Building New Bridges:
The Case for Strengthening Transatlantic Economic Ties

by John Hancock and William B.P. Robson

and

A BNAC Statement

British-North American Committee
Sponsored by
British-North American Research Association (UK)
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The British-North American Committee

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BNAC Statement to Accompany Building New Bridges: The Case for Strengthening Transatlantic Economic Ties

The ties that bound Europe and North America for much more than half a century are profoundly important for the countries immediately concerned and for the world as a whole. In thinking about the challenges facing the transatlantic relationship, the members of the British-North American Committee (BNAC) were struck by the fact that the relationship's attributes have fundamentally changed. Strategic ties have weakened, while economic ties have broadened and deepened. Despite the personal and cultural links across the Atlantic, political attitudes and common institutions are failing to adapt to the change. As we see it, even though shared economic interests are weaving the two continents closer together, divergent political pressures are threatening to pull them apart.

The past successes of the transatlantic economic relationship, and its current malaise, provide a key lesson: closer economic integration creates challenges that the traditional machinery of trade liberalization and economic cooperation often cannot effectively address. Barriers at the border, such as tariffs and quotas, have become less salient. New frictions are arising in areas such as competition laws, food safety standards and taxation. Most citizens and policymakers consider these matters in domestic terms alone. Habits of consulting partners abroad and addressing their concerns when domestic measures may affect them are not well developed and the means to consult and address those concerns do not always exist.

At the same time, however, the impressive track record of policy-supported economic integration that has brought this situation about provides grounds for optimism. From the early efforts under the General Agreement on Tariffs and Trade to more recent rounds of liberalization under the World Trade Organization and regional trade arrangements in the European Union and the North American Free Trade Agreement, the countries of Europe and North America have shown an impressive capacity for innovation and compromise in the service of international cooperation.

Inspired by this record, the British-North American Committee approached John Hancock, Counsellor at the World Trade Organization, and William Robson, Senior Vice President and Director of Research at the C.D. Howe Institute, and the BNAC's Canadian Liaison Officer, with a request to explore the options for new avenues and institutions by which the countries of Europe and North America could revitalize their economic cooperation and, in so doing, give fresh energy to global trade and investment liberalization efforts. The paper that follows is the product of their collaboration.

Messrs Hancock and Robson make several key points.

First, they draw attention to the critical importance of continued efforts to improve transatlantic dialogue and cooperation in existing forums, most particularly the WTO. The contribution the multilateral trading system is already making to harmonious economic relations in the world is hard to overstate. Any degradation in its performance would undermine cooperation and foster trade disputes not only between Europe and North America, but on a global basis.

That said, Hancock and Robson observe that the WTO, while indispensable to transatlantic trade relations, may no longer be sufficient. Further EU-North American integration requires a depth of rules and policy coordination that the "one-size-fits-all" formula of the current WTO regime cannot easily provide.

They identify a broader pluralistic approach within the framework of the multilateral system as a promising option, suggesting that it could promote progress in areas such as services, investment rules, competition policy, regulatory coordination and government procurement. Even more ambitious would be to combine this "WTO-plus" approach with the elimination of transatlantic industrial tariffs on an MFN basis that, like the WTO's existing pluralistic agreement, would allow other countries that were prepared to meet the obligations to join. This approach, they emphasize, would most directly link the effort to reduce barriers between Europe and North America to the effort to maintain the momentum of trade liberalization around the world.

Canvassing the awkward question of where to pursue such an initiative, Hancock and Robson conclude that a new negotiating forum is likeliest to produce progress. A new purpose-built institution would provide a clear political signal of the parties' intent to proceed and would provide a forum in which the broader trade-offs that facilitate significant breakthroughs in trade negotiations would be possible.

The endorsement by the undersigned of this study does not necessarily mean that each BNAC member agrees with everything the authors say. But we do believe that the right practical proposals for action can both move the transatlantic economic relationship forward and promote the cause of harmonious trade and investment links around the world. We commend this study and urge policymakers on both sides of the Atlantic to take up the challenge so that the world's most energetic promoters of liberalization and prosperity in the past can continue to play that role in the future.

October 2002

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Footnote to the Statement

* **Michael M. Koerner —**The overarching issue in transatlantic economic relationships is the political reality that the United States is the only superpower in the world and prepared to flex its economic and military muscle to protect its interests. European response has been and will probably continue to be intransigence in its negotiations on economic issues in order to try and contain what is perceived to be the heavy hand of American diplomacy.

Clearly, the most recent political manifestation of this has been the European response to America's initiative in Iraq. I believe these tensions will not abate and will colour all transatlantic economic relationships.

Building New Bridges:

The Case for Strengthening Transatlantic Economic Ties

John Hancock and William Robson

The New Transatlantic Relationship[1]

There is a basic tension in the transatlantic relationship. Even as the ties of trade and investment bring Europe and North America closer together, political pressures threaten to divide them. Economically the two continents are converging, yet across many other areas — the environment, defence, foreign policy — transatlantic perspectives seem to be diverging. The danger is not that the European and North American economies are drifting

1 We thank Zdenek Drabek, Danielle Goldfarb, Roy MacLaren, Peter Rashish, the members of the BNAC Working Group on Transatlantic Trade and, in particular, its chairman David Wilson, for helpful comments and discussion. Responsibility for any errors and for the conclusions presented is ours alone.

apart. The danger is that their rapid convergence in recent decades — creating the largest and most important economic relationship in the world — has not been matched by similar integration at the institutional and political level. Growing interdependence, not growing isolation, is the real source of conflict within the Atlantic community, a conflict that threatens the security of the global, as well as the transatlantic, economy.

The fundamental problem is that the Atlantic community has failed to adapt to a world where shared economic interests, as much as strategic needs, now define the relationship. Policy makers persist in viewing the ups and downs of the transatlantic relationship in foreign policy terms — and through the prism of high politics — when it is deeper economic trends, not security, that increasingly shape Europe's and North America's shared interests. The glue provided by the Cold War alliance has weakened and in its place a new transatlantic relationship is emerging — one that demands the same kind of policy vision on economic issues that NATO provided on security.

Identifying and pursuing appropriate strategies for reinforcing and advancing shared economic interests is the most pressing issue facing the transatlantic partners. This paper looks at trends in the Europe-North America economic relationship in recent years and assesses a range of options for strengthening the legal, institutional and policy framework underpinning it. The choices range from shared efforts to advance the WTO's agenda, to strengthening bilateral mechanisms for heading-off disputes and the pursuit of deeper transatlantic rule-making in the form of a WTO-plus. While there is no one solution or magic formula for reinventing the transatlantic partnership in an age of globalization, there is a pressing need for a more integrated approach, an overarching vision and a political commitment to address the very real challenges posed by the emergence of a new transatlantic economy — a challenge that the current unfocused policy process cannot meet. We argue that the breadth and depth of the transatlantic economy and its growing importance to the economic security of Europe, the United States and Canada make continued efforts to deepen economic cooperation imperative.

Because of the central place that Europe and North America occupy in the international economic system, we see deeper transatlantic cooperation as a precondition, not an alternative, to broader global cooperation.

We also emphasize that "market forces" and traditional trade-liberalization measures on their own are not enough. The economic links across the North Atlantic are broader, deeper and more intensive now than ever before. Recent experience suggests that deeper transatlantic integration can itself give rise to new sources of friction in the absence of more resilient policy and political ties. The line separating international economic policy from wider regulatory and legal considerations is increasingly blurred and artificial. Strategies for strengthening the transatlantic economic relationship therefore need to be correspondingly broader and deeper.

From Geo-Politics to Geo-Economics — In Search of a New Context

The transatlantic relationship is changing in fundamental ways. At the height of the Cold War, shared security concerns were the dominant shapers of the Atlantic community — a community embodied above all in NATO — while trade and economic issues played a secondary role. The fall of the Berlin Wall in 1989 and the acceleration of global economic integration reversed these priorities. Today, while shared economic interests bind Europe and North America more closely, long-standing historical ties have failed to prevent the relationship becoming more fractious in other areas. Trade, investment and technology linkages are deepening, even as Europe and the United States squabble over rebuilding Iraq, regulating the Internet, global warming and genetically modified food. Europe and the United States can unite to launch the Doha Round of multilateral trade negotiations, but part company over the Kyoto Protocol, the International Court of Justice and the Middle East. The WTO is moving forward while NATO's purpose in a post-Cold War world has become unclear.

The scale of the transatlantic economic relationship is colossal — easily dwarfing all other economic relationships in the world, and constituting the principal artery of the global economy. A recent study by Joseph Quinlan of the Center for Transatlantic Relations in Washington, DC, notes that the U.S. and European economies combined account for roughly 40 percent of world GDP and over one third of global trade. Transatlantic trade in goods and services increased by 50 per cent in the 1990s, reaching US$600 billion a year in 2000. Even more dramatic has been the surge in investment flows, now the principal driver of the fusion of the two economies. Spearheaded by an unprecedented wave of mergers and acquisitions, such as Vivendi's takeover of Seagram and the megamerger of BP and Amoco, two-way investment flows between Europe and North America grew five-fold over the past decade, reaching $1 trillion — with almost half of U.S. outward investment flowing to Europe, and over 60 per cent of European investment heading to the United States. So dense is the web of transatlantic economic networks that the line separating trade and investment decisions is disappearing as foreign investment fuels trade and trade facilitates investment.

If globalization is about further, faster and deeper integration, argues Quinlan, then Europe and North America are integrating furthest, fastest and most deeply. Total transatlantic commerce reached some $2.5 trillion in 2000. European companies spent six times more than their Asian counterparts on research and development, while two-thirds of U.S. corporate research conducted outside the United States took place in Europe. Foreign affiliates of European and North American companies now employ roughly six million people on either side of the Atlantic and represent a combined value approaching $7 trillion. U.S. affiliates, for example, accounted for more than half of the total employment and value-added production in Ireland in 1997. As many as 50,000 Americans now work in London's financial district alone; roughly the same number of British citizens work on Wall Street. So extensive are the ties of people, travel, communications and culture between London and New York that some describe the two cities as a single metropolis — "NY-Lon". The rise of this "new transatlantic economy" represents a speed and depth of integration that is unprecedented — even if it is so far largely unreflected in the high politics of U.S.-EU foreign policy.

New Sources of Friction

What is most striking about this new transatlantic economy is the extent to which trade and investment flow freely. While disputes seize political and media attention, the story behind the headlines is of an Atlantic economy that seems to be moving almost inexorably towards a single market. Almost half of transatlantic trade will be tariff free when the Uruguay Round's reductions are fully implemented. Overall, EU exports to the United States will face average trade-weighted tariffs of scarcely more than 2 percent — down from well over 40 percent in the immediate postwar era. The corresponding figure for EU imports from the United States is even less: just 1.8 percent. Just as significant as the rapid decline in each side's use of contingent trade remedies — anti-dumping measures, countervailing duties and safeguard actions — is the blurring of economic nationality and ownership that has flowed from the surge in cross-border investment and integrated production. Despite the impression to the contrary left by high-profile cases, such as the recent U.S. safeguard action on steel, about one-seventh (36 out of a total of 255) of the anti-dumping cases brought by the United States since 1995 have been against EU countries and Canada even though those markets are the destination for almost half of U.S. exports.

True, some significant barriers remain. To take the most egregious example, EU tariffs on agriculture will be 75 per cent, even after the implementation of its Uruguay Round commitments, while corresponding U.S. tariffs will be about 30 per cent. Tariffs on textiles and clothing, leather, rubber, footwear, travel goods, fish and fish products and transport equipment remain needlessly steep on both sides of the Atlantic. Yet there is truth to the argument that these barriers loom all the larger because of the ease with which the vast bulk of trade and investment move between the two continents.

Ironically it is the very success of deeper transatlantic integration that has brought new concerns and conflicts to the fore. As border barriers fall, and as the conomies converge and intertwine, underlying differences in domestic regulations and value systems — what Canadian economist Sylvia Ostry has described as "system friction" — are emerging as the newest source of tensions in the relationship. Transatlantic disputes were once largely about market access and protectionism. Now they arise increasingly from the different ways in which European and North American economies are structured. Whereas agriculture and industrial trade used to be the main areas of conflict, disputes now encompass issues as diverse as health and safety standards, certification and testing, environmental policy, eco-labelling, competition laws, discriminatory taxation, technology policy, government procurement, investment restrictions, intellectual property protection, regulation of the Internet and cultural protection. Consider the most high-profile and controversial conflict of recent years: the Foreign Sales Corporation tax dispute centres on tax systems; the bananas battle on development policies; the Airbus subsidies conflict on technology and industrial strategies, and the emerging clash over genetically modified organisms on food safety. None of these conflicts can be resolved by trade policy alone; yet all can have an immediate and damaging impact on the transatlantic trade relationship.

The logic of transatlantic integration now requires wider policy coordination across more sensitive areas. The economic relationship is becoming increasingly political. Because these frictions involve domestic issues and priorities, addressing them requires changes to a myriad of legal, regulatory, industrial and cultural policies — changes that are sometimes far more difficult to achieve than the reduction of external trade barriers. Because policymakers in these areas operate with mandates and priorities that do not involve trade liberalization, they respond to different problems and answer to different interest groups — groups which often have little interest in free trade, and sometimes vocally resist such moves. Moreover, many of the new conflicts arising from deeper integration and the "internationalization" of domestic policy cut deeply into traditional notions of sovereignty and raise important questions about how societies organize themselves, making them even harder to resolve.

Examples of the complex challenges to which system friction give rise are not difficult to identify. The difficulty of tackling transatlantic monopoly and anti-trust issues with two separate legal regimes that embody markedly different procedural and philosophical approaches to competition law has produced a series of sharp and damaging transatlantic confrontations, most recently over the European Union's decision to block General Electric's takeover of Honeywell. As transatlantic merger and acquisition activity picks up again after the current economic slowdown, and as key sectors continue to consolidate around a handful of global companies, EU-U.S. differences over what constitutes anti-competitive behaviour (and whose "champions" should prevail) are likely to escalate.

Issues of food safety and environmental protection are becoming even more explosive. EU resistance to U.S. pressure to lift its ban on hormone-treated beef following a WTO ruling against it, and the escalating conflict over genetically modified foods can be explained only partly in terms of pressure for agricultural protection. At least as important has been opposition from consumers, alarmed by outbreaks of BSE, foot and mouth disease and other food scares, for which many blame open trade and globalization. A recent study by the U.S. National Foreign Trade Council documents the growing impact of safety, animal welfare, and environmental regulations, not only on agriculture, but on industries and high technology products as well. These broader concerns cannot be addressed by trade liberalization; all require dialogue and cooperation across a much broader and politically more complex policy front.

The Threat to a Liberal International Economic Order

In the face of this difficult challenge — achieving the broader policy cooperation and compromises necessary to manage transatlantic economic integration — there is worrying evidence that political pressures are pushing both sides in the wrong direction.

Reduced Willingness to Compromise

Before the fall of the Berlin Wall in 1989, U.S. and EU leaders were more willing to accommodate each other's economic interests in order to maintain the West's strategic alliance against the Soviet threat. Today that accommodation has diminished. A Europe less reliant on America's security umbrella is also more questioning — even hostile — towards U.S. leadership. Many Europeans see standing up to the United States in trade and other matters as a test of EU independence and strength. Some others want the European Union to emerge as a diplomatic and military counterweight to the United States. The long-standing assumption that EU members could be both Atlanticists and European integrationists — indeed that the two were mutually dependent — seems harder to maintain in the current climate. Henry Kissinger, among others, has warned of the obvious dangers to the Atlantic community were the European Union to define its identity — even purpose — in opposition to the United States.

The end of the Cold War has prompted equally profound attitudinal changes in America. For more than three decades Washington viewed open world trade and the multilateral trading system as an essential cornerstone of its foreign policy, first to rebuild war-torn Europe and Japan, and subsequently to strengthen the non-communist world against Soviet and Chinese expansion. The fall of the Berlin Wall weakened this rationale for multilateralism. Concerns about the rise of new trade powerhouses, such as Japan in the 1970s, the Asian Tigers in the 1980s, and more recently China, have fuelled allegations that the world is free-riding on a disproportionately open U.S. economy. A different, but no less important, influence on U.S. thinking was the prolonged period of superior U.S. economic performance in the 1990s, which seemed to demonstrate that the United States could go it alone without much help from — or concern about — the outside world. Both perceptions have eroded support for multilateral free trade in the United States. U.S. trade policy from the early 1980s onwards has increasingly focused on narrower commercial interests, reducing the priority it traditionally gave to the bigger foreign policy picture of maintaining an open, rules-based world trading system.

Economic Partners or Rivals?

The rise of regional blocs on both sides has been both a product of and a contributor to this psychological widening of the Atlantic Ocean. The building of the European Union and the NAFTA diverted political attention from maintaining and strengthening the transatlantic relationship and has often exaggerated, rather than reduced, transatlantic differences.

Europe has long been preoccupied with "European construction", and its drive to create an economy as large, dynamic and unified as that of the United States. From the original Coal and Steel Community, through the Treaty of Rome, the Single Market Initiative, the Maastricht Treaty, the Euro and now EU enlargement, the task of European unification has absorbed a great deal of time and energy. In fact, unification so dominated political thinking and priorities, that transatlantic issues have tended to appear to some Europeans at best as a distraction, at worst as attempts to divert Europe from its drive towards economic and political independence. For North American policymakers too, NAFTA has signalled a new focus on regionalism, after decades of reliance on multilateralism to manage trade relations.

Some of the direr predictions about Fortress Europe or Fortress North America have not materialized. By and large, the

EU and NAFTA have been positive forces for regional trade and investment liberalization. But the drive towards continental integration has had some unwelcome consequences.

Both the European Union (a customs union) and NAFTA (a free-trade area) are preferential arrangements — most notably with respect to trade in goods, but also for certain aspects of services trade, investment, regulatory treatment and labour mobility. By their nature, they provide benefits to members that non-members cannot enjoy, and they can divert trade at the expense of outsiders.

Moreover, the construction of a single market in Europe and North America has occasionally even raised transatlantic barriers. In Europe, efforts to liberalize internal commerce through harmonized EU policies or standards sometimes produce compromises that are more restrictive than those of its more open members. The European Union's controversial — though largely unenforceable — audio-visual directive specifying more "EU content", for example, was the price Brussels believed had to be paid to avoid member states blocking intra-community programming and advertising flows. The European Union's banana import regime, data protection directive and other policies that have generated anger in Washington are all products of the same dynamic. During the NAFTA construction, too, the price for broad internal liberalization was sometimes greater external protection for sensitive sectors. The imposition of trade-restrictive content requirements and rules of origin for autos, textiles and apparel are key examples.

The Growth of Preferential Access Agreements

Another symptom of growing geo-economic rivalry is the way that the European Union and the United States are becoming focal points — or "hubs" — for an expanding web of bilateral and regional trade agreements around the world. These agreements, providing preferential access to each others' markets, have proliferated in recent years as Europe and the United States compete to gain improved access for their exports and investments in emerging markets.

Bilateral free-trade agreements now link the European Union to the countries in Central and Eastern Europe, a group which is linked by the Central European Free-Trade Area (CEFTA), and another by the Baltic Free-Trade Area. All of these countries are engaged, at various stages of progress, in accession negotiations with the European Union. Then there are the remaining members of the European Free Trade Association (EFTA), which are linked to the European Union by free trade agreements, complemented by the European Economic Area (EEA), or bilateral agreements in the case of Switzerland. Beyond Europe, the European Union is negotiating second-generation bilateral FTAs, based on reciprocal exchanges of preference, with partners in the Mediterranean and North Africa, as part of a process to establish a Euro-Med free-trade area by 2010. Trade agreements are already in force with Mexico and South Africa, and negotiations with the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay) and with Chile have been initiated. So extensive are the European Union's new trade initiatives with its trading partners in Latin America and the Caribbean Basin that some have suggested that this strategy presages the development of a southern transatlantic free-trade zone — or a "TAFTA South" — over the next decade. While these ventures are often primarily development oriented, or geared to promoting regional stability and security, they also at least partly reflect a desire to counterbalance U.S. free trade forays into emerging markets.

After initial scepticism, the United States is becoming equally ambitious in its bilateral and regional strategy. In 1990, President George H.W. Bush proposed a hemisphere-wide FTA — the Free Trade Agreement of the Americas (FTAA) — that would link the emerging NAFTA with all of the countries of the Caribbean and Central and South America (except Cuba). The Clinton Administration spearheaded the most ambitious of all regional initiatives, the Asia Pacific Economic Cooperation (APEC) area, which encompasses 21 Pacific Rim countries and, for the first time, included the United States, Japan, Russia and China in the same trade agreement. With the passage of fast track — or Trade Promotion Authority as it is now called — in 2002, the United States also announced immediate plans to pursue free trade agreements with several Asian, African and Latin American countries. Negotiations with Australia are also well advanced, while new FTAs with Chile and Singapore are awaiting congressional approval.

U.S. ambitions in this field stem at least partly from concerns that the European Union and other countries are carving out preferential access to key emerging markets at the expense of U.S. exporters and investors. Before the passage of Trade Promotion Authority, U.S. Trade Representative Robert Zoellick never hesitated to warn U.S. lawmakers that "other countries have been moving forward with trade agreements while America has been stalled".[2]

Zoellick has also argued that an aggressive strategy of bilateral and regional deals would serve to advance the cause of global free trade through a process of "competitive liberalization". Behind each bilateral initiative lies an implicit message: if the world will not cooperate and move forward multilaterally on trade, the United States is prepared to move forward with those countries that are willing.

Others argue that this U.S.-EU competition for preferential free trade areas will inevitably weaken the multilateral system in general, and the transatlantic relationship in particular. The transatlantic powers created the multilateral trading system in the immediate post-war era precisely to avoid a return to a world of hostile trading blocs. Recent signs of waning support for multilateralism reflect partly a breakdown of this consensus and a willingness to countenance a resurgence of regionalism. Transatlantic economic discord matters, not just because of the costs bilaterally, but because it can have repercussions that extend well beyond the transatlantic community, straining the

2 Testimony before the U.S. Senate Finance Committee, 30 January 2001.

fabric of the world trading system and generating wider geopolitical instability. The recurring threat that recent U.S.-EU trade conflicts could escalate into a war of sanctions and counter-sanctions underscores the reality that the transatlantic relationship remains central to the whole of the multilateral system. Global economic cooperation is at risk if this relationship breaks down. It is in no one's interest — economically or politically — to have a transatlantic split.

The *What* of Liberalization: What Kind of Agreement?

Strengthening economic relations across the Atlantic, while at the same time reinforcing the movement to greater commercial liberalization around the world, is the difficult challenge that globalization places before the Atlantic community. The following section sketches out some of the broad options as well as the potential risks.

Closer Collaboration in the WTO

The overriding priority is to improve transatlantic dialogue, cooperation, and constructive work in the WTO. This is not an option so much as a necessity. The WTO is too important to Europe and North America, not least for regulating their trade relations with each other, to risk weakening it. President Clinton's description of China's WTO accession as the most important international decision of the early 21st century underscored the extent to which the organization has become a cornerstone of post-Cold War U.S. and EU foreign policy, not just trade policy. The WTO's unique system of economic rules and binding enforcement remains key to global prosperity and arguably to global stability and security as well.

Fortunately, trade policymakers in Washington and Brussels appreciate its critical role. When the WTO's Doha Ministerial Conference finally launched a new round of multilateral negotiations in 2001, its success owed much to the concerted efforts of Brussels and Washington — stemming in part from the desire to maintain the anti-terror coalition, but in larger part by appreciation of the necessity to maintain and strengthen an open, rules-based world trading system during a period of global uncertainty. Even when transatlantic tensions run high, as in the recent spat over steel, both sides invariably portray their actions as consistent with WTO rules — whether or not they are. The fact that recent disputes have not so far escalated into wider and more damaging conflicts is a testament, not only to the depth of transatlantic integration and fears of the costs of a trade war, but to the influence of the WTO which has provided a framework of rules and procedures to contain the crises.

What is equally clear, however, is that existing WTO rules are not always adequate for resolving these new disputes. Even when the spirit of transatlantic cooperation in the WTO is positive — as has been the case under Pascal Lamy and Robert Zoellick — solutions to new conflicts typically take the form of stalling actions and avoiding tough decisions, rather than tackling underlying problems. Zoellick's warning that for the European Union to impose its potential $4 billion in sanctions against U.S. trade in response to the activities of the U.S. Foreign Sales Corporation "would be like using a nuclear weapon on the trading system"[3] was an instructive, if alarming, analogy. Like the Cold War nuclear stand-off, what often seems to be holding the U.S.-EU trade relationship together is more the fear of mutual destruction than a sense of common cause or shared objectives.

A successful conclusion of the new Doha Round is critical to the transatlantic economy. Many of the issues in the Doha negotiations are of direct interest to the European Union, the United States and Canada. Services and agriculture are obvious examples. Efforts to improve the rules of the system in areas such as

3 *Financial Times*, 15 May 2001.

anti-dumping and subsidies are of critical importance. So too are the so-called new issues — investment, competition policy and the interface between environmental and trade rules — largely championed by the European Union which, if advanced in the multilateral context, could smooth relations within the transatlantic economic community.

The status quo is neither acceptable nor sustainable. The Uruguay Round addressed 1980s issues. The world economy, and the transatlantic economy in particular, have changed, and the first decade of the 21st century presents a new set of issues. No single initiative would do more to strengthen the underpinnings of the transatlantic economy than the shared resolve of European, U.S. and Canadian leaders to overcome their negotiating differences and bring the Doha Round to a successful and timely conclusion.

At the same time, however, it is equally important for the European Union, the United States and Canada to be realistic about what can be achieved in the current negotiations, and to avoid overloading the WTO agenda. Fundamental changes to the multilateral trading system, underway since well before the launch of the Uruguay Round, have enhanced its effectiveness in managing global trade concerns, but may have lessened its value as a tool for managing the full set of EU-U.S. trade relations. For at least three decades after the Second World War, the General Agreement on Tariffs and Trade (GATT) was basically a transatlantic negotiating forum, with the United States and Europe taking an undisputed leadership role. The creation of the WTO — the first new international institution of the post-Cold War era — symbolized the trading system's transformation from a cosy club of the developed democracies to a truly global institution that is increasingly vital to the economic interests of developing countries. With the implosion of the Soviet bloc and the policy shift in the developing world towards open markets and trade, the active membership of the multilateral trading system has expanded rapidly. The system now has 146 members (compared with 23 at the outset) and this number could easily reach 170 within a decade. China's accession in particular will likely shift the centre of gravity of the organisation, fundamentally altering the developing-industrialized country balance and adding a new dimension of complexity to the management of an already delicate system. Many now wonder whether a system as universal as the WTO can move forward in anything but incremental steps.

The WTO's policy mandate has also expanded dramatically as the system has attempted to keep up with the growing complexity of globalized production and distribution methods, creating new sources of tension over what members expect or want from the trade system. The idea of a *single undertaking* — whereby all WTO members essentially adhere to the same rules — was a Uruguay Round innovation, designed to reduce some of the complexities and ambiguities of the post-Tokyo Round system and make the world trading order more universal. Some argue that this approach worked only because many developing countries did not appreciate the full scope of these undertakings and that much of the subsequent controversy over implementation reflects difficulties inherent in one-size-fits-all approaches to rule-making.

At a time when many less-developed countries are finding it hard just to live up to their Uruguay Round commitments, advanced economies are pushing for new rule-making in complex policy areas such as services trade, investment rules, global mergers and acquisitions, intellectual property protection, domestic regulation, taxation and the growing interface between international economic and environmental law.[4] Without understating the depth of divisions that still exist over old issues such as agriculture, where transatlantic differences are as at least as significant as any North-South divide, one can argue that in many of the new areas a multi-tiered trading system is emerging, with the bulk of the developing world still focused on shallow integration, while the developed world, already moving towards a zone of free-trade, is turning its attention to the challenges of deeper integration. It is illustrative of the different expectations and challenges faced by developed and developing countries

4 *The Economist*, 1 November 2001.

that the WTO's major advances since the conclusion of the Uruguay Round — in financial services, telecommunications, and information technology products — emerged as de facto plurilateral undertakings among the industrialized and advanced developing countries. Although the GATT's record in advancing shallow integration was impressive over its half-century, the WTO's ability to cope with the complex policy and political challenges associated with deeper integration is still largely untested.

The spectacular collapse of WTO talks in Seattle in 1999 was a vivid sign of unresolved tensions within the system. Moreover, even with the successful launch of negotiations in Doha two years later, whether substantive policy differences within the broader WTO membership have noticeably narrowed remains an open question. Indeed, on some issues, such as the relationship between the WTO's Trade-Related Intellectual Property (TRIPS) agreement and the supply of low-cost drugs to fight AIDS, they appear to be widening. Moreover, while there was broad agreement in Doha about the desirability of a traditional market-access negotiation for industrial products, services, even agriculture, countries were much more divided over when — or whether — new issues such as investment and competition policy should appear on the agenda. Much of the subsequent discussion in Geneva has revolved around the question of whether negotiations in these areas had actually been agreed on.

Then there is the question of timing. Seven years elapsed between the end of the Tokyo Round and the beginning of the Uruguay Round; there was another seven-year gap between the Uruguay Round's completion and the launch of the Doha Development Agenda in November 2001. And the Uruguay Round itself spanned eight years from beginning to end. Dramatic shifts in the negotiating positions of many countries will have to occur if the latest round is to reach a successful conclusion in anything like the time-scale agreed at Doha, that is by January 2005. In the meantime, unresolved transatlantic policy tensions will continue to accumulate.

Asking the WTO to resolve issues on which the rules are uncertain or non-existent not only strains the fabric of the dispute settlement mechanism — the central pillar of the system — but the credibility of the WTO itself. While the WTO is indispensable to the U.S. and the EU, it may not be sufficient. The extent of Europe-North American integration may require a depth of rules and policy coordination that the single-undertaking formula of the current WTO regime cannot easily provide.

A Transatlantic Free Trade Agreement

Some have advocated a transatlantic free-trade agreement — or a TAFTA — as a way of tackling issues that have not, so far, proved resolvable inside the WTO. On its face, a TAFTA has certain attractions. It would link the world's two largest economies, encompassing over half of world output and over one third of world trade. Producers inside the area would have access to a market of 770 million people and combined GDP of well over $10 trillion Moreover, a transatlantic negotiation involving a smaller number of like-minded countries might more readily achieve deeper economic integration and rule-making than is likely in the multilateral system. It has also been argued that a TAFTA might raise fewer concerns about cheap labour and weak environmental standards of the kind that have plagued the WTO debate in Europe and North America.

In principle, a TAFTA could also be compatible with existing multilateral agreements. Nothing in the WTO's rules prevents countries from forming a customs union or an FTA, provided they conform to Article 24 of the GATT and Article 5 of the General Agreement on Trade in Services (GATS). These articles stipulate that an agreement must provide for liberalization of "substantially all trade", cannot raise barriers to third-country trade on average and must be established within 10 years, or a "reasonable" period of time.

One major weakness of the TAFTA approach is that it would not necessarily — or even easily — solve some of the most serious conflicts in the transatlantic relationship. Agriculture is the obvious example. It remains a major point of friction in the bilateral relationship — not surprising, given that the United States is the world's largest agricultural exporter and the European Union is, among other things, probably the world's largest agricultural subsidiser. Nevertheless, it is almost impossible to see how the policy challenges associated with agricultural liberalization could be tackled any more easily in a transatlantic negotiation than in wider multilateral negotiations. Indeed, the opposite is probably true. Those who advocate a TAFTA often note the existence of sectors, such as agriculture, so sensitive that it would be politically impossible to include them in transatlantic negotiations. Yet is it difficult to see how agriculture could be left out of a TAFTA altogether without violating Article 24's requirement to include substantially all trade. Moreover, if the European Union, for instance, were to insist that agriculture stay off the table, the United States might keep its own sensitive sectors off as well. A TAFTA that excluded trade in agriculture, textiles, clothing, and possibly many other products would not only be inconsistent with the WTO — it would lack a rationale as well.

The biggest drawback of an FTA approach is as much political as economic: it would discriminate against the rest of the world, especially the developing world. Even if such an agreement were WTO compatible, many countries would deeply resent being left on the margins of the world's biggest preferential trade agreement. Knowing that they were excluded from a specifically transatlantic club, developing countries in particular might turn towards their own versions of pan-Asian, African or Latin American blocs that would work against free and open global markets, with potentially damaging consequences for both Europe and North America. Such an approach would also risk further marginalizing the poorest countries, which would lack the muscle and clout to negotiate with powerful blocs. Instead of strengthening the foundations of the multilateral system, a preferential TAFTA risks undercutting the Atlantic community's global leadership role, further dividing world trade into regional and bilateral blocs and fostering suspicions that the EU and the United States were colluding against developing countries.

An Open Transatlantic Agreement

An alternative is to broaden the scope for plurilateral, WTO-plus agreements within the framework of the multilateral system, maintaining and reinforcing the link between deeper transatlantic integration on the one hand and progress in the WTO on the other. If limited to policy areas where no WTO coverage exists, or where WTO rules deem that bilateral work is appropriate, an open agreement would be fully consistent with the rules and the spirit of the multilateral system and escape the GATT Article 24 requirements governing customs unions and FTAs, as well as GATT Article 3, the MFN clause. The key would be to pursue practical and pragmatic bilateral interests across a range of policies in ways that are non-threatening to the interests of the bulk of WTO members. A number of grand U.S.-EU trade initiatives in the 1990s never got off the ground, partly because they were perceived as too ambitious, but mainly because they were seen to depart from the historic transatlantic commitment to multilateralism.

Unlike regionalism, plurilateralism is defined, not by geography or "discrimination", but by willingness to pursue deeper levels of economic integration at a faster pace. Precedents for plurilateral agreements exist. The GATT Tokyo Round's Collateral Codes, which represented the first serious attempt to tackle non-tariff barriers to trade, such as government procurement policies, subsidies policies, antidumping and safeguards, customs valuation policies, civil aviation and technical standards, were negotiated on a conditional MFN basis, with only signatories being subject to the rights and obligations created by the Codes. The Annex IV Agreements to the Uruguay Round — the Agreement on Trade in Civil Aircraft and the Agreement on Government Procurement — fall into a similar category. So too, in certain respects, does the GATS accord, which established a broad multilateral framework of rules to govern trade in services, but with temporary restrictions on MFN obligations. One implication of a plurilateral approach is that it could be a step in the direction of a more multi-speed WTO — one that, arguably, might mitigate the risks of negotiating deadlock over the current one-size-fits-all approach to trade rules.

Examples of the issues that might lend themselves to a plurilateral approach are:

Regulatory coordination. Differing domestic regulations and standards — and different procedures for certification and testing — have a massive impact on transatlantic trade and are the fastest growing source of disputes. The U.S. Department of Commerce has estimated that EU legislation and procedures covering regulated products will eventually apply to half of all U.S. exports to the European Union. For their part, Europeans complain that U.S. regulatory procedures are multilayered, unduly complex and frequently arbitrary — especially at the state and local level. There is considerable scope for pursuing common transatlantic standards and conformity assessments, especially in contentious areas such as food safety and environmental protection, in ways that are consistent with WTO rules. The WTO agreements on Technical Barriers to Trade (TBT) and on Sanitary and Phytosanitary Measures (SPS) recognize and encourage activities on the international level to develop international standards, guidelines and recommendations. And both the TBT and SPS agreements specifically encourage the conclusion of Mutual Recognition Agreements between countries having established confidence in each other's testing entities and procedures.

Investment rules. Foreign investment now easily outstrips trade as the main driver of transatlantic integration. A number of existing WTO provisions have investment policy implications and in Doha, ministers agreed that investment negotiation would begin at their next Ministerial Meeting in Mexico. Even if investment negotiations are launched in Cancun, the wide variety of countries and interests involved mean that a multilateral investment agreement in the WTO would likely be modest in its initial scope and impact — geared more towards making investment regimes transparent and predictable than towards any significant market opening or protection for FDI. Europe and the NAFTA partners might consider additional commitments that significantly open up new sectors to FDI, while offering meaningful investor protection (along the lines of Chapter 11 in the NAFTA, say) and more coordinated tax treatment.

Competition policy. As government-imposed barriers to transatlantic integration diminish, and as corporations increasingly straddle both continents, attention has focused on structural differences that can distort markets and generate friction — cartels, monopolies, vertical and horizontal restraints, even strategic alliances. Substantive institutional and procedural differences in domestic anti-trust or competition regimes make these issues harder to tackle across the Atlantic and have prompted increasing calls for harmonization or integration. As with investment, there is scope for deeper transatlantic cooperation on competition policy within the existing structure of WTO rules. The options range from greater information sharing — already embodied in existing bilateral agreements between the European Union and the United States and between Canada and the United States — to strengthened positive comity agreements. Some have even argued for the adoption of harmonized competition policies in areas that have a transatlantic dimension, backed up by dispute settlement, along the lines of the TRIPs Agreement.

Government procurement. The new WTO Government Procurement Agreement (GPA) is one of two plurilateral codes under the umbrella of the WTO, with provisions that apply only to its signatories. To a large extent the GPA negotiations were dominated by the European Union and the United States, which together account for a substantial share of the procurement contracts that will be covered by GPA rules. The EU and United States could expand their 1994 bilateral government procurement agreement into a comprehensive undertaking by extending full national treatment to all companies from the EU and NAFTA countries.

Movement of people. If cross-border investment is erasing nationality in many aspects of the transatlantic economy, so too is the cross-border movement of people — bankers, managers, designers, engineers, lawyers and others. These flows have increased in importance as services have come to represent such a dominant share of economic activity on both sides of the Atlantic. The free movement of people is a core principle of Europe's single market, with accreditation restrictions remaining in a small and diminishing number of professions. NAFTA too includes provisions regarding the temporary movement of skilled people. Expanding labour mobility transatlantically — through mutual recognition agreements and more streamlined and harmonized immigration rules — would be a major contribution to strengthening economic ties.

Trade facilitation. Even when tariffs are reduced, other border barriers can remain — especially in the post 9/11 world of heightened security concerns and homeland protection. Cutting red tape at the border and streamlining customs regulations represents an important agenda for facilitating transatlantic trade, one that might lend itself to more intensive bilateral cooperation.

An Open MFN Arrangement

More ambitious yet would be an effort to combine an open WTO-plus approach with the elimination of transatlantic industrial tariffs on an MFN basis. The challenges are obvious. An MFN arrangement would further expose the Euro-Atlantic economies to the winds of global competition. Unlike the situation under a TAFTA or a customs union, external EU and NAFTA tariffs would disappear.

This requirement is not, however, as daunting as it might appear. Most EU and U.S. MFN tariffs are already low, offering little in the way of meaningful protection. Well over 40 percent of U.S.-EU trade is, or will be, tariff free as a result of the Uruguay Round. Much of the remainder faces nuisance tariffs — less than

2 percent — which could be eliminated immediately. Removing tariffs would also resolve many of the problems associated with increasingly complex rules of origin. More to the point, across many industries and sectors, the European Union and the United States are each other's main competitors. Having already made the adjustment to transatlantic free trade, these sectors would find the step towards global free trade less dramatic. Such a move would also make imports cheaper, benefiting not only consumers, but also transatlantic manufacturers that use imported inputs. It is time for the transatlantic partners to acknowledge that the age of the tariff should have ended, and get on with more pressing business.

One concern is that a sector-specific agreement might diminish the incentive to tackle the most intractable transatlantic barriers; negotiators would be tempted to start with those sectors in which both partners win — typically dynamic areas with high levels of cross-ownership and intra-industry trade — while leaving difficult subjects, such as agriculture, aside. Once the interests of the liberalizers had been satisfied, the leverage of the protectionists would increase, potentially creating what U.S. trade economist Jagdish Bhagwati has described as the "our market is large enough" syndrome. There is no way to avoid this problem — what is needed is sufficient early success to maintain the momentum of liberalization by demonstrating its benefits to producers and consumers, and its practicality to policymakers.

There is also the problem of so-called free riders. In multilateral trade negotiations, tariffs and non-tariff measures can provide useful bargaining chips to extract tariff-cutting concessions from other countries. The concern is that an MFN transatlantic trade deal would undercut Washington's and Brussels' leverage in future negotiations.

In response, one can make the obvious point that holding transatlantic liberalization hostage to future negotiations makes little economic sense. Given the breadth and depth of the transatlantic trade and investment relationship, eliminating costly barriers and creating an open Euro-Atlantic free trade zone will confer important benefits whether or not the rest of the world follows. Moreover, ways around the free-rider problem exist. In sensitive sectors, for example, transatlantic partners could agree to the elimination of trade barriers by a specified date if a critical mass of key countries or major suppliers join. This approach bore fruit in the 1997 Information Technology Agreement and there is no reason to assume it would not work in other sectors.

The promise that the world's two largest economies are prepared to implement a comprehensive, MFN free trade agreement might be just the spur the multilateral system needs to advance its Doha round of negotiations. Gordon Brown, Britain's Chancellor of the Exchequer, has made this very argument: "The EU and the U.S. should go into the next WTO round promising genuinely to reduce our industrial tariffs to zero on a strictly most-favoured-nation basis on condition that a critical mass of the rest of the world agrees to do the same".[5] More recently the U.S. tabled a proposal in the current WTO negotiations for the two-stage elimination of all tariffs on non-agricultural trade by 2015. Why not make an open Euro-Atlantic free trade zone the first step towards — and a down payment on — the more ambitious goal of global free trade?

The *How* of Liberalization: Finding the Right Institution

It is easy enough to identify the areas where the transatlantic economic relationship can — or should — be strengthened; harder to identify exactly how to do it. The paradox is that the decrease in trade and investment barriers across the Atlantic has increased the complexity of the relationship. Common rules for the movement of capital, technology and people, or harmonized health, anti-trust, and other regulatory regimes require a level of policy cooperation and political coordination that simply does not exist

5 *Financial Times*, 26 July 2001.

across the Atlantic. It seems anomalous that at a time when APEC provides a structural link between North America and Asia, and the FTAA promises a similar link between TAFTA and the countries of South and Central America, there is no equivalent bridge across the Atlantic — the most important and complex economic artery in the world.

At one time, the postwar international economic institutions — the Bretton Woods sisters, the IMF and World Bank, and later the GATT and the OECD — essentially served that role. They no longer do. The international economic system has gone global. The WTO is now too broad and diverse to play an exclusive transatlantic role today, while its membership rightly resents any idea of EU-U.S. domination. The OECD has ceased to act as a forum for transatlantic policy coordination. Nor do G8 meetings provide the necessary focus and institutional continuity. Europeans do not vote in U.S. elections, and vice versa. As long as Ohio steelworkers or French farmers can exert more leverage in Washington and Brussels than transatlantic partners, maintaining and enhancing the North Atlantic economy will require countervailing political measures.

Incremental Approaches

New political structures are probably needed to provide the same high-level coordination on economic and trade issues as NATO traditionally provided on security issues. Some steps have already been taken. There are now regular EU-U.S. and EU-Canada summits and high level ministerial meetings, supported by more or less continuous contacts among bureaucracies. The Transatlantic Business Dialogue (TABD) brings together business leaders and government officials to discuss trade, investment and regulatory issues, and to make recommendations to governments. And the Transatlantic Policy Network (TPN), among many other private organizations spanning the Atlantic, aims to link European and American opinion leaders in a common Atlantic forum.

The record of these initiatives is mixed. Summits have helped to defuse certain disputes, such as the Helms-Burton impasse, but have been impotent on others, such as the current dispute over the U.S. Foreign Sales Corporation. The substance of transatlantic policy and negotiation still takes place at the level of senior officials, where, in addition to information sharing, attempts are made to resolve disagreements. But senior officials without direction from elected representatives typically end up fighting fires rather than preventing them, which has been the experience so far. The TABD, formed in Seville in 1995, has marshalled business support for some practical liberalization initiatives, including the 1997 agreement to dismantle information technology tariffs, and several transatlantic Mutual Recognition Agreement initiatives. It also has done important work on technical and standards issues, and investment policy. However, the TABD has proved less effective as a channel through which to articulate broader strategic priorities. This, after all, is a role for governments, not private-sector leaders.

Incremental and piecemeal approaches have a number of inherent weaknesses. With no broader political context or framework, the cross-sectoral linkages and trade-offs that supply the dynamic of negotiations and facilitate significant breakthroughs are not possible. The step-by-step approach also makes it easier to sidestep the most difficult and sensitive transatlantic issues, precisely because there is no political incentive or impetus to tackle them. This approach also lacks deadlines, creating no external pressure on officials or politicians to commit to serious negotiations or to bring them to a conclusion — weaknesses that are exacerbated by the fact that the process lacks high-level political visibility.

New High-Level Institutions and Adaptations of Existing Institutions

Trade agreements are political and strategic in nature, not just economic. They require a broader sense — a vision — of where the relationship should be headed and why. They embody a basic political consensus about the virtues of integration and the requirements of interdependence. It is difficult, if not impossible, to open a comprehensive transatlantic dialogue about architecture when the context is bilateral haggling over bananas, beef hormones, or steel — all of which have dominated the transatlantic agenda over the past decade. Economic policymaking does not and cannot take place in a political vacuum. The legitimacy of the political process underwrites governments' ability to cooperate across borders. It provides the context within which difficult choices and trade-offs are possible.

Transatlantic arrangements for the management of common economic interests — as well as security concerns — are inadequate. It is important to be realistic about the current appetite for new political fora and summits. Nevertheless, it is also important to be realistic about the chance of significantly strengthening the underpinnings of the transatlantic economy without political impetus. One option is to expand the existing system of bilateral summits — U.S.-EU, and Canada-U.S. — into a more permanent trilateral forum, with a fixed institutional structure and underpinned by shared treaty obligations. Such a forum could provide a clearing-house for mutual concerns, an early warning system for nascent disputes, and an Atlantic caucus for mapping out common approaches in such global institutions as the WTO. Its composition should reflect the fact that the economic relationship is now about much more than trade — and that policy coordination requires the high-level cooperation of health, environment, labour, industry and finance ministers, as well as ministers of trade.

Another option would be to attempt to breathe new life into the little used Article 2 of NATO, which encourages members to "seek to eliminate conflicts in their international economic policies and… [to] encourage economic collaboration between any or all of them". Article 2 reflects the fact that the North Atlantic Treaty was originally envisaged as more than a military alliance. It was also conceived as a cornerstone of a broader Atlantic Community and embodied the idea that Atlantic unity should extend across wider economic, social and cultural fields. The Soviet threat has disappeared, but the idea of an Atlantic Union has never materialized. NATO has been left searching for a role.

The advantage of the Article 2 approach is that it would make use of an existing and tested institution, while breathing a much-needed new sense of purpose into NATO. But this could also be its disadvantage. It is an open question when it might prove easier to generate momentum and interest in a new organization than to reform and re-orient an old one. While we would not discourage an attempt to define a new economic relationship through NATO, we would not like to see progress on the economic front held up by institutional rigidities and would therefore recommend that simultaneous pursuit of alternatives accompany the first phase of the initiative.

Final Thoughts

Transatlanticism is at a crossroads today because the relationship is changing in fundamental ways. Cross-border trade and investment now drive Europe-North American relations to a degree and an extent that equals — perhaps surpasses — the traditional military alliance. The emerging transatlantic economy has entailed a level of integration between the two continents that is historically unprecedented. It has also created an economic link that now serves as the main artery of an increasingly integrated and interdependent global economy. In a very real sense, international economic stability and security hinge on the health of the transatlantic economy. Finally the transatlantic relationship is a cornerstone — and a foreshadowing — of the challenges of managing the broader process of globalization. More than any two powers, the United States and Europe have been the principal leaders and architects of the liberal international economic system that has underpinned the prosperity of the past half-century. The move towards a global free market — including China and dozens of ex-communist countries — represents the successful realization of a common transatlantic foreign policy vision that has been 50 years in the making.

Yet, ironically, the realization of this post-war vision has also raised new questions and difficulties for Europe, the United States and Canada. The end of the Cold War has weakened ties across the Atlantic, just when economic globalization is demanding greater coordination. Economic interdependence calls for deeper rules and new cooperative institutions, but the trans-atlantic partners are finding it harder to move forward. Reflecting one of the central paradoxes of globalization, economically the two continents are converging, while politically they are diverging. The ties that bind are beginning to chafe.

The call to strengthen the transatlantic economic link is, first and foremost, a response to these challenges — an effort to build on the strong elements in a relationship that in other areas may be eroding. In an influential 2002 essay, U.S. academic Robert Kagan argued that a deteriorating transatlantic military alliance is perhaps the inevitable result of strategic and philosophical differences flowing from U.S. "power" and European "weakness". But this same dynamic is not at work in the economic realm. On the contrary, the transatlantic economic relationship is a partnership of equals — two giants increasingly bound together by the logic of economic integration and interdependence. It is not nostalgia that lies behind the calls to strengthen the underpinnings of the transatlantic economy, but self interest — the belief that transatlantic unity is essential, not just to the economic security of Europe and North America, but to the world as a whole. It is the recognition that the transatlantic economic relationship is simply too important to be allowed to drift.

This paper has suggested three related areas that require simultaneous and coordinated attention:

First, strengthening transatlantic leadership in the WTO. Just as there is no substitute for a multilateral trading system, Europe and North America have no alternative but to advance their shared interests in the WTO, especially as regards the pressing need to bring the new Doha Round of multilateral trade negotiations to a timely and successful conclusion.

Second, pursuing deeper transatlantic integration in a non-preferential, non-threatening way. The multilateral trading system is indispensable to transatlantic cooperation, but not necessarily sufficient. Through mutual recognition and selective harmonization in such areas as food safety, technical standards, investment and competition policy, and labour mobility there is a pressing and pragmatic bilateral agenda, as well as scope within the framework of WTO rules to achieve it.

Third, building new transatlantic institutions to promote closer economic co-ordination. Economic policymaking — and the explicit and implicit tradeoffs involved — cannot take place in a political vacuum. The transatlantic community needs to give serious attention to building credible transatlantic institutions that can provide the kind of policy coordination on economic and trade issues that NATO provides on security.

What is the likelihood of the transatlantic agenda moving forward? Admittedly, strains in the economic relationship do not amount to a crisis. Perhaps that is the problem. What we are witnessing instead is the gradual attenuation of economic cooperation, the steady fraying of common interests, the slow transformation of Cold War allies into global competitors. The crisis in the relationship is that the status quo is unsustainable, but no one has a clear plan to change it.

Those who argue that a transatlantic economic initiative would simply be too difficult — that the problems are too intractable — are essentially arguing that the erosion of transatlantic cooperation should be allowed to continue. They are prepared to risk a further widening of the Atlantic divide and the emergence of rival European and North American blocs. We see the danger to prosperity and stability across the Atlantic and around the world arising from this drift as too serious to neglect. Shifting transatlantic relations back to a more positive course requires two elements: the political will to advance economic cooperation, and some practical proposals that promise near-term success. We believe that the will to build on past accomplishments exists, and we hope that this study has provided some promising ways forward. The future of the Atlantic economy, and the cause of economic cooperation around the world, are so critical to international security and prosperity that we see no alternative to making the attempt.

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