

## ECONOMIC RELATIONS AS THE NEW TRANSATLANTIC BRIDGE

by Stephen Barber, Henning Meyer

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The great ideological conflict of Cold War meant that the bridge between Europe and the United States during the second half of the twentieth century was built upon shared security interests. It was solid, well founded and mutually beneficial supported by proficient organisational cooperation. But as communism collapsed in the early 1990s to be followed by an era of rapid globalisation of both trade and capital, economic issues and interests have assumed a natural prominence. The EU and the US have long established positions as key economic players and yet that bridge of security interests, built in the aftermath of the Second World War, has meant that Transatlantic Economic Relations (TER) was neglected by politicians on both sides of the ocean for much of the twentieth century. Furthermore, as a topic of academic enquiry, Transatlantic Economic Relations has suffered the same fate as the political process and has been largely overlooked. Using “the bridge” as a metaphor this paper argues that the narrow political and economic agenda, focused almost exclusively on reducing non-tariff trade barriers, can be blamed for TER weakness. It suggests that greater engagement with major stakeholders is key to establishing TER as capable of serving the economic interests of both the EU and the USA.

Il conflitto ideologico della Guerra Fredda ha fatto sì che il ponte fra l'Europa e gli USA fosse eretto sulla base di comuni interessi di sicurezza. Esso era solido, ben fondato, reciprocamente vantaggioso e consolidato dalla collaborazione di organizzazioni competenti. Ma al crollo del comunismo, seguito da un'epoca di rapida globalizzazione di scambi e capitali, le questioni economiche e commerciali hanno assunto un'ovvia preminenza. La EU e gli USA da lungo tempo godono di posizioni consolidate come attori economici centrali, e tuttavia il ponte di comuni interessi alla sicurezza, eretto per rimediare alle conseguenze della Seconda guerra mondiale, ha comportato che le relazioni economiche transatlantiche siano state trascurate dai politici su ambo i lati dell'oceano per gran parte del xx secolo. Inoltre, come argomento di indagine accademica, le relazioni economiche transatlantiche hanno subito lo stesso destino del processo politico, e sono dunque state ampiamente trascurate. Usando la metafora del “ponte”, il presente contributo sostiene che l'agenda economica e politica in senso stretto, concentrata quasi esclusivamente sulla riduzione delle barriere non tariffarie, reca la responsabilità della debolezza delle relazioni economiche transatlantiche. Ciò suggerisce che un impegno maggiore dei più importanti partecipanti alle relazioni economiche transatlantiche è essenziale affinché esse riescano a servire l'interesse economico di EU e USA.

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During the ideological clash of the Cold War, shared security interests dominated the relationship between the United States (US) and Europe, providing a strong and mutually beneficial bridge across the Atlantic. It was solid, well founded and supported by proficient organisational cooperation. Consequently Transatlantic Economic Relations (TER), while

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important, was overshadowed and relatively overlooked by politicians on both sides of the ocean for much of the twentieth century. It has been two decades since the Berlin Wall fell; years which have seen increasingly globalised trade and capital. More recently the banking crisis and downturn have added to this, meaning that economic issues and interests have unsurprisingly become more prominent. TER, with the European Union (EU) and the United States representing key positions, has become increasingly important as a mainstay of the relationship. Alas, the tangible results of TER are commonly assessed as being disappointing, representing the narrowest of bridges.

The New Transatlantic Agenda was signed by US President Bill Clinton, EU Commission President Jacques Santer and EU Council President Felipe Gonzales back in 1995. In doing this, political leaders from the USA and EU committed themselves to organisational cooperation in the key strategic area of «building bridges across the Atlantic» (European Union, 1995). But while this and subsequent diplomatic developments have meant that TER represents the most developed case of economic interregionalism (Hänggi, Roloff, 2006), it has also been shown to have significant deficiencies. This article argues that TER, as it currently operates, is characterised by the mutual dysfunctionality of the political agenda and its organisational structure. This article does not present an exhaustive overview of the existing debates or an historical development of the subject. Nevertheless, by placing TER in its context and considering internal and external aspects of its organisation and this relationship, it demonstrates how heretofore dysfunctional TER has the potential to provide a new, broad and mutually beneficial transatlantic bridge.

Relative to the security relationship, TER remains somewhat under-explored by academics. This article is a modest contribution towards addressing this deficit, emphasising TER's potential to become a role model that could set *de facto* interregional and global standards.

This article argues that the conventional parochial political and economic programme, which has centred almost exclusively on targeting non-tariff trade barriers, is largely responsible for the weakness of the TER bridge. This article focuses on policies and organisation to argue that better engagement with stakeholders is a fundamental requirement in addressing this concern.

The article presents the case for organisational innovation including the creation of a new secretariat which would act as part of a new permanent and tangible transatlantic economic bridge. The presentation of these ideas is also timely given the still young Obama administration in Washington and the relatively new European Commission and their shared desire to improve this vital organisational relationship.

## 1. SETTING THE TER BRIDGE IN CONTEXT

It is widely acknowledged that transatlantic relations were crucial to global stability during the Cold War (Wallace, 2001) and consequently have commanded significant academic attention. Common security interests were organized and resourced through NATO, and this bridge was the priority of both politicians and academics. Moreover, the more recent drama of the “Global War on Terrorism” (GWOT) and the divergence in US and European positions (Daalder, 2003) meant that other policy fields in which the European Union and the United State have mutual interests were overshadowed. Transatlantic economic relations is perhaps the most important such policy field. Nevertheless, relative

to the transatlantic security bridge, TER is less explored by academics and somewhat ignored by political leaders.

To some degree, this can be explained by these bridges being far from parallel. Pollack and Shaffer demonstrate that political difficulties in the areas of security and foreign policy have not been meaningfully detrimental to the volume of transatlantic trade or investment (Pollack, Shaffer, 2006). This is important in terms of building a new bridge in turbulent diplomatic times and is germane since the transatlantic economic partnership is the largest and most important in the world. The 800 million people of United States and the European Union accounted for 57 per cent of world GDP, 33 per cent of global trade in goods and 42 per cent of trade of services in 2007 (European Commission, 2008). It is a significance recognized in Washington where a Congress research report concluded that the «combined weight of these two economic superpowers means that how the US and EU manage their relationship and the difficult issues involving domestic regulations, competition policy, and foreign investment could well help determine how the rest of the world deals with similar issues» (Ahearn *et al.*, 2008). The implication here is that the frail organisation of global governance and often ineffective World Trade Organization (WTO) talks, gives the transatlantic economic bridge the potential to establish *de facto* global standards.

Historically, transatlantic economic relations emerged in the early 20<sup>th</sup> century. It came to political prominence in 1962, however, with President John F. Kennedy's Declaration of Interdependence. Kennedy argued «that the United States will be ready for a Declaration of Interdependence, [and] that [the US] will be prepared to discuss with a united Europe the ways and means of forming a concrete Atlantic partnership, a mutually beneficial partnership between the new union now emerging in Europe and the old American Union founded [...] 175 years ago» (Kennedy, 1962). Powerful as these worlds were, there was insufficient motivation to build a sturdy economic bridge and right up to 1990, those security interests characterised and dominated the transatlantic partnership.

The post cold war, 1990 Transatlantic Declaration (TD) was to be the first formal agreement in the new era of transatlantic relations. It was an optimistic statement of shared values, positing that the US and the European Union were «mindful of their common heritage and of their close historical, political, economic and cultural ties [...] recognizing that the transatlantic solidarity has been essential for the preservation of peace and freedom and for the development of free and prosperous economies as well as for the recent developments which have restored unity in Europe» (US Government, 1990). In organisational terms, the TD established ad hoc and bi-annual meetings between EU and US officials and ministers.

Such organisational developments reflected the change in transatlantic relations from security to economic interests. This change complicated the partnership, however, given that economic policy is organisationally more conflict-ridden than cold war security interests. Indeed, in terms of bridge building, the narrow focus on reducing trade barriers showed up the numerous differences in domestic regulation. It was an issue taken up by Eichengreen in 1998 who argued that, «Economic globalization in the aftermath of the cold war may be causing tariffs, capital controls, and transport costs to decline, but it is also putting firms in the United States and Europe into closer competition». He continued, «policies on one side of the Atlantic – be they central bank decisions over the interest rate, congressional and parliamentary decisions about the budget, or government decisions about competition and regulatory policy – are having

strong repercussions on the other. The scope for conflict in such an environment is considerable» (Eichengreen, 1998).

US President Bill Clinton, EU Commission President Jacques Santer and EU Council President Felipe Gonz  les were signatories to the 1995 New Transatlantic Agenda (NTA). This development put the economic relationship on an organisational footing and committed the EU and US to organized collaboration in the strategic areas of peace and stability, democracy and development around the world, responding to global challenges, the expansion of world trade and closer economic relations, and, rhetorically significant, «building bridges across the Atlantic» (European Union, 1995). This was intended to build a bridge of economic cooperation which would allow these two great trading blocs to provide global leadership. To support this ambition, a number of organisational structures were formed. Pollack describes these as «a new and novel institutional architecture linking Washington and Brussels across a wide range of issue-areas, representing the most systematic effort at genuine bilateral governance in the history of the transatlantic partnership» (Pollack, 2005). NTA, then, sat alongside intergovernmental organisation represented by the TD and generated several civil society dialogues intended to fortify Atlantic bridge-building and organisation of officials. The Post NTA transatlantic organisational structure was as follows (Pollack, 2005):

- *Intergovernmental Level*: Regular summit meetings between the US President and a delegation of EU officials (mostly the EU Commission President and the rotating Presidency of the Council of Ministers plus the High Representative for the Common Foreign and Security Policy);
- *Transgovernmental Level*: Transatlantic networks of lower-level US and EU officials working on foreign policy and especially economic issues. These networks work largely unaffected by the dynamics of transatlantic high politics;
- *Transnational Level*: Transatlantic Business Dialogue (TABD) – consisting of European and American CEOs lobbying for the liberalization of the transatlantic marketplace; Transatlantic Consumer Dialogue (TACD) – network of EU and US consumer organizations; Transatlantic Labor Dialogue (TALD) – Dialogue of trade unions (*had only a handful of meetings but has not been formally abolished*); Transatlantic Environmental Dialogue (TAED) – Dialogue of environmental stakeholders – (*ceased to exist in 2001*); Transatlantic Legislators' Dialogue (TLD) – created in 1999 as a formal response of the European Parliament and US Congress to the NTA commitments. Its main aim is to enhance the level of discourse between members of the European Parliament and the US Congress.

Organisational creations of the NTA were updated in 1998 by way of the Transatlantic Economic Partnership (TEP). This agreement sought to clarify the transatlantic economic partnership's shared agenda (European Commission, 1998) focusing efforts almost exclusively on the abolition of tariff and non-tariff barriers to trade and investment (Meyer, 2008). Such a parochial political agenda made for a particularly weak bridge and organisational ineffectiveness.

## 2. ORGANISATIONAL DYSFUNCTIONALITY

Organisations should not be created without purpose. But such a narrow transatlantic economic agenda was imbalanced against a great organisational structure which reached out to a broad stakeholder audience. That singular focus on trade liberalization and

de-regulation was to mean organisational and process dysfunctionality given that many stakeholders in the organisations saw little in the agenda to advance their interests. Some examples here the Transatlantic Labor Dialogue (TALD) which disintegrated after just a few meetings since trade unions could not see anything in the free market agenda for them to achieve (Compa, Meyer, 2010). The Transatlantic Environmental Dialogue (TED) suffered a similar fate and ceased to meet in 2001. But it was not just the obvious, the Transatlantic Business Dialogue (TABD), which might be thought to have the clearest aligned interests with the TER agenda, all but “ran aground” when it struggled to make progress in the interests of business (Pollack, 2005).

There were exceptions. Mutual Recognition Agreements (MRAs) were advanced over the 1990s. Nevertheless, Pollack and Schaffer point out that: «In the view of many participants, the “low-hanging fruit” for economic cooperation had been picked. Governments on both sides now found it difficult to move beyond symbolic agreements and rearguard efforts at conflict resolution. Enhanced cooperation among regulators had not prevented new and bitter trade disputes from arising» (Pollack, Schaffer, 2006).

The EU Commission’s 2004 *Review of the Framework for Relations between the European Union and the United States* was a response to this perceived dysfunctionality. This self-critical report demonstrated difficulties of agenda-setting and concluded that the TER tended to be burdened with too many issues in highly specific economic sectors but was unable to prioritize questions of broad strategic importance. Another criticism was the lack of political ownership and made the stark case that renewed political commitment was required at the very highest level for strategic agenda-setting to be possible (European Commission, 2004).

The report was not without influence and the most recent transatlantic economic agreement, FATEI, included some of its key recommendations at political and organisational levels. FATEI, which was adopted in April 2007, saw some movement in rationale, with the external effects of the transatlantic partnership put into focus. It argued that more intense transatlantic economic integration «will encourage other countries to adopt the transatlantic economic model of respect for property rights, openness to investment, transparency and predictability in regulation, and the value of free markets» (The White House, 2007).

While this enhancement of the partnership could be interpreted as an attempt to strengthen the bridge, the new sensitivity toward its external environment can be seen as broadly defensive given the increasing competition, from China and elsewhere. Indeed, the Congressional Research Service (CRS) put it so: «Given quite similar interests in bolstering the multilateral trading system, many analysts say that both sides could cooperate more in addressing the rising challenge posed by China» (Ahearn *et al.*, 2008). These Congressional researchers highlight the need for a new bridge, however. After all, these growing economic challenges from the China-led East and other emerging markets, means that economic interests of the EU and US – not least external – are converging. It could be that the changing external environment turns out to be what is needed to drive future transatlantic economic collaboration.

The FATEI built the most significant transatlantic organisation to date: the Transatlantic Economic Council (TEC). This institution goes some way in addressing the critiques of the Commission’s 2004 report and offers political ownership «at the highest level». European Commissioners for External Relations, Trade and Internal Market and Services, US Secretaries of the Treasury and Commerce and the US Trade Representative



are permanent members of the TEC. Furthermore, other Commissioners and US Cabinet members may take part in meetings with the approval of the co-chairs (European Commission, 2007).

The TEC's focus has been regulatory cooperation and greater integration in the areas of intellectual property rights, trade, financial markets, innovation and technology and investment (European Commission). Nevertheless, the TEC has not addressed the very reason that the outcome of TER has been so very poor and the bridge so very weak.

### 3. BUILDING A NEW BRIDGE THROUGH STAKEHOLDER ENGAGEMENT AND ORGANISATIONAL INNOVATION

The shared economic interests between the EU and US have become all the more pronounced given pressures from competition states such as China and in light of the experience of banking and economic crisis. The support for transatlantic trade and efforts to bring down trade barriers has also been good for EU and US economic development. While this process must continue, "free trade" as a political mission is insufficient given the complexity of global economic relationships. Furthermore, the parochial agenda has led to the partial disintegration of the organisational structure and has encouraged the disengagement of the broad array of stakeholders who are needed if a new transatlantic economic bridge is to be built.

As an aside, it must be recognized that this giant market is not truly "free". Countries and regions alike have long sought to "manage" their trade relationships and frequently employ tariff and non-tariff measures. For example, during the economic downturn, government made extensive use of procurement to aid domestic industry. Consequently, the TEC will never be in a position to eliminate strategic trade policies. For this reason, it should adopt a more sophisticated mission of managing the transatlantic trade relationship and address TER dysfunctionality in the process. Broadening the agenda would strengthen the transatlantic bridge by incentivising stakeholders to participate in the process that would prioritize issues of shared strategic importance.

Any broadening of the agenda would also need improvements to the organisational structure. One only has to look at industrial and labour to illustrate this need. Reinstating the Transatlantic Labor Dialogue alone will do little in itself to advance industrial and labour issues. Compa has argued that there are several issues in this area that some stakeholders would want to see addressed. These include ILO standards compliance, protection of union representation against competitive advantage and "regulatory arbitrage" of multinational firms operating on both sides of the Atlantic (Compa, Meyer, 2010). To adequately begin addressing such issues, the TALD needs to be re-engaged as a coordinating organisation, enhanced with the creation of a dedicated secretariat by way of a permanent bridge (Compa, Meyer, 2010). Labour and industrial standards would seem a logical first step in enhancing the broader economic relationship with a permanent secretariat operationalizing these issues in the organisational framework of the TEC. It would link them into existing procedures and organisations such as Congress, the European Parliament, the European Economic and Social Committee (EESC) and the International Labor Organization (ILO).

## 4. CONCLUSION

For TER to be improved and a new transatlantic bridge built requires organisational adoption of a broader political mission providing all stakeholders with relevant agendas and influence. However, it also needs a legal structure capable of supporting these ambitions. The principles outlined here would work across all policy areas of the TER agenda.

Interregionalism has a key governance role in what is an increasingly harsh, multipolar world in which existing global governance structures are weak. The transatlantic relationship is the most advanced in interregional link in the world. Its strategic importance means that politicians cannot ignore its historic failures which can be blamed on its all too narrow agenda. So far the economic bridge has been weak but it cannot now be allowed to crumble. Widening the themes and organisation of this relationship is key to building this new and long-lasting bridge; creating the political ownership needed for transatlantic economic cooperation to be effective.

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