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Article — Published Version

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Intereconomics

Suggested Citation: van Scherpenberg, Jens (2007) : Atlantic integration: Don't discard it for the wrong reasons!, Intereconomics, ISSN 0020-5346, Springer, Heidelberg, Vol. 42, Iss. 1, pp. 2-3, <https://doi.org/10.1007/s10272-007-0205-z>

This Version is available at:

<https://hdl.handle.net/10419/41969>

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Atlantic Integration – Don't Discard It for the Wrong Reasons!

The idea of transatlantic economic integration has met with mixed reactions ever since it was first tabled in 1994. Nostalgic advocates of the old Atlantic order have loved it as a substitute for the lost Cold War security cohesion. European politicians have embraced it to demonstrate their commitment to improving transatlantic relations. Trade negotiators in the European Commission as well as in the US administration, however, have been aware of the almost insurmountable difficulties experienced in bilateral integration talks since the New Transatlantic Agenda was agreed upon in 1995. They hesitate, therefore, to devote yet more effort to US-EU integration policy. And most economists are highly sceptical, seeing a lot of pain and almost no gain arising from Atlantic regionalism.

Nevertheless, Chancellor Merkel, representing the European Union at the upcoming US-EU summit in Washington in April 2007, will most likely try to push the issue with her counterpart, President Bush. She may call for stronger top-down support to overcome the stagnation of recent years, increase the momentum and broaden the scope of transatlantic integration policy.

Her initiative should not be criticised for the wrong reasons, but neither should it be applauded for the wrong reasons. Many of the objections brought forward by economists are stereotypes that reflect the regionalism debate of the 1990s but not the realities of today's global economy. Nevertheless, US-EU integration policy, if it were to proceed beyond the current level of dialogue and minor technical agreements, should meet certain conditions to avoid falling into a protectionist trap.

At issue is not a mere TAFTA, a Transatlantic Free Trade Area, removing tariffs on trade in goods. Such an agreement would indeed provide only minor welfare effects given the low tariffs already applied in most of transatlantic trade. The aim should be to reach a comprehensive agreement to establish an integrated Atlantic Economic Area, encompassing truly open markets not only for goods (including agricultural ones!) but for services and capital (including direct investments) as well. Efforts at reaching sectoral issue agreements have had a very limited success so far. The failure to conclude the US-European negotiations on an "open skies" agreement to liberalise transatlantic passenger air transport bears witness thereof, as does the little progress reached, after ten years of negotiations, on mutual recognition of certification and standards.

Transatlantic regional integration cannot reinforce the global predominance of the established industrial powers. In the early 1990s, when then-president George Bush called for a new world order, this allegation might have been appropriate. Today, there is no way back to the former Euro-Atlantic condominium over the rest of the world economy.

Thus, there also can be no question of deliberately discriminating against other major trading nations, notably China, by erecting new regulatory barriers, or even creating an "economic Nato", as has been claimed in the press. As committed WTO members, China as well as India and Brazil have become fully integrated actors in the global economy. Any thought of reining in their exports amounts to peddling illusions at best, playing with the fire of economic warfare and disintegration of the world economy at worst.

Neither, however, should the deep market integration of the Atlantic economy be reason for complacency. While the absolute volume of transatlantic trade and investment flows remains high, the dynamics of international trade have shifted away from the Atlantic. US as well as EU trade with China was just 10 per cent of transatlantic trade in 1990. In 2005, China's trade as a percentage of transatlantic trade reached 58 per cent for the United States and 50 per cent for the European Union. If not supported by stronger institutional

foundations, the stakeholders on transatlantic economic relations will most likely lose political ground and bilateral trade conflicts, such as the Airbus-Boeing subsidies dispute, may become ever harder to contain.

One of the strongest objections to Atlantic integration claims that such regional trade negotiations would detract from efforts to revive the languishing WTO Doha Round and be a slap in the face of the very multilateral trade order that the Atlantic trade powers have championed for so many years.

However, after two decades of vivid debates among economists, the jury is still out on whether regional integration agreements are building blocks or rather stumbling blocks for multilateral trade liberalisation. Therefore, a look at the European experience might help. Contrary to many intra-European as well as extra-European concerns, not least from America, the EU single market has not evolved into a "fortress Europe". On the contrary, it has demonstrated that very substantial welfare effects can be achieved by abolishing most regulatory and other non-tariff barriers to trade in goods and services and by giving wide room to mutual recognition of standards. In this way, the single market project became a driving factor for the wide-ranging progress achieved in the multilateral Uruguay Round. In a similar way, a comprehensive Atlantic integration agreement could set an example for other nations to further open up their markets for goods and services, too, in order to reduce the preference advantage for intra-Atlantic trade. Since such an agreement would be unthinkable without including agriculture, a Euro-American breakthrough in this delicate field could pave the way for further progress in liberalising global agricultural trade. The USA and the EU could, moreover, tackle other issues that have so far not been tabled at the WTO level, such as economic nationalism restricting foreign direct investments in certain industries. Finally, to the extent that transatlantic integration would strengthen the European and American position in international institutional competition, other major trading nations would most likely be encouraged to strengthen the efficiency of their own regulatory as well as judicial institutions.

Transatlantic and multilateral trade liberalisation should therefore proceed in parallel, not just for the former to serve as an example for the latter, but also to re-enhance the eroding public legitimacy of globalisation. On both sides of the Atlantic, the temptation to resort to protectionist policies is growing among the domestic political constituencies. Transatlantic integration would be able to allay the fears of protectionist-minded interest groups without actually giving in to their demands since it would promise to strengthen the competitiveness of the Atlantic economic area as a business location without erecting new barriers to trade with third countries.

The most obvious argument against devoting too much effort to institutional transatlantic integration policy is of course that it is utterly unrealistic, given the enormous domestic political and administrative resistance on both the American and the European side. But then, in a relative sense, conditions for an ambitious transatlantic integration initiative have never been better in the last 15 years than at present. The continental European economies, notably the German one, are rebounding while the US economy has become more vulnerable. In foreign policy, too, the United States increasingly understands that it has become more dependent on the political and material support of its European allies than at any time since the end of the Cold War. And the balance of power in the global economy is shifting at the expense of the old G7 leading industrial countries, as the world economic order has become ever more multipolar. The costs of non-integration – so famously assessed by the Cecchini report for Europe at the beginning of the single market – are high already and will further increase for the Atlantic economic area, too. They should be taken into account.

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