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Transatlantic Irritations

From an economic point of view, the Atlantic alliance currently presents a contradictory picture. The vision of the beginning of an 'Atlantic century' ('pax atlantica') and a 'global anchor of prosperity and stability' in the middle of a world economy shaken by crises contrasts with the reality of escalating trade conflicts between the European Union and the United States and the renewed growth of protectionism - above all in the USA - aimed against third countries. This protectionism is directed primarily against cheap imports from Asia, Russia and Latin America, and makes it harder for these regions to overcome their economic difficulties.

The Euro-American exchange of goods was once the principal item of world trade, before it was supplanted in the course of the export-oriented growth of Asian countries first by transpacific and later also by Euro-Asian trade. In recent years, however, the position of transatlantic trade within the triad has strengthened again: while transpacific trade as a share of world trade is stagnating and the share of Euro-Asian trade is falling, bilateral EU-USA trade rose from 4.9% of world trade in 1995 to 5.6% in 1997, and its share of world trade in manufactured goods rose from 5.9% to 6.5% in the same period. This means that the USA is both by far the most important trading partner of the EU and one whose importance is continually increasing: the US share of EU foreign trade in the period under review climbed from 18.5% to 19.9% for total trade and from 20.4% to 23% for manufactured goods. Conversely, the EU has been able to maintain its position in US trade: it is the USA's most important trading partner in manufactured goods - with somewhat more than a fifth of US foreign trade - and in total trade it takes second place to Canada, with a little less than a fifth. In both cases the EU has considerably increased its lead over Japan. The volume of bilateral EU-US trade in goods must now amount to over US \$ 300 billion; added to this is the rapidly expanding transatlantic trade in services, with a volume of approximately US \$ 150 billion.

Mutual dependence in the area of direct investments is considerably stronger than that in trade. Around two thirds of all foreign direct investment in the USA comes from the EU, while almost half of US direct investment abroad took place in the EU. The USA's share of EU inward and outward investments is similar. This integration of production, which goes far beyond the integration of trade, is a reflection of the convergence of the two economic regions. The fact that at the same time bilateral trade has grown relatively strongly can largely be explained by the intensification of the exchange of finished and unfinished products between American and European firms belonging to the same parent company: this transatlantic intra-company trade has increased much more rapidly than trade 'at arm's length'.

These positive trends towards deeper integration of the markets notwithstanding, bilateral trade policy conflicts are becoming more frequent and more severe, especially since the USA regularly threatens detailed retaliatory measures. The conflicts taking place between the capital cities often only come to the attention of the persons affected in the EU in this way, and they may ask themselves what, for example, bananas and sheep's cheese have in common, or why a small Italian farmer should pay the penalty for the annoyance of American fruit trading companies such as Chiquita Brands or for the preferential treatment of inefficient banana producers in the Caribbean. Another threat by the USA may, in contrast, appear more plausible: the European supersonic aircraft, Concorde, is to have its

exemption from the noise standard applying at US airports withdrawn if - as is planned - in the EU in future a freeze is put on the registration of aircraft equipped with the hushkit sound abating device. The loss ensuing to the US manufacturers in this case is estimated at one billion US dollars. In the cases of the dollar bananas and hormone-treated beef the sum involved is approximately US \$ 500 million and US \$ 900 million respectively. Compared to the total volume of Euro-American trade these figures do not appear to be high. Furthermore, experience shows that agreement is usually reached 'at the last minute'. The costs to the domestic economy of these conflicts can therefore be assumed to be relatively low. It is feared, however, that the multilateral trade regime and in particular the new dispute settlement procedure agreed upon in the Uruguay Round could suffer damage, perhaps irreparably.

The WTO's new dispute settlement procedure is among the most important achievements of the Uruguay Round. About 120 cases in less than four years - compared to less than 200 cases in more than 45 years under the old GATT regime - speak for the attractiveness of the new procedure, the central component of which is that the previous positive consensus principle has been replaced by a negative consensus principle: the report of a panel must no longer be adopted unanimously, but is adopted if it is not unanimously rejected and no appeal is submitted to the appellate body, whose decision is then definitive and binding. Any retaliatory measures must be approved by the Dispute Settlement Body of the WTO. In this way it has been possible to a large extent to check trade policy unilateralism in the USA, and also in the EU.

Can bananas of all things jeopardise this success story? While the EU played for time in this issue and wanted to wait for the results of a renewed examination of its regulations regarding imports of bananas - which had been modified following a negative panel decision - the USA introduced retaliatory measures at once in order to accentuate its demands. The EU and the USA quoted different clauses of the WTO's Understanding on Rules and Procedures Governing the Settlement of Disputes to justify their behaviour. This reveals a procedural weakness in the Understanding which must be corrected. The dispute settlement mechanism could then emerge from the banana conflict stronger than before. As far as the subject of the dispute itself is concerned, a fundamental reform of the EU import regime for bananas is necessary: from an economic point of view the regime is obviously nonsense, since the costs to the consumer are high while the advantage to the protected producers is small and the extremely complicated system for the granting of licences provides strong incentives for lobbying and corruption. \

In the USA, meanwhile, protectionist sentiment is unmistakably growing despite the excellent state of the economy. The reduction of steel imports, and the application of quotas to them, which was passed with a large majority by the House of Representatives, would have been a clear violation of WTO regulations. For this reason measures such as this do not find adequate support in the Senate, and the White House had already as a precaution announced that it would apply a veto. Instead, increasing recourse is made to anti-dumping measures which conform with the WTO and which are intended to create a 'level playing field'. The USA's chronic trade deficit, which reached a new peak in January, is blamed indirectly on the Europeans, who - in the absence of economic momentum - attracted too few imports from the crisis countries. Europe should therefore give a greater boost to the domestic economy and increase deregulation. An improved distribution of the burdens between the two giant traders could indeed be necessary in order to prevent last year's financial crisis turning into this year's trade crisis.

This would also improve the conditions for the success of the new multilateral round of trade talks which is to be launched at the third WTO Conference of Ministers in Seattle in November. It is intended that the USA and an EU strengthened by the Euro - the 'new bipolar power structure' (C. F. Bergsten) - take over the leadership role in this 'Millennium Round'. But for this to happen the American Congress would have to give up its obstinate resistance to the fast-track mandate, without which the hands of the US negotiators would be tied. In substance, the EU and the USA would have to come to an agreement on a liberalisation programme including as many countries, branches and barriers to trade as possible. This would probably be the best way to counter the dwindling public support for a policy of trade liberalisation.

Georg Koopmann