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Be pathfinders of global economy

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Just three days after assuming the presidency of the G-8 and the European Union, German Chancellor Angela Merkel flew to Washington to stake out common ground with President Bush. She wants the United States and the EU to reinvigorate Mideast diplomacy and tackle energy security issues. Her most ambitious proposal, however, is to free the \$3.75 trillion transatlantic economy.

The critics have already sharpened their knives. Some charge that a U.S.-EU Trans-Atlantic Free Trade Area would be so big it could destroy the multilateral trading system. Others argue that the future lies in rising Asian markets, and that bilateral trade deals with Korea or India should take precedence.

Merkel understands what the critics don't.

- **First**, trade really isn't the problem. Transatlantic trade tiffs steal the headlines, but they represent only 1-2 percent of overall transatlantic economic activity. Trade barriers are very low, averaging only about 3-4 percent of the \$500 billion in annual transatlantic trade.

- **Second**, trade itself accounts for only 20 percent of transatlantic commerce; the rest is composed of foreign investment, which is the real backbone of the transatlantic economy. These dense flows of investment reach so deeply into our economies that we are literally in each other's business. European investments directly support 158,400 Florida jobs. Half of the \$27 billion foreigners invest annually in Florida comes from Europe. There is more European investment in Florida alone than all U.S. investment in China and Japan put together.

The most important transatlantic economic obstacles are not "at the border" trade barriers but "behind the border" domestic barriers to the free flow of capital, goods and services. Even small changes in domestic regulations could generate far bigger economic payoffs than further tariff reductions.

For these reasons, a truly transformative initiative would go beyond trade and seek a mutual opening of the EU's single market and America's vast continental market. The payoff could be substantial -- the equivalent of giving every American and every European an entire year's extra salary over their working lifetimes.

The benefits would be widespread, reaching across many sectors of our economies.

- **An open transatlantic** market for air transport services, for instance, could boost transatlantic travel by up to 24 percent, increase consumer welfare by over \$6 billion annually and boost economic output in related industries by at least \$9 billion a year.

- **Full transatlantic** integration of securities markets could lead to a 9 percent reduction of the cost of capital for listed companies, 60 percent reduction in transaction costs, and an almost 50 percent increase in trading volume.

- **Aligning U.S. and EU** automotive regulations could reduce the cost of every car and truck by up to 7 percent, with important knock-on effects for the extensive networks of suppliers and distributors across each continent.

Those who worry that an ambitious transatlantic economic initiative could threaten the multilateral system should consider that the opposite may be true. Europeans and Americans certainly share an interest in extending prosperity through multilateral trade liberalization. But even a successful Doha agreement on global trade will not address such pressing "deep integration" issues affecting the European and American economies as competition policies, corporate governance, more-effective regulatory cooperation, taxes and other issues.

Nor will it address cutting edge issues raised by European and American scientists and entrepreneurs, who are pushing the frontiers of human discovery in such fields as genetics or nanobiotechnology.

Transatlantic markets are the laboratory of globalization. Together we face issues that neither of us yet face with others. That is why the "multilateral versus transatlantic" dichotomy is a false choice. The United States and EU should advance on both fronts simultaneously: push multilateral liberalization through Doha and press transatlantic market-opening initiatives in services, financial markets, telecommunications, energy, innovation policies and other areas not yet covered by multilateral agreements. The alternative is not drift; it is growing protectionism and U.S.-EU rivalry in third markets.

Merkel has posed the right question: Shouldn't Europeans and Americans position themselves to absorb the shocks of global economic change and be true pathfinders of the global economy, rather than waste their time on banana-and-beef trade disputes and fruitless competition to eke out marginal advantage in third markets? The U.S. Senate agrees -- a few weeks ago it unanimously endorsed an open transatlantic market. President Bush should welcome the chancellor's initiative and launch this attractive new project now.

Daniel S. Hamilton and Joseph P. Quinlan of the Johns Hopkins University Center for Transatlantic Relations have written *The Transatlantic Economy 2006* and *Deep Integration: How Transatlantic Markets are Leading Globalization*.