Chapter One

The North Atlantic Marketplace

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For decades the partnership between North America and Europe has been a steady anchor in a world of rapid change. Today, however, the transatlantic partnership itself has become unsettled and unpredictable. Nowhere is this clearer than in the economic sphere.

The cohesion and strength of the transatlantic economic relationship is being tested by the rise of protectionist impulses on each side of the Atlantic, debates over trade deficits and security burden-sharing, differences over sanctions imposed on Iran and on Russia, and different responses to climate change. Such differences are exacerbated by European apprehension about the Trump Administration's calls for "Buy American, Hire American" provisions, its challenges to the World Trade Organization (WTO), and its imposition of tariffs on steel and aluminum imports, which prompted the European Union (EU) to impose retaliatory tariffs on U.S. goods in a tit-for-tit trade spat. U.S officials and legislators, in turn, are looking carefully at European voices calling for rejection of the U.S.-EU Privacy Shield governing data flows across the Atlantic, new taxes and fines levied on U.S. companies, and new regulations on the digital economy. Meanwhile, Europeans and Americans alike are still sorting out the implications of the United Kingdom's decision to leave the EU. They are also concerned that Turkey, their ally for the past six decades, may be slipping its Western moorings.

For the foreseeable future the transatlantic economic relationship is likely to be marked by continuing uncertainty and could be punctuated by episodes of sudden crisis. This state of division and mutual inwardness threatens the prosperity and ultimately the position of North America and Europe in the global economy and the broader global security system.

What Remains

Previous efforts to harness the potential of the North Atlantic economy have foundered for a variety of reasons. Nonetheless, the strategic case for an upgraded and updated transatlantic economic partnership is more compelling than ever.

Despite all the hype about rising powers and emerging markets, Europe—including countries inside and outside the EU—remains the most important and profitable commercial market in the world for the United States and the major geo-economic base for U.S. companies. Europe remains America's largest trading partner, greatest source of foreign investment, and largest source of onshored jobs. The $5.5 trillion transatlantic economy is the largest and wealthiest market in the world, accounting for over 35% of world GDP in terms of purchasing power. It is the fulcrum of the global economy, home to the largest skilled labor force in the world, and generates 15 million jobs on both sides of the Atlantic.[1] Europe and America remain each other's most important strategic partner, and are still a potent force globally —when they work in concert.

Every day roughly $3 billion in goods and services crosses the Atlantic, representing about one-third of total global trade in goods and more than 40% of world trade in services. Ties are particularly thick in foreign direct investment, portfolio investment, banking claims, trade and affiliate sales in goods and services, mutual investment in research and development (R&D), patent cooperation, technology flows and sales of knowledge-intensive and digitally-enabled services. Together the United States and Europe accounted for 64% of the outward stock and 56% of the inward stock of global foreign direct investment (FDI) in 2016. Moreover, each partner has built up the great majority of that stock in the other's economy. Mutual investment in the North Atlantic space is very large, dwarfs trade and has become essential to U.S. and European jobs and prosperity.

European companies are the major global investors in the future of the U.S. economy. In 2017 European firms accounted for 54% of the $311 billion invested in the United States from abroad. Total assets of European companies operating in the United States of roughly $8.2 trillion in 2016 accounted for 60% of total foreign assets in the United States. Total Euro-

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[1] Data in this section are drawn from Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2018* (Washington, DC: Center for Transatlantic Relations, 2018), available at http://transatlanticrelations.org/publication/transatlantic-economy-2018/; and Daniel S. Hamilton, *The Transatlantic Digital Economy 2017* (Washington, DC: Center for Transatlantic Relations, 2017), available at https://transatlanticrelations.org/publication/transatlantic-digital-economy-2017/.

pean stock in the United States of $2.6 trillion in 2016 was more than four times the level of comparable investment from Asia.

Europe's sizable presence reflects the strategy of European firms to produce and sell products and services from inside the world's largest and most dynamic market. In general, the presence of European affiliates in many states and communities across the United States has helped to improve America's job picture. The more European firms embed in local communities around the nation, the more they tend to generate jobs and income for U.S. workers, greater sales for local suppliers and businesses, extra revenues for local communities, and more capital investment and R&D expenditures for the United States.

Deep investment ties with Europe have also boosted U.S. trade, notably exports. A good share of U.S. manufacturing and services exports to the world are generated by European companies operating in the United States. In 2015 European companies operating in the United States accounted for 52% of U.S. exports shipped abroad by non-U.S. companies. The more European companies invest in American communities, the higher the number of jobs for U.S. workers and the greater U.S. exports.

In addition, Europe, not China, is America's largest trading partner and market for U.S. exports. 45 of the 50 U.S. states exported more to Europe than to China in 2016. Goods exports from California to Europe were double those to China; New York exports to Europe were more than nine times those to China. Exports from Texas to Europe were three times larger than exports to China.

These figures, significant as they are, actually underestimate Europe's importance as an export destination for U.S. states because they do not include U.S. exports of services. Europe is by far the most important market in the world for U.S. services. This is an additional source of jobs and incomes for U.S. workers, since most U.S. jobs are tied to services. When one adds services exports to goods exports, the European market becomes even more important for individual U.S. states.

American companies, in turn, are by far the most important global investors in the future of the European economy. In 2017 Europe accounted for 64%, whereas the entire Asia-Pacific region accounted for just 16%, of all foreign direct investments made by U.S. firms. The output of U.S. companies operating in Europe of $686 billion in 2015 was double the output of U.S. companies operating throughout all of Asia ($335 billion). Sales of U.S. companies operating in Europe in 2015 were twothirds larger than the sales of U.S. companies operating in the entire Asian region. America's asset base in Germany ($794 billion in 2015) was roughly a quarter larger than its asset base in all of South America and double its assets in China. America's asset base in Poland, the Czech Republic and Hungary (roughly $164 billion) was much larger than corporate America's assets in India ($131 billion). America's assets in Ireland ($1.4 trillion in 2014) and Switzerland ($835 billion) were each larger than those in China ($392 billion).

U.S. companies operating in Europe generate a good share of European manufacturing and service exports to the world. Of the top twenty global export platforms for U.S. companies in the world, eleven are located in Europe, a trend that reflects the intense trade and investment linkages that bind the two sides of the North Atlantic.[2] U.S. companies operating in the UK exported more to the other members of the European Union than U.S. companies operating in China exported to the entire world. U.S. company affiliates export 4.6 times more to the world from Ireland than from China and about 3.7 times more than from Mexico, despite strong NAFTA linkages between the United States and Mexico.

Europe and the United States are also the major investor in each other's innovation economies. Bilateral U.S.-EU flows in R&D are the most intense between any two international partners. In 2015 U.S. affiliates invested $31 billion in research and development in Europe, a record annual total, representing 57% of total global R&D expenditures by U.S. foreign affiliates. R&D spending by European companies based in the United States totaled $41 billion, representing 72% of all total foreign R&D spending in United States.

The Trump Administration is concerned about an imbalance between sluggish U.S. exports and rising U.S. imports. A closer look at transatlantic dynamics, however, shows a more balanced picture than is commonly portrayed by politicians and the media.

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[2] U.S. FDI flows to Europe over the past few years have been driven in part by holding companies. The countries attracting the most investment of holding companies, not surprisingly, are those with some of the lowest corporate tax rates in Europe — Luxembourg, the Netherlands, the UK and Ireland. This has led some to argue that U.S. investment in Europe is primarily related to "gaming the system" via tax loopholes and other mechanisms. But when flows from holding companies are removed from the aggregate, Europe still accounted for over 46% of total U.S. FDI outflows between 2009 and 2015. Europe's share was still more than double the share to Asia, underscoring the deep and integrated linkages between the United States and Europe. See Hamilton and Quinlan, op. cit.

The U.S. merchandise trade deficit with the EU in 2017 was $146 billion, but this was $9 billion (6%) less than in 2015, and the goods deficit continues to narrow. The U.S. deficit with China was more than double the U.S. deficit with the EU.

Moreover, a narrow focus on goods trade ignores the fact that the United States has trade surpluses with Germany and with the EU as a whole when it comes to overall services and to digitally-enabled services. The U.S. registered a $67 billion trade surplus in services and a $74 billion trade surplus in digitally-enabled services in 2016. Digitally-enabled services accounted for 64% of the overall U.S. trade surplus in services.

Inordinate attention to goods trade also ignores the positive job and export effects generated by European investments and sales within the United States. The $2.4 trillion in sales made by European companies based in the United States in 2016, for instance, was more than triple U.S. imports from Europe. Those are home-grown U.S. sales that employ American workers, generate U.S. exports, and stimulate growth in the U.S. economy.

The Turkish-U.S. commercial relationship is part of this broader picture. U.S. companies based in Turkey directly provided for 48,552 jobs in 2016. Taking account of trade-related jobs and indirect employment, I estimate that over 100,000 jobs in Turkey are related to healthy commerce with the United States. The U.S. invested $3.1 billion in Turkey in 2016, and exported $9.4 billion in goods, compared to Turkish goods exports to the United States of $8 billion. The U.S. also exported $3.1 billion in services to Turkey, compared to $1.9 billion in Turkish services exports to the United States.

Taken together, these metrics underscore the importance of healthy transatlantic commerce to U.S. and European jobs, innovation and growth. In the end, the United States and Europe each owe a good part of their competitive position in manufacturing and services globally to deep transatlantic connections in manufacturing and services industries, which have been generated by dense links among trade, investment, and digital flows. The bottom line: the North Atlantic partnership is not only too big and too important to fail, it has considerable potential to grow. Unemployment levels are falling, economies are expanding, and consumer and business confidence is rising on both sides of the pond.

Nonetheless, neither side of the Atlantic can afford to be complacent. Each must address popular anxieties about economic change even as it repositions its economy for a world of more diffuse power, swift and often disruptive technological innovation, billions of new workers and consumers, and intensified global competition.

Dynamic Forces

As decision makers consider the future contours of North Atlantic economic relations, they would do well to take account of a number of factors that are redefining the nature of globalization and the position of North America and Europe in the global economy. The diffusion of global power and intensified global competition, together with the digital revolution and the changing nature of global production, are integrating the American and European economies even more tightly with many other parts of the world. But these integrative forces have generated challenges to prevailing global trade rules and sparked a domestic backlash on both sides of the Atlantic when it comes to weighing the relative gains and pains of globalization.

Diffusion of global power and intensified global competition

As emerging markets have risen, the share of global trade accounted for by the EU and the United States has fallen. China is set to overtake both soon to become the single most important trading power in the world. The United States remains by far the largest single bilateral export market for the EU, but its share in overall EU exports has fallen from about 27% to less than 20%, whereas that of China has almost doubled over the last few years. On the import side, the United States ranks now only third for the EU. The dominant role of Western countries in the multilateral financial institutions that have provided global capital appears to be receding as new financial institutions emerge, such as the China-backed Asian Infrastructure Investment Bank and the New Development Bank.

The addition of four billion people to the globalized economy, the rise of other powers, the growing role of state-owned enterprises, sovereign wealth funds and direct government support of domestic industries, together with recent Western economic turmoil, signal that the window of opportunity may be closing on the ability of the United States and Europe to maintain, let alone advance, key Free World norms — unless they act more effectively together.

The changing nature of production

Across the Atlantic and around the world, production networks have fragmented into value chains of regional and global reach that have changed transatlantic and global flows of trade and investment. Today, firms increasingly divide their operations across regions or around the world to take advantage of locations where particular tasks can be completed best, whether those tasks are research and design, production of components, assembly or marketing. These extended value chains render a country's exports essentially the product of many intermediate imports assembled in many other countries. Fully 70% of global trade today is related to such value chains.[3]

This growing process of international fragmentation is changing traditional understandings of the patterns and structure of international trade. Traditional measures do not show how supply is driven by the final customer or reveal where the creation of value-added occurs, in terms of wages and profits. They also underplay the role of services in overall trade.[4] The OECD and the WTO have now created tools that are transforming our understanding of trade flows by revealing what was hidden before. This "value-added" approach tracks the direct and indirect flows of value-added associated with international trade. It shows where value is actually created. Their findings lead to some surprising conclusions that reinforce our understanding of the dense binding forces of transatlantic integration.

Global value chains are revolutionizing trade in both goods and services, with important implications for the conduct and priorities of trade negotiators and for our understanding of the transatlantic economy.[5] U.S. and EU manufacturers alike have taken advantage of such complicated value-added production chains to remain competitive and to be able to export their goods and services globally. Under a value-added lens, U.S. commercial ties with Germany, France, the UK, Italy and many other European

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3 Bernard Hoekman and Charles Sabel, "Trade Agreements, Regulatory Sovereignty and Democratic Legitimacy," Robert Schuman Centre for Advanced Studies Research Paper No. RSCAS 2017/36, July 28, 2017, p. 19, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3009620; Richard Baldwin, *The Great Convergence* (Cambridge, MA: Harvard University Press, 2016).

4 http://www.wto.org/english/res_e/statis_e/miwi_e/tradedataday13_e/paul_schreyer_e.pdf.

5 Launch of the OECD-WTO Database on Trade in Value-Added. Introductory remarks by Angel Gurría, OECD Secretary-General, Paris, January 16, 2013, http://www.oecd.org/about/secretary-general/launchoftheoecd-wtodatabaseontradeinvalue-added.htm.

economies are larger and more lucrative than they appear to be when measured in more traditional—and largely outdated — ways.

Within Europe, not only have U.S. and EU manufacturers extended their value chains to take advantage of the enlargement of the EU Single Market to encompass new EU member states, they have extended those value chains to countries that are European but not members of the EU, such as Turkey, Switzerland, Norway—and soon, the United Kingdom. One result is that direct and indirect value-added exports by the EU to non-EU Europe exceed those to the United States.[6]

In short, a value chain map underscores how important it is to view the North Atlantic economy as broader than the bilateral links between the United States and the European Union. As the UK leaves the EU, as Turkey faces important changes, and as value chains increase in importance, Americans and Europeans alike have a vital stake in ensuring that each point in the transatlantic triangle—North America-EU, North America-non-EU/Europe, and EU-non-EU Europe — is strong and sturdy.[7]

The digital revolution

Digital information, services and products, and the ecosystems that supports them, have become the backbone of the modern global economy. They are transforming how we live, work, play, travel, interact, and do everything in between. They are changing how business is done, who is involved, and where economic benefits flow. According to McKinsey, these global data flows now contribute more to global growth than global trade in goods.[8]

Despite these incredible transformations, we're still in what Scott Cook of Intuit calls "the first minutes of the first day" of the digital revolution.[9] The Internet of Things, 5G technologies, big data analytics, quantum

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[6] See the data compiled by Michael A. Landesmann, "European Cross-Border Networks, Transatlantic Trade and EU Global Relations," available at http://transatlanticrelations.org.

[7] Data presented here are drawn from the joint OECD/WTO Database on Trade in Value-Added. See http://www.oecd.org/sti/industryandglobalisation/TiVA%20Germany.pdf.

[8] Business Coalition for Transatlantic Trade, http://www.transatlantictrade.org/issues/digital-trade/; James Manyika, Susan Lund, Jacques Bughin, Jonathan Woetzel, Kalin Stamenov, and Dhruv Dhringra, *Digital Globalization: The New Era of Global Flows*, McKinsey Global Institute, March 2016.

[9] Cited in Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2015— 2020, February 3, 2016, http://www.cisco.com/c/en/us/solutions/collateral/service-provider/visual-networking-index-vni/mobile-whitepaper-c11-520862.pdf.

computing, energy storage, precision agriculture, aquaponics, artificial intelligence and other innovations will further accelerate digital growth around the world.

The good news for the transatlantic economy is that digital connections are ''thickest'' between the continents of Europe and North America. When it comes to the digital economy, the United States and Europe are each other's most important customers and each other's most important suppliers. Digitally-enabled services have become critical to the competitiveness of manufacturing and retail operations on each side of the Atlantic.[10]

In short, digitization and digital links across the Atlantic are becoming critical to both U.S. and European economic health. The digital transformation is becoming the single most important means by which both sides of the Atlantic can reinforce their bonds and position themselves for a world of more diffuse power and intensified competition. The digital economy is both strengthening the transatlantic economy and transforming it. It is lowering marginal production and distribution costs, reducing the cost of participating in cross-border trade, helping to match supply and demand in real time, sparking innovation, and offering customers more choices at lower prices. It is expanding the potential of many jobs and creating new jobs that were once unimaginable.

At the same time, the potential of the transatlantic digital economy is also held back by basic U.S.-EU differences on a range of issues, including privacy and personal data, rules regarding hate speech and fake news, and intellectual property protection. Digitization is confronting societies on each side of the Atlantic with a host of legal, economic, societal and normative questions. Perhaps the most significant—and common—challenge facing the U.S. and Europe in this regard is the potential impact of the digital economy on jobs and the nature of work, a challenge that is accentuated by widening skills gaps and concerns about growing income disparities.

Moving Forward

These reflections offer some guidance and orientation going forward.

The facts tell us that the transatlantic economy remains central to the economic health of each side of the Atlantic, but that its full potential has

[10] Data in this section drawn from Hamilton, op. cit.

yet to be realized. Key trends such as the changing nature of production, the galloping pace of the digital economy, and the rise of other competitors who may challenge basic principles underlying U.S. and European participation in the global economy all reinforce the need for strong transatlantic ties. Yet to be successful, future efforts to draw the United States and Europe closer together economically must take account of past missteps while addressing popular anxieties about the benefits of trade and globalization.

Faced with these fundamental global changes and centrifugal domestic forces, the transatlantic partnership simply must be more effective in generating economic opportunity and confidence at home while engaging rising powers in ways that strengthen and extend basic norms and principles guiding the international system.

Any transatlantic initiative should meet some basic tests. Will it generate jobs and growth? Does it respond to popular anxieties, or is it likely to exacerbate them? Does it assuage concerns about loss of sovereignty, or does it enhance them? Does it take account of the opportunities and challenges posed by the digital economy? Does it take account of the changing nature of Europe beyond the EU and of the growing importance of value chains across the entire North Atlantic space? Will it position each side of the Atlantic for a world of more diffuse power, swift technological changes, billions of new workers and consumers, and intensified global competition?

One option is to keep transatlantic negotiations in the deep freeze and to concentrate efforts on damage limitation so that disputes do not escalate. This approach would simply recognize that for the foreseeable future the obstacles are too high, and the incentives too low, for either side of the Atlantic to invest much political capital in any major transatlantic economic initiative. Small single-issue deals might emerge, but nothing substantial.

Given current tensions, this is likely to be the default scenario for the relationship going forward. Yet a do-nothing approach will not freeze the issues, it will allow them to fester. The result is likely to be a downward spiral of mutual recrimination. It will be worse than drift; it will mean growing protectionism, U.S.-EU rivalry in third markets, and the triumph of lowest-common-denominator standards for the health, safety and welfare of Americans and Europeans alike. Standing still means losing ground. Unfortunately, in today's political climate, the deep freeze—and the contentious and acrimonious relationship likely to accompany it — is a realistic scenario. But it is the road to nowhere.

The United States and the EU could choose a middle path between the Deep Freeze and ambitious negotiations. Under this path, the two parties would abandon efforts to strike a comprehensive TTIP deal in favor of "cherry picking" wins on issues where both sides were already close to agreement within the TTIP framework, or on other issues where agreement seems high and opposition low. Moving forward in these areas, even without a comprehensive deal, would generate positive momentum. Critics may charge that the prospect of such agreements between the Trump Administration and the EU would be low. Yet within recent months the two parties have already shown they can strike such deals, most recently on drug regulations and on insurance.[11]

There is much that could be achieved along the cherry-picking road. But unless there is high-profile will to compromise and construct more meaningful arrangements, low-profile sectoral arrangements are unlikely to do much to boost jobs and economic growth, or to reposition the transatlantic economic relationship for the challenges of the future global economy. A low-profile exercise would be unlikely to mitigate higher-profile U.S.-EU disputes over tariffs, privacy issues or tax rules. The cherry-picking path also fails to take account of Brexit or the dense connections the United States and the EU have with Turkey, Switzerland, Norway and other countries in the wider North Atlantic space.

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[11] See Peter Chase & Jacques Pelkmans, "This Time It's Different: Turbo-Charging Regulatory Cooperation," in Daniel S. Hamilton and Jacques Pelkmans, eds., *Rule-Makers or Rule-Takers? Exploring the Transatlantic Trade and Investment Partnership* (Washington, DC/Brussels: Center for Transatlantic Relations/Centre for European Policy Studies, 2015); Lincoln Tsang Daniel A. Kracov, "Impact of the EU-US Mutual Recognition Agreement on Pharmaceutical Product Inspections," Arnold & Porter, Kaye Scholer, March 2017, https://www.apks.com/en/perspectives/publications/2017/03/impact-of-the-eu-us-mra-for-gmps; Zachary Brennan, "US and EU Forge Landmark Agreement to Mutually Recognize Drug Manufacturing Inspections," Regulatory Affairs Professional Society, March 2, 2017, http://www.raps.org/Regulatory-Focus/News/2017/03/02/27001/US-and-EU-Forge-Landmark-Agreement-to-Mutually-Recognize-Drug-Manufacturing-Inspections/; European Commission, Decision No 1/2017 of the Joint Committee established under Article 14 of the Agreement on Mutual Recognition between the European Community and the United States of America, of 1 March 2017 amending the Sectoral Annex for Pharmaceutical Good Manufacturing Practices (GMPs) http://trade.ec.europa.eu/doclib/docs/2017/february/tradoc_155398.pdf; "U.S. and EU Covered Agreement," U.S. Department of the Treasury, September 22, 2017, https://www.treasury.gov/initiatives/fio/Pages/EU_Covered_Agreement.aspx.

A third pathway is to resume TTIP negotiations.[12] In the current political climate, however, that could be a tough sell. For the foreseeable future, TTIP seems to have run out of road.

An Alternative Path: The North Atlantic Marketplace

Each of the previous paths presents considerable challenges. North American and European decision-makers might consider an alternative—one that addresses the difficulties of old approaches while taking account of new trends.[13]

Under this path, European and North American decision-makers would set forth a more compelling narrative about the need to create a North Atlantic Marketplace that focuses squarely on boosting jobs and growth in ways that preserve sovereignty while ensuring that the North Atlantic remains a rule-maker, rather than a rule-taker, for the global economy.[14]

The North Atlantic Marketplace would advance an activist agenda instead of falling prey to inertia suggested by the Deep Freeze option. It would be high profile politics, not low-profile "cherry picking." It would not be a warmed-over TTIP, in fact it would abandon some TTIP fundamentals. It would replace the TTIP framework with a new template—a Jobs and Growth Agreement (JAGA)—that embraces a different set of priorities. Finally, it would be multi-channel. It would include, but go beyond, the single bilateral frame of negotiations between the United States and the EU to encompass a series of bilateral agreements with the United Kingdom and other non-EU European allies and partners, such as Turkey.

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[12] Daniel S. Hamilton and Jacques Pelkmans, "Rule-Makers or Rule-Takers? An Introduction to TTIP," in *Rule-Makers or Rule-Takers? Exploring the Transatlantic Trade and Investment Partnership (Washington, DC/Brussels: Routledge, 2015).*

[13] For a fuller treatment of the concept of the North Atlantic Marketplace, from which this section is drawn, see Daniel S. Hamilton, *Creating a North Atlantic Marketplace for Jobs and Growth: Three Paths, One Detour, A U-Turn, and the Road to Nowher*e (Washington, DC: Center for Transatlantic Relations, 2018), https://transatlanticrelations.org/publication/creating-the-north-atlantic-marketplace/.

[14] The term is not necessarily new. In the 1995 New Transatlantic Agenda, the United States and the EU expressed their determination "to create a Transatlantic Marketplace." See http://eeas.europa.eu/archives/docs/us/docs/new_transatlantic_agenda_en.pdfHE. The Transatlantic Policy Network has for some time called for a Transatlantic Market." Other groups, such as the Transatlantic Business Dialogue, UNICE and the U.S. Chamber of Commerce, have also called for the creation of a "barrier-free Transatlantic Market."

Efforts to forge a North Atlantic Marketplace would be guided by some basic principles.

First, the focus would be jobs and growth, not trade or harmonized domestic regulations. It would prioritize actions that would bring—and be seen to bring — direct benefits to citizens on each side of the Atlantic in clear and tangible ways. It would be motivated by the understanding that our democratic, market-based systems must be seen to be working to benefit our own people. Otherwise they will not be supported at home and will have declining resonance elsewhere around the world. It would change the message about trade to one of creating jobs and protecting American and European global leadership. [15]

Under this approach, transatlantic leaders would make job creation and economic growth the centerpiece of transatlantic cooperation by establishing the goal of creating 5 million jobs in a North Atlantic Marketplace by 2025, and charting roadmaps with benchmarks toward that end. They would begin by identifying immediate initiatives that the United States, the EU and their partners could take, in concert or in parallel, to spark job creation and spur growth.

The goal of a North Atlantic Marketplace by 2025 would not be to negotiate yet another preferential "free trade agreement;" it would be framed by a more politically relevant series of bilateral Jobs And Growth Agreements, a discrete set of principles and tailored contractual undertakings, agreed by sovereign signatory parties, to advance strategies, together or in parallel, to promote jobs and growth. Instead of focusing primarily on complicated and drawn-out processes of regulatory convergence, JAGA signatories would seek out practical areas where progress could be made in relatively short time.

Of course, bilateral U.S.-EU negotiations would remain quite central to the overall approach, given the size and density of this economic relationship. A U.S.-EU JAGA is likely to provide basic orientation to other North Atlantic arrangements. But in the context of a North Atlantic Marketplace, the U.S.-EU framework need not be a reheated TTIP, nor would it need to be limited to a "single undertaking," or traditional trade negotiation, whereby nothing is agreed until all issues are agreed. The United

[15] FTI Consulting, "Is America Ready for the Coming Trade Wars?" February 2017, http://www.fticonsulting.com/insights/fti-journal/is-america-ready-for-the-coming-trade-wars

States and the EU would instead focus single-mindedly on agreements that can have direct and visible impact on jobs and growth. They would forge and implement agreements wherever possible, without allowing contentious issues to block areas of agreement. This would allow the two parties to harvest successes, as suggested under the "cherry-picking" pathway, and also pursue those elements of the previous TTIP discussions that seemed promising, without being beholden to a single process in which the perfect becomes the enemy of the good. Too many past attempts to open the transatlantic market have failed because of this dynamic.

The U.S.-EU commercial relationship will be an important, yet not exclusive, foundation for the North Atlantic Marketplace. In coming years, non-EU Europe will become increasingly important to both the United States and the European Union. Following Brexit, the United Kingdom will become each party's most important non-EU commercial partner in Europe. But countries such as Turkey, Switzerland, Norway and Iceland are also important parts of intra-European and North Atlantic supply chains and value networks, maritime and air routes. And the potential of Europe's extended periphery is becoming even more significant. The total output of the region is larger than that of China and 60% greater than that of India. It is projected to expand more quickly than the eurozone. Strong secular forces for growth include the build out of infrastructure and the expanding middle class.[16]

Over time, separate bilateral JAGAs with these countries could help North Atlantic economies capitalize on opportunities and offer new means of leverage to upgrade standards and norms while integrating Europe's periphery into a more integrated North Atlantic commercial architecture. One shortcoming of the narrow U.S.-EU TTIP framework was that it did not do this.

It had been widely argued that allowing non-EU European economies such as Norway, Switzerland, Iceland, Liechtenstein, and Turkey to associate themselves with, or even join, TTIP would not only have enhanced the direct and indirect economic benefits of the deal, including positive

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[16] In 2016, the periphery nations produced an estimated $21.6 trillion in output versus China's $21.3 trillion (numbers are based on PPP). Europe's Periphery: Developing Europe, Middle East, North Africa and Sub-Saharan Africa. Developing Europe includes EU-13 plus Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Macedonia, Moldova, Montenegro, Russia, Serbia, Turkey, and Ukraine. Source: International Monetary Fund. Data as of April 2017. See Joseph P. Quinlan, *The Case for Investing in Europe* (Brussels: AmChamEU, 2017)

spillover effects, but also its soft power benefits in terms of extending norms and rules beyond the United States and the European Union. As mentioned earlier, only late in the TTIP negotiations did Brussels and Washington begin to acknowledge that TTIP could be designed as an "open platform," without ever defining what that could mean.

A North Atlantic Marketplace would provide concrete mechanisms to include non-EU European countries in a broad North Atlantic commercial architecture. It would supplement the U.S.-EU track of negotiations with a series of complementary bilateral tracks with other North Atlantic partners.

For instance, U.S. and EU leverage would be further enhanced if they would be prepared to devise mechanisms by which third countries can align or accede to a U.S.-EU JAGA, or to design disciplines that are potentially inclusive for third countries, such as inviting others to join in a U.S.-EU Zero Tariff deal or in certain sectors of such an arrangement, or devising a uniform set of rules of origin that would apply to all of their preferential trade agreements, enabling others to access both the EU and U.S. markets by complying with the requirement of either one of them. If a critical mass of participants develops, benefits could be extended to all WTO members on a most-favored-nation basis. Here again, there is precedent for this. This plurilateral approach was successful in negotiations leading to the 1997 Information Technology Agreement. Such arrangements could also generate potential positive effects for emerging economies, through increased global demand and greater transatlantic regulatory compatibility, which would help them manufacture products that meet U.S. and European standards and requirements.

The North Atlantic Marketplace could conceivably include all members of NAFTA, all members of the EU, all members of EFTA, and all members of NATO. It would seek to build synergies rather than competition among the disparate strands that now threaten to fragment European and North American economic ties in ways that can enhance prospects for growth and jobs. A broad initiative would provide an umbrella under which each of the five evolving pillars of the North Atlantic Community [UK-EU; UK-US; US-EU; US-EU-non-EU Europe; Europe-NAFTA] can be strengthened during this period of turbulence. It would seek to identify and harness potential synergies among these various tracks, rather than allow them to proceed without any sense of overall direction. Such an approach would also take account of the fact that the value chain map of the North Atlantic economy is broader than the institutional map of the U.S-EU relationship.[17]

What's in a JAGA?

Notionally, a JAGA might have five baskets. The specific content is likely to vary according to particular issues or opportunities of relevance to bilateral signatory parties.

In a first basket of issues, signatories could explore how they can work more effectively on workforce development, help small- and medium-sized enterprises that are the source of most jobs, boost innovation economies, and take advantage of the transatlantic digital economy. Such an effort could explore a range of topics, including apprenticeships and related employment-based training, matching educational outcomes with employment needs, recognizing certifications, preparing for new technologies, and sharing best practices in data collection and transparency about job markets and training. The Trump Administration has shown itself open to such ideas, and a number of U.S. states and European regions have had successful experiences with these types of partnerships.[18]

A second basket could look at areas where jobs and growth can be advanced by reducing trade tariffs and other barriers to job-creating investments, and by liberalizing services.

In a third basket, signatories would affirm their mutual commitment to the sanctity of democratically established and transparent domestic laws, including those with respect to disputes between foreign private investors and domestic public authorities. A JAGA would separate investment issues from trade issues and jettison those attributes, such as investor-state dispute settlement (ISDS) provisions, that have been the subject of intense criticism on both sides of the Atlantic. A JAGA with a country like Turkey or Mexico could be tailored to include investor right provisions, but with prospects for graduation once there is strong and consistent

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[17] See data presented in Landesmann, op. cit. For a visualization, see Martijn Lofvers, "SCM Map Europe: European location decisions remain complex," Supply Chain Movement, December 22, 2015, available at https://www.supplychainmovement.com/scm-map-europe-european-location-decisions-remain-complex/.

[18] See Schneider-Petsinger, op. cit.; E. Alden and R.E. Litan, *A Winning Trade Policy for the United States* (New York, NY: Council on Foreign Relations), 2016, http://i.cfr.org/content/publications/attachments/Discussion_Paper_Alden_Litan_Trade_Policy_OR.pdf.

adherence to the rule of law, thus offering new tools of conditionality regarding domestic reforms in those countries.

A fourth basket would reverse previous priorities with regard to regulatory cooperation. Before, the emphasis was on reducing costs to companies and boosting trade; helping regulators was a distant second rationale. Under a JAGA framework, bilateral regulatory cooperation would be about helping regulators become more efficient and effective at protecting their citizens in ways that are democratically legitimate and accountable, and not primarily about removing or reducing non-tariff barriers to trade. It would be about helping regulators do their job; any positive economic gains that might result would be important, but secondary, results. It would recognize, however, that if regulators are to do their job better, they need to take better account of the deeply intertwined nature of transatlantic commercial connections, through more effective regulator-to-regulator dialogue and cooperation.[19]

Such cooperation would also be limited to regulations and standards that directly apply to goods and services traded between the two parties. Laws and regulations that go to predominantly domestic matters, such as those on working hours, wage levels, air pollution standards, etc., would be set explicitly outside the scope of any general disciplines on regulatory cooperation, even though those measures may have an indirect effect on trade. Such cooperation would also apply solely to executive agencies, not legislative bodies.

Once regulators agree to enhance their cooperation, they would be able to conclude regulator-to-regulator agreements in specific product and services areas that could either be self-standing or appended as annexes to the bilateral JAGA. This process would underscore again that regulators, not trade negotiators, have the lead with regard to regulatory cooperation, and that a JAGA would not sacrifice domestic regulations for the sake of building down commercial barriers. If such cooperation leads to some degree of liberalization, that could be a secondary benefit. But it would not be the primary goal.

These annexes, which given the dynamic nature of regulation would include provisions for periodic mutual review, would ensure that the JAGA

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[19] These points, as well as those made later in the text on regulatory cooperation, are drawn from Chase & Pelkmans, op. cit., as part of a project conducted by the Center for Transatlantic Relations and the Centre for European Policy Studies on TTIP.

process is a "living" agreement: it can change, expand or even contract over time. It signifies a recognition that regulator-to-regulator agreements can only come where regulators have trust and confidence in one another, that trust and confidence take time to build, and that they can also evaporate.

In a fifth basket, signatory parties would seek to align their efforts with regard to third country issues. They could leverage their commitment to regulatory principles and mutual obligations by affirming that they would welcome other countries undertaking similar disciplines, either by associating themselves with the document or replicating those obligations and principles in other agreements. It will be difficult to open some regulatory arrangements to third parties. But countries may be able to join or attach themselves to some provisions.[20] Here again, there is precedent. When the United States and EU finalized their Open Skies agreement on transatlantic air transport in 2007, for instance, a number of additional countries, not only in Europe but in other parts of the world, were able to implement provisions of the agreement through separate accords.

This could help to reinforce cooperative links, based on common principles, across the North Atlantic Marketplace if JAGA signatories may provide for possible association by countries such as the UK, Canada, Mexico, Norway, Switzerland, Iceland or Turkey, as counterpart regulators get to better know and trust one another.

Second, signatory parties could use a JAGA to affirm that they would engage third parties on the basis of certain standards and principles. A mutual commitment to act according to such principles could help blunt the impact of third country efforts to advance standards that could erode safety, health, environmental, consumer, labor and intellectual property protections. Finding some common ground on issues such as intellectual property right/copyright, state-owned enterprises, and treatment of small to medium enterprises, for example, would be useful.

Third, signatory parties could extend their influence further by agreeing to use agreed principles as the basis for work together or in parallel in international forums or organizations. Here again there is precedent: the long-standing United Nations Economic Commission for Europe forum for car standards, and the more recent International Conference on Har-

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[20] Ibid; Also Henrik Isakson, "Free Trade agreements and third countries," unpublished working paper.

monization forum for medical devices and pharmaceuticals, each evolved out of initial bilateral U.S.-EU cooperation.

Getting Back on Track with Turkey

European countries and the United States currently face a delicate set of challenges in dealing with Turkey. Most have long-standing relationships with Ankara and important interests at stake in the country's future. Yet the arrangements that have historically anchored each of their strategically important ties with Turkey—the prospect of Turkey's eventual EU accession and its decades-long military alliance with the United States and other NATO members—are being challenged by divisions within Turkish society and government actions that have raised questions about Turkey's role within Western structures. In the EU, voices calling for suspension of Turkey's membership negotiations are growing louder. German Chancellor Angela Merkel has called for freezing EU-Turkish discussions on upgrading their customs union.[21] In the United States, more voices are arguing for a fundamental review of the U.S.-Turkey alliance.

Relations are strained. Yet in the context of a North Atlantic Marketplace, an upgraded EU-Turkey Customs Union, together with U.S.-Turkey and UK-Turkey JAGAs, could provide Ankara with important Western economic anchors.

A Modernized Customs Union

More than two decades ago, in 1995, Turkey and its European neighbors experienced a similar spate of recriminations over challenging issues. At that time, rather than succumb to further deterioration, the EU and Turkey gave their relations a new frame by agreeing to a Customs Union. EU conditionality tied to the Customs Union was instrumental in helping Turkey move ahead with important reforms.[22]

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[21] The 1963 Ankara Agreement provided a formal framework for Turkey-EU relations, in which preparatory, transitional and final stages for Turkey's integration into the EU were envisaged. The Customs Union, agreed in 1995, was an important step in the relationship, but was considered an interim process, not an end in itself, as evidenced by the fact that important sectors of the economy, such as agriculture, services and public procurement, were not included in initial Customs Union arrangements.

[22] The European Parliament made its ratification of the agreement contingent on Turkish political reforms, which Ankara undertook. In June 1995, for instance, Turkey amended its constitution to expand political participation by removing several limitations on political

The result was a boom in the Turkish economy and a significant expansion of Turkish commercial ties with the European Union. Since the partial Customs Union was introduced, Turkey's trade with the EU has increased four-fold, making Turkey the fourth largest importer from the EU and the fifth largest exporter to the EU in 2016.[23]

The partial Customs Union also made Turkey an important part of European intra-industry and infra-firm value chains. Approximately 85% of metal goods exported from Turkey to the EU, for instance, are intermediate goods. Similar patterns can be found in other industries. And given that a large share of intermediate goods exported from Turkey to the EU is also processed for final export to ultimate customers in the United States, these value chains have also contributed to a steady increase in U.S.-Turkey commercial activity.[24]

The partial Customs Union generated additional benefits. The economic growth and accompanying reforms that resulted in part from the partial Customs Union also transformed Turkey from being a country of emigration to one of immigration. Countries aspiring to transition to democracy and a market economy could look to Turkey's own development

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party membership and lowering the voting age to 18. In October 1995, the Turkish Counterterrorism Law was amended to extend freedom of speech. Conditionality tied to a partial Customs Union helped set Turkey on a reform course. It eventually paved the way for Turkey to become an EU candidate country and start accession talks in 2005. See Serder Altay, "Strengthening US-Turkish Trade and Investment Relations: Realistic Recommendations toward Building 'Complex Interdependence,'" in Sasha Toperich and Aylin Ünver Noi, eds, *Turkey and the Transatlantic Community* (Washington, DC: Center for Transatlantic Relations, 2017), pp. 283-216; Erdal Yalcin, "Challenges and Opportunities for Turkey in Light of the Transatlantic Trade and Investment Partnership," unpublished report prepared for this project; Kemal Kirişci and Onur Bülbül, "The EU and Turkey need each other. Could upgrading the customs union be the key?" Brookings Institution, August 29, 2017, https://www.brookings.edu/blog/order-from-chaos/2017/08/29/the-eu-and-turkey-need-each-other-could-upgrading-the-customs-union-be-the-key/.

[23] Eurostat.

[24] Such value chains encompass various product groups, including motor vehicles, textiles and apparel, chemicals, machinery and agri-food. The liberalization of foreign trade via the partial Customs Union also boosted Turkey's competitive power in the global economy as the country became integrated into global value chains via technical and regulatory alignment with the EU *acquis*—the body of EU regulations that permit market harmonization. Between 1996 and 2016, Turkey's exports to the rest of the world increased by almost five-fold, and the share of foreign trade in the country's GDP increased from 35% in 1995 to almost 50% in 2016. See Yalcin, op. cit.; Altay, op. cit.; World Bank, *Evaluation of the EU-Turkey Customs Union*, March 28, 2014, Report No. 85830-TR (Washington, DC: World Bank Publications, 2014), p. 9; World Bank, *Trading up to High Income*, May 5, 2014, Report No. 82307-TR (Washington, DC: World Bank Publications, 2014), pp. 40-52.

for orientation, thus burnishing the EU's transformative soft power in its neighborhood. [25]

The partial Customs Union has brought undeniable benefits not only to Turkey and to its Western partners. But the 1995 accord was only "partial" because it was limited to industrial goods and processed agricultural goods traded between the EU and Turkey. Coal, steel, agricultural products, services and public contracts remain excluded.[26]

In May 2015 the EU and Turkey agreed to modernize and extend the Customs Union to include agriculture, services, and government procurement. The pre-negotiation deliberations have been difficult. Yet rather than succumbing yet again to a complete breakdown in EU-Turkish relations by suspending Customs Union negotiations, the EU and Turkey should view Customs Union modernization and expansion as an opportunity to once again harness the virtuous dynamic generated by the partial Customs Union two decades ago.[27]

According to estimates, upgrading the partial Customs Union to cover trade in agricultural goods, services, and government procurement could increase Turkey's GDP by 2.5%, spur foreign direct investment and promote innovation, and help Turkey adapt to the increasing digitalization of the global economy. The European Union could experience a welfare gain of €5.4 billion and a significant increase in EU exports to Turkey.[28] EU companies would gain non-discriminatory access to Turkish government's procurement market, and EU service providers would benefit from a liberalized services market in Turkey.

An upgraded Customs Union has become even more important since TTIP negotiations began. Turkey is apprehensive about the impact of a

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[25] Kirişci and Bülbül, op. cit.

[26] The partial Customs Union allowed the free circulation of Turkish and EU industrial products within borders, yet Turkey has not been granted full access to the single European market of goods, services, capital and labour as in the Norway's case. See Sübidey Togan, "The EU-Turkey customs union: a model for future Euro-Med integration," in Rym Ayadi, Marek Dabrowski, and Luc De Wulf (eds.), *Economic and Social Development of the Southern and Eastern Mediterranean Countries* (Springer International Publishing, 2015), pp. 37-48.

[27] Altay, op. cit.

[28] Ibid; Yalcin, op. cit.; Also Gabriel Felbermayr, Rahel Aichele, Erdal Yalcin "EU-Turkish customs union: How to proceed," Vox, July 23, 2016, http://voxeu.org/article/eu-turkish-customs-union-how-proceed; BKP Development Research & Consulting in consortium with Panteia and AESA, *Study of the EU-Turkey Bilateral Preferential Trade Framework, Including the Customs Union, and an Assessment of Its Possible Enhancement* (Brussels: European Union, 2016).

U.S.-EU deal, because under the current partial Customs Union and the corresponding principle of joint customs harmonization for third countries, Turkey is obliged to open its market to third countries if the EU signs a free trade agreement with them, but Turkish companies are denied reciprocal access to those third country markets unless Turkey has a separate bilateral trade agreement with those countries. Here is where the transatlantic dimension becomes important.

Under either the "cherry-picking" or "TTIP 2.0" paths outlined earlier, U.S. goods or services could flow with reduced or zero barriers into the Turkish market, but Turkish goods and services would still face relatively higher U.S. barriers, unless Ankara and Washington completed their own free trade agreement, or unless the partial Customs Union agreement would be amended so that any easing of tariffs negotiated by the EU with third countries would also apply to Turkish companies.[29]

Neither of these two transatlantic paths per se represent a problem for Turkey, in fact Turkey could be a net beneficiary—but only if the partial Customs Union is modernized and a complementary initiative is launched with the United States. Otherwise, the incomplete and asymmetric nature of the EU-Turkey customs union, combined with the sheer economic size of any transatlantic agreements and their implications for Turkey's economy and international policy, could lead to a severe economic conflict in Turkey,[30] and exacerbate Turkey's already strained relations with its allies.

A modernized Customs Union is unlikely unless Turkey is also prepared to advance key political and economic reforms. A package deal in which reforms are tied to an upgraded Customs Union that a) extends current provisions to cover agriculture, services and public procurement, and b) ensures that any easing of tariff and non-tariff barriers for EU firms negotiated by the EU, for instance with the United States, would also apply to Turkish firms, could perhaps have effects similar to those of two decades ago. Those effects would be further enhanced by a complementary U.S.-EU deal. The result could be a U-turn that could help to get Turkey's

[29] Since EU trade agreements are negotiated at EU level, Turkey—not an EU member state—has no right to participate in U.S.-EU negotiations, yet the effects of such agreements could have dramatic economic implications for the country. Since the current EU-Turkey customs union is restricted to industrial goods and processed agricultural goods, the problem of asymmetry only applies to industrial goods and processed agricultural goods, since those are covered by the EU-Turkey customs union. Should the Customs Union be expanded, so would the asymmetry problem.

[30] Altay, op. cit.

relations with its North Atlantic partners back on track. The result would be a win-win for the EU, the United States, Turkey, and Turkey's troubled neighborhood.[31]

Given current strains, a modernized Customs Union may not be immediately feasible. In this case, a Turkey-EU Jobs and Growth Agreement (JAGA) could offer an interim step, as it could enable the two parties to concentrate on closer cooperation in a number of specific areas, as outlined in Section III.

A U.S.- Turkey JAGA

These considerations underscore the need for Turkey and the United States to consider upgrading their own commercial ties. The two countries have been NATO allies and strategic partners for more than six decades. Yet relations have been heavily skewed to the bilateral military alliance and so have become overly dependent on the ups and downs of those contacts. In contrast, U.S.-Turkish economic relations, and the institutional framework of those relations, have historically been underdeveloped. Embedding the defense relationship within a broader set of economic and societal ties would offer both partners greater stability and reassurance to their overall partnership.[32]

U.S.-Turkish relations today are plagued by a number of challenges, including differences over the Kurds in Syria and Iraq, the implications of Turkey's blossoming relationship with Moscow, how to deal with Iran, disputes over visa services, detaining individuals such as U.S. pastor Andrew Brunson, and Ankara's demand that Washington extradite Fethullah Gülen, who Ankara has charged with masterminded the July 2016 coup attempt.

However nettlesome these issues may be, Turkey is and will likely remain a member of NATO and a key strategic partner of the United States. Yet the sustainability of that strategic partnership is likely to depend in part on the two parties' ability to build a broader base for their relationship. This is where a bilateral initiative within a North Atlantic Marketplace could add value.

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[31] Ibid; Kirişci and Bülbül, op. cit.

[32] See Altay, op. cit. Also Ian Lesser, *Beyond Suspicion: Rethinking US–Turkish Relations* (Washington, DC: Woodrow Wilson International Center for Scholars, 2007), p.5.

As mentioned, Turkey has been integrated increasingly into transatlantic value chains that have bolstered U.S.-Turkey commercial links. More than 1,700 U.S. firms are actively operating in the Turkish market in wholesale retail, information and communications technology, construction, real estate and manufacturing sectors.[33] U.S. companies use Turkey as a base to expand their operations across the Mediterranean, the Caucasus and the Broader Middle East.

Nonetheless, U.S.-Turkish intra-industry trade and value chains are not as developed as with the EU, except for trade in iron, steel, vehicles and parts. Between 2002 and 2016, EU firms accounted for 68%, and U.S. companies only 8%, of the $140 billion of foreign direct investment in Turkey. U.S.-Turkish bilateral trade in goods has also been declining from a peak of $21 billion in 2011 to $17 billion in 2016. Bilateral trade in services, at about $5 billion in 2015, could also benefit from greater growth.[34]

The Turkish government and broader economic circles in Turkey have sent clear signals that they would like to be part of a broad North Atlantic commercial architecture, but Turkey's April 2013 effort to join TTIP talks was rebuffed. Joining TTIP would mean severe adjustment challenges for Turkish industries, which are currently protected by high tariffs, trade remedies, subsidy and other measures; and for firms operating below U.S. and EU standards for food safety, labor, environment, and intellectual property rights.[35]

A U.S.-Turkey bilateral free trade agreement (TUFTA) would also be difficult, for various reasons. As long as Turkey continues to be in the Customs Union with the EU (in its current or expanded forms), Ankara does not have independent trade policy authority. In addition, the current state of play in U.S.-Turkish relations, Congressional attitudes towards the Turkish government and policies, and the Trump administration's trade policies also render a bilateral free trade agreement implausible as an option for the foreseeable future. The two sides could more usefully

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33 See http://www.amchamturkey.com/member-companies.

34 Hamilton and Quinlan, op. cit.; Altay, op. cit.; Boston Consulting Group, *Achieving Turkey's fair share within U.S. FDI: Final Steering Committee Presentation*, Istanbul, May 6, 2011; Office of the United States Trade Representative, 2017 National Trade Estimate Report on Foreign Trade Barriers, Washington, D.C. 2017, p. 435; UN Comtrade; WTO.

35 Turkey has long been on the Watch List in the Special 301 Reports of the USTR for copyright and online piracy, counterfeit goods problem, and widespread use of unlicensed software as well as domestic enforcement problems. Office of the United States Trade Representative, *2017 National Trade Estimate Report*, op. cit., p.440.

now focus on developing stepping stones from which grander initiatives might follow.[36]

A U.S.-Turkey JAGA could offer such a stepping stone. Coupled with an upgraded Customs Union, it could enable both sides to address a series of key chronic obstacles to economic cooperation.[37]

U.S.-Turkish bilateral economic ties have been loosely shaped by a Framework for Strategic Economic and Commercial Cooperation (FSECC), which was signed in 2009. At the time, this was a well-intentioned effort to strengthen the economic pillar of the relationship. But it has been largely ineffective and is increasingly outdated.[38]

Just as the EU could upgrade its Customs Union with Turkey, Washington and Ankara could, in the context of a North Atlantic Marketplace initiative, upgrade their FSECC with a JAGA. A JAGA that affirms basic conditions for an expansion of bilateral commercial ties is likely to reinforce momentum toward domestic reforms that could be generated from an upgraded EU-Turkey Customs Union as well as from the Turkish business community and other civil society actors within Turkey.

If one takes a narrow economic perspective, it could seem that the United States would have little incentive to dismantle trade barriers for Turkish companies as long as asymmetrical market-access rules under the current Customs Union enable them to access the Turkish market while Turkish companies are unable to access the U.S. market. An expanded EU-Turkey Customs Union that included agriculture, services and public procurement, but does not provide Turkish firms with reciprocal access to markets of third countries with which the EU concludes free trade

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[36] See Serdar Altay, "Associating Turkey with the Transatlantic Trade and Investment Partnership (TTIP): A Costly (Re-) Engagement?" *The World Economy*, 40, 6, 2017, available at http://onlinelibrary.wiley.com/doi/10.1111/twec.12533/abstract; World Bank, "Needs Assessment for Modernization of Food Establishments." Report of II Gap Analysis of Agri-Food Enterprises, Turkey Food Safety Programmatic Technical Assistance (Washington D.C.: World Bank, 2010); The Union of Chambers and Commodity Exchange of Turkey (TOBB), U.S.-Turkey Business Council, and U.S. Chamber of Commerce, op. cit., p.26.

[37] Serdar Altay, "Associating Turkey…", op. cit.; The Union of Chambers and Commodity Exchange of Turkey (TOBB), U.S.-Turkey Business Council, and U.S. Chamber of Commerce, *Upgrading the U.S.—Turkey Commercial Relationship: A Shared Vision towards a U.S.-Turkey FTA*, 2015.

[38] The 2009 FSECC initiative was a well-intentioned effort to broaden security-heavy bilateral ties. See "Joint Statement Following the 2015 U.S.-Turkey Economic Partnership Commission," February 13, 2015, available at http://www.mfa.gov.tr/joint-statement-following-the-2015-u_s_-turkey-economic-partnership-commission.en.mfa.

agreements, would give U.S. negotiators even less incentive because it would open more Turkish markets to U.S. companies without any commensurate need to open U.S. markets to Turkish companies. Yet it is not in overall U.S. interests to engage in activities that could generate serious adverse effects that could render Ankara a weaker ally, or force it to consider other arenas, such as the Moscow-based Eurasian Customs Union.

A stepping-stone initiative such as a JAGA could complement U.S.-Turkish security ties by giving officials and stakeholders an additional institutional framework for policy deliberation and economic engagement. It could conceivably include a business advisory network, modeled on the Transatlantic Business Dialogue, that could enable more effective business participation. Both sides could prioritize efforts that could promote jobs and growth matched to the particular dynamics of U.S.-Turkish commercial ties. The two governments could also enhance cooperation between institutions dedicated to trade and investment promotion. For instance, U.S. and Turkish commercial missions and investment promotion agencies may work together to organize joint match-making programs both for traders and investors. Efforts could be made to integrate SMEs more effectively into bilateral economic exchanges. Both economies would profit from improved trade in services and investment flows. Through a bilateral JAGA both Turkey and the United States could profit from U.S. investments that build Turkey as a regional managerial, production and R&D hub, and a bridge for joint projects in the MENA region. The two governments should address remaining barriers to investment and work for an improved bilateral investment regime.[39]

Turkey and the United Kingdom

A JAGA-like arrangement, within a North Atlantic Marketplace, could also help frame a new commercial partnership between Turkey and post-Brexit Britain. Both countries need a policy strategy that secures sustainable ties to the United States and at the same time ensures strong economic

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[39] TUSIAD and U.S. Chamber of Commerce Joint Report, "US-Turkish Economic Relations in a New Era: Analysis and Recommendations for a Stronger Strategic Partnership," prepared by Sidar Global Advisors, 2012, available at http://www.tusiad.org/tr/__rsc/shared/file/USCC-TUSIAD-Report-2012.pdf; Altay, op. cit. Several recent empirical studies (Yalcin, 2016, Egger et al., 2015, Felbermayr et al. 2015) illustrate that a comprehensive trade agreement between the United States and the EU would lead to considerably stronger negative welfare effects for Turkey in the long term than it would in other countries not participating in TTIP. Losses for Turkey are projected to reach up to 2% of its GDP.

ties to the EU27. In fact, London has already inaugurated bilateral scoping exercises with both Washington and Ankara to this effect. Given the similar interests and political challenges of Turkey and the UK, a joint Turkish-UK transatlantic trade and investment policy appears to be a promising new avenue. While post-Brexit UK will need Turkey less to find a new agreement with Washington, Ankara will need London less for modernization of the Customs Union. However, a deeper UK-Turkey link could improve each country's position vis-à-vis both Brussels and Washington.

Ultimately, the best next-stage scenario for Turkey would be to upgrade and extend the Customs Union with the EU and, at the same time, to negotiate strong bilateral JAGAs with the United States and the United Kingdom.[40]

Conclusion

The transatlantic economic relationship stands at an important juncture. Each possible path forward offers both gains and pains. Yet of the different options available, only the North Atlantic Marketplace would offer a reset for the transatlantic relationship by allowing the United States, the EU, and their closest North Atlantic allies and partners to move on from TTIP by negotiating a more effective partnership focused squarely on creating jobs, boosting growth, and ensuring that North Atlantic countries remain rule-makers, rather than rule-takers, in the global economy. Bilateral Jobs and Growth Agreements (JAGAs) could give countries new possibilities to address issues where they are currently stuck. Europeans are likely to have greater faith in America's security commitments if they are anchored by strong trade and investment links. A strong multi-channel transatlantic initiative could also reassure Americans that the post-Brexit UK and post-Brexit EU are committed to look outward rather than inward. A U.S.-UK JAGA offers London and Washington a means to forge ahead with a positive economic agenda without having to wait for the UK to leave the EU or to negotiate a full-blown free trade agreement, which could take years.

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[40] If Turkey were to sign its own trade agreements with the United States equivalent to the conditions enjoyed by the EU in TTIP, Yalcin, op. cit., estimates that Turkish GDP could rise by 2.3%. He estimates that expansion of the Customs Union plus TTIP without Turkey being part of the agreement could generate a 1.87% increase in Turkish GDP.

An upgraded and expanded EU-Turkey Customs Union, paired with U.S.-Turkish and UK-Turkish JAGAs, could integrate U.S. and EU conditionality into Turkish efforts to join the North Atlantic commercial architecture.

Above all, the North Atlantic Marketplace would provide a new sense of purpose and direction for the transatlantic relationship at a time when transatlantic solidarity has been challenged. Yet given mutual inwardness and temptations for mutual recrimination, such a bold initiative may simply be too ambitious and complicated to see the light of day.

The time to choose may not yet be at hand. But it is coming soon.