

TRANSATLANTIC POLICY NETWORK (TPN)

The Partnership Report

N° 6 –January 2007

TPN would like to express warm thanks for their generous contributions, support and involvement to its members and to the German Marshall Fund of the United States

2007 : A WINDOW OF OPPORTUNITY FOR THE TRANSATLANTIC MARKET

The economic pillar of transatlantic partnership

No two economies are more deeply integrated and interdependent today than those of the United States and the European Union.

Driven by reciprocal direct investment accounting for more than two-thirds of global foreign direct investment, the depth of our technological, industrial and market integration has taken us way beyond “trade” as the defining feature of transatlantic economic relations. And this phenomenon shows no sign of abatement.

The transatlantic economy today amounts to some \$ 22 trillion, about evenly split, amounting to about half of the world economy and more than 5 times the size of the Indian and Chinese economies combined. U.S. investment in Belgium alone in 2005 was four times American investment in China. Over the first half of this decade Europe has accounted for over 75% of total foreign direct investment in the U.S.

The sheer scale of the transatlantic economy presents us with the unique opportunity to stimulate new growth, employment and wealth creation on both sides of the Atlantic – and by extension around the world - through greater transatlantic economic policy and regulatory convergence. The OECD has estimated the potential benefit from this strategy at between 2.5% and 3% growth in the per capita income of Americans and Europeans.

Even more fundamentally, a transatlantic commitment to further develop, integrate and invigorate this vast shared economic space of some 800 million consumers will serve to further underpin and reinforce our common pursuit of the wider political and security objectives of transatlantic partnership.

Not a “TAFTA”!

Consistent with the unique character of today’s deeply integrated transatlantic economy, TPN’s recommendation focuses on the progressive reduction or elimination of non-tariff regulatory barriers to further market and supply-side integration - *not* on the reduction or elimination of quantitative barriers (an objective more appropriate for stimulating arms’ length trade).

In other words, we do not recommend the creation of a “Transatlantic Free Trade Area” – or “TAFTA”, not only because remaining quantitative barriers to our bilateral trade are insignificant compared with the regulatory barriers to deeper market integration, but more fundamentally because the pursuit of a TAFTA would certainly undermine the commitment of both Europe and the United States to the WTO multilateral trading system founded on the most-favored-nation principle.

What are we waiting for?

In a word, leadership. Over the past decade and more, the TPN network has worked to spread political understanding and support for greatly strengthened Transatlantic partnership founded on greater linkage between our shared economic, political and security interests. In pursuit of that objective, we have endorsed political commitment to the completion of the transatlantic market as the highest practical priority.

Today we can report that German Chancellor Angela Merkel is moving with all deliberate speed toward adopting this recommendation as a major objective of the German Presidency of the European Union during the first half of 2007.

A window of political opportunity thus opens before us in 2007. Both of our political cycles will now fix on new horizons: a new Administration and Congress from 2009 on the US side; a new Commission and Parliament in place from the start of 2010 for the European Union.

The incumbent leaderships on both sides have another two years to cement the commitment, adopt the agenda, and create the momentum for stronger, broader transatlantic partnership. We must seize this opportunity at the next summit at next transatlantic summit toward the end of April in Washington.

Beyond the political commitment, we urge our presidencies to endorse the conduct of a joint in-depth study assessing the priorities for action to complete the transatlantic market. TPN is itself preparing a contribution to this work, under the direction of Bruce Stokes of the German Marshall Fund, to be reviewed at our February meeting in Brussels.