



## **Still in command? The Transatlantic Economy After the Crisis**

**Presentation at Brookings, 25 October 2009  
Jean Pisani-Ferry**

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### **The vanishing link?**

**"The US and the EU are the world's only economic superpowers »  
and they should form a « G2 caucus » which would function as  
an informal steering committee to manage their own economic  
relationship and to provide leadership for the world economy"**

**(Bergsten and Koch-Weser, 2003)**

**" The United States will need to further develop and nurture  
special ("G2") relationships in at least four directions: with the  
EU, with China, with Japan and with Saudi Arabia "**

**(Bergsten, 2005)**

**"[China is] a new economic superpower, along with the United  
State and the European Union (which, however, speaks with a  
single voice on only a few issues and thus cannot form a G3  
with the other two)"**

**(Bergsten, 2009)**

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## A paradox

- **Crisis has highlighted the key significance of the Transatlantic Economy (TE)**
  - Strength of bilateral integration
  - No growth decoupling in RoW
- **Yet it has resulted in the upgrading of the G20 and the demise of the very transatlantic G7**
- **And there is growing excitement about the emergence of US-China G2**

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## Questions

- **Have the roles of the US and/or Europe changed fundamentally in the post-crisis world economy?**
- **Is there room for a special Transatlantic economic relationship?**
- **Is there in fact something essential in it beyond history?**
- **If there a natural Transatlantic agenda for the future?**

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## Outline

1. Facts
2. The agenda
3. Conditions for effectiveness
4. Conclusions

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## 1. Facts

**“The transatlantic market is a 27-trillion economy with 800 million consumers. Europe and the United states account for roughly half of total global trade. And commerce across the Atlantic in goods alone exceeds \$600bn”**

**(Stokes and Paemen, 2009)**

**“ Bilateral trade between the EU and US amounts to over \$1 billion a day; investment links are even more substantial, totaling over \$1.8 trillion a year. Each partner creates jobs for about 6 million workers on each side of the Atlantic, and EU-US trade accounts for almost 40% of world trade”**

**(EU delegation website)**

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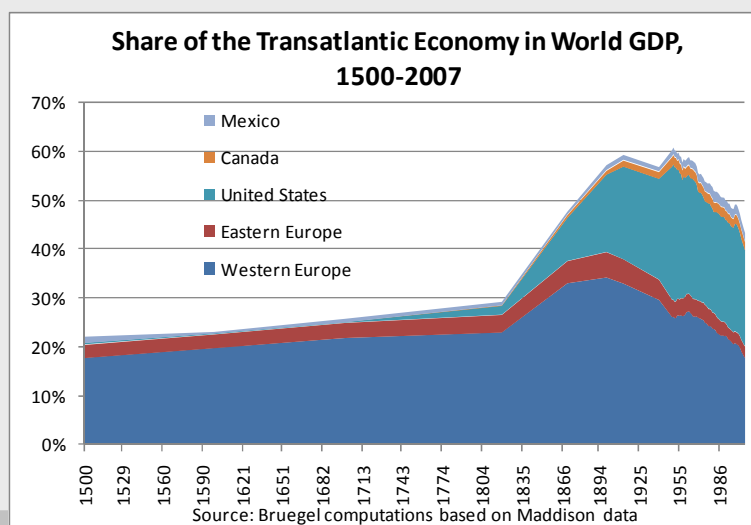
## But lingering uncertainty – already present pre-crisis

- **How big is the Transatlantic Economy?**
  - Is it already too small to matter?
- **How integrated?**
  - Anything special beyond normal economic linkages
- **How relevant?**
  - For dealing with major global issues

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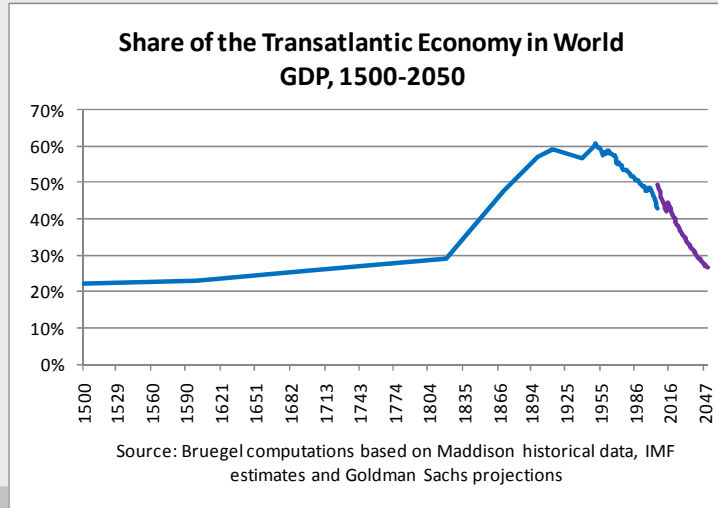
## How big? Rise and decline of the Transatlantic Economy



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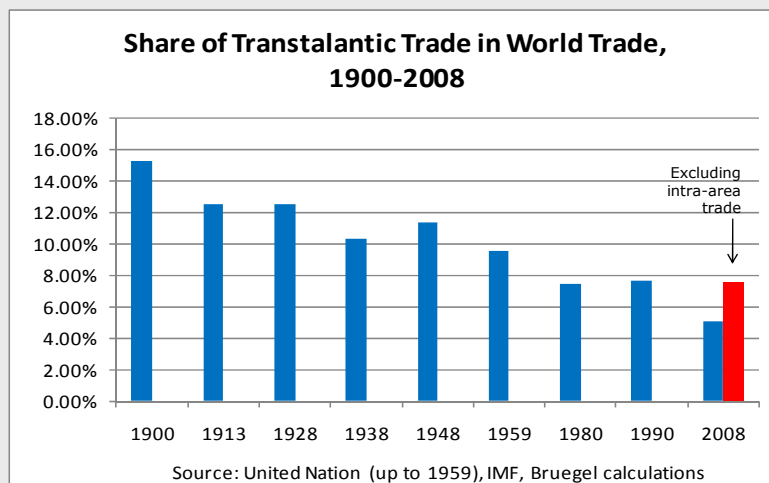
### By 2050 TE's share will be back to pre-industrial revolution level



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### How integrated? A shrinking share of world trade



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## East Asia has become each region's main trade partner

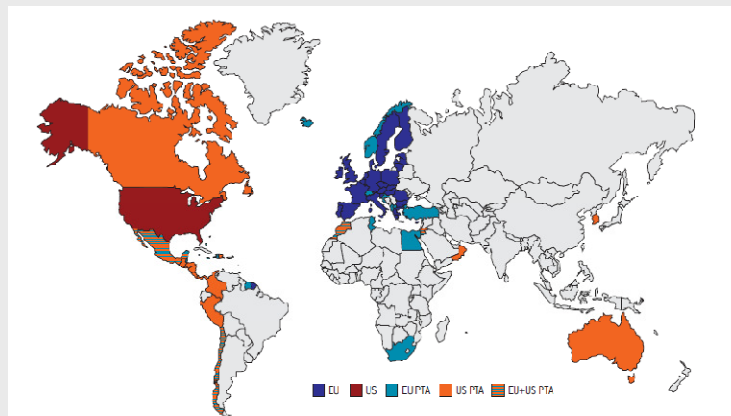
Share of trade with main partners in the region's GDP			
Trading partner	East Asia	Europe	North America
Region			
		1980	
East Asia	X	3.9	6.7
Europe	1.7	X	3.8
North America	3.1	4.2	X
		1988	
East Asia	X	4.0	6.5
Europe	2.6	X	3.7
North America	4.1	3.8	X
		1998	
East Asia	X	5.4	7.9
Europe	3.4	X	4.5
North America	4.8	4.1	X
		2008	
East Asia	X	8.2	8.9
Europe	5.2	X	4.3
North America	6.4	5.0	X

Source: DOTS, Bruegel calculations

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## Regionalism is on the rise

US and EU Preferential Trade Agreements (2008)



Source: Horn, Mavroidis and Sapir (2009) 12



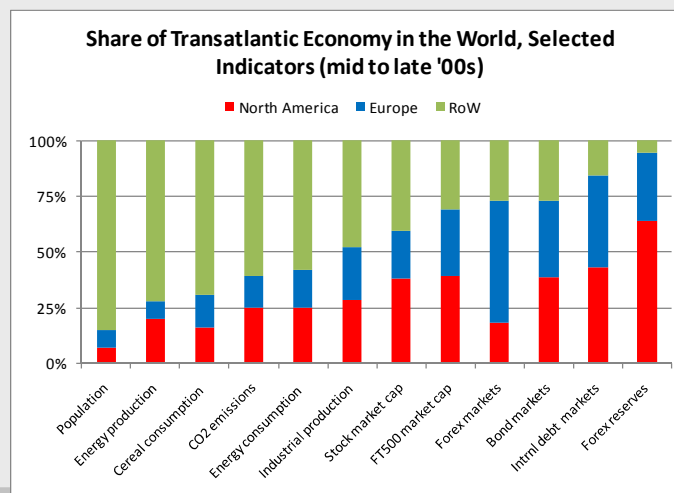
## Where it matters

1. Relative size of TE varies considerably depending on indicator. Share in the world can be as low as 25% and as large as 90%
2. There is nothing special about trade integration, but financial links through FDI and portfolio investment are exceptionally strong

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## Degrees of smallness: where the TE does not matter much and where it does



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## Strong Transatlantic financial links

Bilateral cross-border assets and liabilities as a percentage of the regions' GDP

Region	Partners		
	East-Asia	Europe	North-America
1996			
East-Asia		22%	29%
Europe	21%		51%
North-America	23%	64%	
2004			
East-Asia		43%	57%
Europe	26%		89%
North-America	30%	102%	

Source: Cohen-Setton and Pisani-Ferry (2008) 15



## Summing up

- **Very uneven landscape**
- **US – EU either:**
  - **Players:**
    - energy, climate, food, trade, increasingly macro
  - **Near-monopolists:**
    - market regulation, currencies
- **Question: what does this imply?**

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## 2. The agenda

### A benchmark agenda:

#### ▪ Competitive fields

- Interaction within multilateral framework
- Cooperation depending on preferences and interests
- History matters: A 'founding fathers' role akin France and Germany in the EU?

#### ▪ Monopoly fields

- Co-responsibility for providing global public goods (set the rules of global economy, supply global currencies)
- Open source approach – do not abuse monopoly power but engage other players so that they develop ownership in the rules

#### ▪ Use this benchmark agenda to assess achievements

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## Europe and the US as players: trade

### ▪ Times when a EU-US deal was key to a multilateral agreement have gone

- Cancun 2003 demonstrated that EU-US deal was no sufficient condition
- EU-US watered-down agenda ('Singapore issues') was put aside by emerging and developing countries
- Since Cancun old 'quad' (EU-US-Japan-Canada) has been replaced by new quintet (EU-US-Brazil-India-China)

### ▪ A new landscape

- EU and US interact within multilateral framework, have different sectoral interests and allies
- In best of cases they serve as caucus for reaching agreement

### ▪ An ordinary economic relationship

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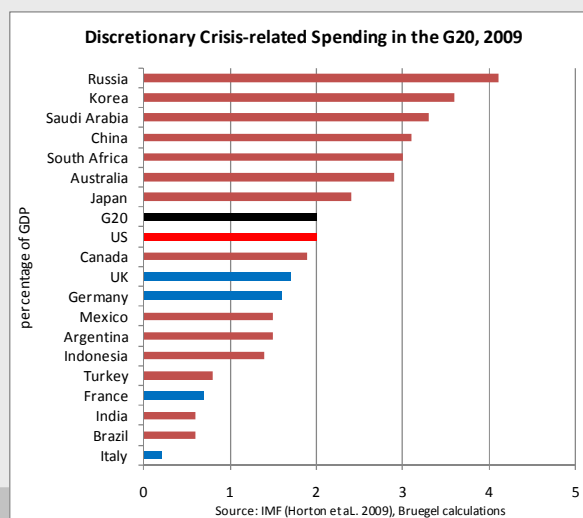
## Europe and the US as players: macro

- **Traditional G7 leadership:**
  - Discretionary macro impulses by G7 countries (possibly coordinated), with RoW essentially passive or reactive
  - G7 (mainly US and European G7 countries) serves as steering group for initiatives by Bretton Woods institutions
  - Internal ineffectiveness and external effectiveness
- **Crisis has changed all that**
  - Macro response was coordinated at G20 level
  - Emerging G20 members have delivered stronger discretionary stimulus than developed countries
  - G20 designated 'premier forum for international cooperation'

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## Discretionary stimulus spending: Emerging countries have done more than US-Europe



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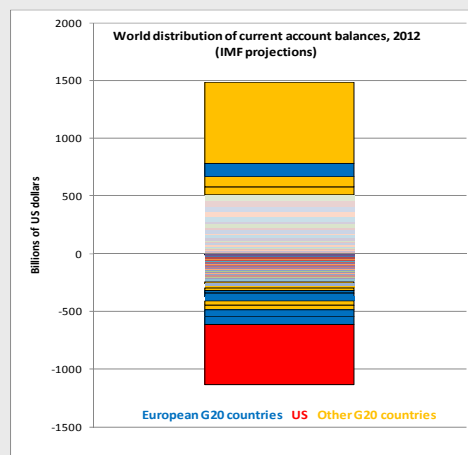
## A new conversation: What US-Europe interaction?

- **Major macro questions now addressed at G20 level**
  - Global demand
  - Imbalances
- **No reason for special Transatlantic dimension**
- **On the contrary, according to G20 framework,**
  - G-20 members with external deficits 'pledge to support private savings and undertake fiscal consolidation'
  - G-20 members with external surpluses 'pledge to strengthen domestic sources of growth'
- **Does it apply to EU/euro area or to individual countries?**
- **G20 aims at doing what neither G7 nor EU/euro area have been able to achieve**

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## Europe is not a significant player in discussions on imbalances, but some European countries are



Source: Bruegel calculations based on IMF WEO projections 22



## Europe and the US as monopolists: market regulation

- **The US and Europe are “the regulators of the world” (Sapir, 2007) because of**
  - Market size (TE = 60% to 65% of global demand in the 2000s)
  - Sophistication
- **Evidence of ‘race to the top’ as compliance with higher standards often amounts to fixed cost**
- **Applies to:**
  - Technical standards (product safety, etc..)
  - Financial reporting and accounting
  - Intellectual property rights
  - Competition (extraterritorial effects of competition decisions)

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## The bilateral agenda in context

### Many projects

- 1960s: Project for *North-Atlantic Free Trade Area (NAFTA)*
- 1990s: Project for *Transatlantic Free Trade Area (TAFTA)*
- 1995: *New Transatlantic Agenda (NTA)*
- 1998: *Transatlantic Economic Partnership (TEP)*
- 2002: *Positive Economic Agenda*
- 2007: *Transatlantic Economic Integration Framework* and creation of the *Transatlantic Economic Council*

### Few achievements

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## Why so few results?

- **Too much emphasis on bilateral trade initially**
- **TEC a recognition that joint role as standard-setters is more important, but**

*« In general, the US and the EU are continuing to make incremental progress.*

*However, the TEC also acknowledged that progress to date in resolving some key issues has been inadequate »*

(TEC, Progress report, December 2008)

- **'Lighthouse projects' have not produced much light**
- **Lost in details? Lack of ownership?**

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## Mixed record overall

- **Pre-crisis, slow convergence of standards and rules**
  - Emergence of Europe as major competition pole
  - Slow progress on technical standards
  - US hesitation to take part in IFRS "Global Accounting Experiment"
  - Uneven harmonisation of bank capital standards
  - Lingering fragmentation of patent protection
- **US complaints against EU pretention to become "the world regulator"**

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## What the crisis has changed

- **Drafting of emerging countries into rules-setting (G20/FSB)**
  - New rules for global finance are being written with their participation
  - But leadership clearly belongs to US and EU
  - Question however: Should the rules be made for Tatas or for Ferraris (Andrew Sheng)?
- **Challenges to previous achievements**
  - Future of global accounting standards uncertain

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## Europe and the US as monopolists: currencies

- **International currencies as natural monopolies (network effects – as for language)**
- **Historically one international currency, but sometimes two (transition to Sterling to dollar)**
- **In the long run world may move to multi-currency system**
- **Global role of the euro as stepping stone**
- **Healthy competition to the US dollar? (Bergsten/Summers)**

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## State of play

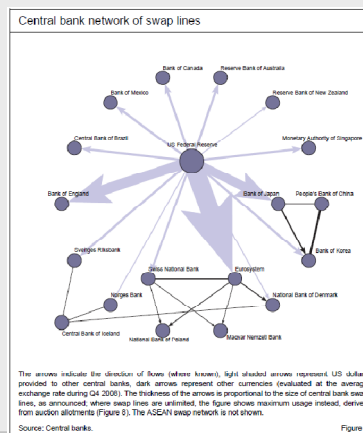
- **US dollar only global currency so far, euro is a *regional* currency**
- **Major success in Europe, but no indication of wider role across a range of indicators (exchange rate policies, reserves, invoicing, financial instruments)**
- **Incumbency advantage but also self-imposed limitations:**
  - Growth
  - Governance (especially crisis management)
  - Financial integration
  - Reluctance to internationalisation

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## Impact of the crisis

- **Has highlighted the pivotal role of the dollar (swap agreements in response of dollar shortage)**
- **And at the same time has demonstrated quality of cooperation among central banks and has revived calls for alternatives**



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## Questions on the euro

- Gestation period of monetary arrangements 'twice as long as that of an elephant' (Acheson)
- Room for serious discussions between US and EU on future monetary arrangements and shorter-term perspectives of the euro
- Best not leave the discussion be driven by immediate concerns over exchange rates
- Discussions need to involve other players (China), but only alternative to USD in the short term is the euro

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## Summing up

- Towards 'ordinary' relationship in trade (done), macro (ongoing)
- Scope for 'special' relationship on regulation, currencies
- Need to involve other players as achievements will only be durable if they develop ownership: 'open source' approach to rules-setting

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### 3. Conditions for effectiveness

- **Conclusions from previous analysis:**

- Transatlantic partnership has lost relevance in fields where emerging countries have become major players
- But there is still an 'indispensable duo' in fields where US and Europe enjoy near-monopoly positions
- Jointly, ability to:
  - Shape tomorrow's world economy
  - Elicit wider ownership in the rules of the game, as US did in the aftermath of WW2

- **Questions:**

- Is the US willing to do it?
- **Is Europe able to do it?**

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### Europe's dream

*"Globalisation is increasingly shaping our lives by fostering the exchange of peoples, goods, services and ideas and by offering new opportunities to citizens and business. Greater trade flows and economic growth have increased prosperity, transforming the lifestyles of Europe's citizens and lifting millions worldwide out of poverty. But globalisation also confronts us with new economic, social, environmental, energy and security challenges. **We aim at shaping globalisation in the interests of all our citizens, based on our common values and principles.** For this even the enlarged Union cannot act alone."*

*European Council (2007)*

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## Can the EU deliver?

- **EU difficulties in external economic relations mainly reflect internal governance issues (fragmented competence, ineffective decision mechanisms)**
- **Not the case for**
  - Market regulation (mostly derived from Single Market competence, so assigned to EU level)
  - Currency (for the euro area)
- **Less risk of 'fragmented power syndrome' than in other fields**

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## Questions: regulation

- **Is Europe still capable of major regulatory initiatives?**
  - Limited leadership in responding to financial crisis, beyond high profile posturing and reshuffling of financial supervision
  - Lack of impetus for further EU integration an hindrance
- **Since crisis G20 has become the agenda-setting institution for financial regulation, FSF/FSB has become implementing institution**
- **Is the EU at risk of being bypassed?**

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## Questions: currencies

- **International role of the euro not an issue for the ECB alone**
- **Involves**
  - Strengthening of non-monetary governance (financial markets, macro policies, crisis management)
  - Strategic choice that belong to governments

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## Conclusion

- **Transatlantic link more a European than a US obsession (fear of demise)**
- **Post crisis – incumbency privileges eroded if not gone**
- **Whatever happens, US and Europe will remain large players within global multilateral / multipolar context, transatlantic leg will remain important**
- **Question is whether there is a specific agenda for it in the next 20 years or so**
- **Transatlantic relationship will thrive if focuses on agenda where it is genuinely unique and if adopts 'open source' approach**

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## Thank You For Your Attention

[jean.pisani-ferry@bruegel.org](mailto:jean.pisani-ferry@bruegel.org)

[www.bruegel.org](http://www.bruegel.org)

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