other's home-territories.[1]

This is not to deny the rapidly increasing importance of China as an economic partner for both the US and the EU. The statistics, in fact, substantially support this popular perception: Over the past fifteen years, China-EU and China-US trade-flows have grown much faster than has transatlantic trade.[2] However, it is premature to fret about the end of the "supremacy" of the transatlantic relationship. In terms of FDI and the operations of MNCs (forms of economic integration less "superficial" than cross-border trade-flows), the transatlantic economic partnership appears much more solid and deep than do EU and US relations with China. The surge in FDI from and towards China over the last few years can mainly be explained by their very small initial values, and their

US National Economic Council Director Allan Hubbard (left) and European Commission Vice President Günter Verheugen (right), Co-Chairs the first meeting of the new Transatlantic Economic Council, November 9, 2007. Together, they will oversee the efforts to achieve transatlantic regulatory convergence.
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