



# TRANSATLANTIC VISION 2030 Renewing the partnership

Stimulating debate through thought papers

## A New Beginning for The Transatlantic Economic Partnership

*Prepared and presented by Bruce Stokes*

### Introduction

The transatlantic marketplace is both broader and deeper than at any time in history. Yet EU-U.S. economies and transatlantic economic relations face challenges unprecedented in modern times.

Economic nationalism driven by political populism has undermined the multilateral trading system that has been the economic backbone of the transatlantic market. Tit-for-tat trade wars have undermined a sense of shared self-interest in bilateral commerce, sapped investment, productivity and business confidence. Economic growth has suffered. Persistent inequality and joblessness among the young, minorities and in vulnerable regions of Europe and America reinforce populist political movements in a vicious cycle. The prospect of job displacing technological change in the digital age coupled with growing competition from China promise that the tests facing the transatlantic economy will only increase in the years ahead. Finally, the economic uncertainty surrounding the United Kingdom's future relationship with the European Union and the economic headwind this may create on both sides of the Atlantic only compounds these problems.

In 2013, in response to looming challenges the European Union and the United States launched negotiation of a Trans-Atlantic Trade and Investment Partnership. These discussions were suspended in 2016 in the face of opposition in Europe, the upcoming U.S. Presidential election and an inability to overcome major differences. Since then, against the backdrop of U.S. tariffs on steel and aluminum, with subsequent retaliation by the European Union, threatened American duties on EU-produced automobiles and amidst deepening American and European disagreements at the World Trade Organization, ongoing discussions about a less ambitious transatlantic economic accord have yet to harvest results.

But abandoning the effort to create a deeper transatlantic economic partnership is not an option given the shared challenges facing both the European Union and the United States. The rapidly-emerging digital economy requires rules of the road on everything from privacy to taxation. Technological, health and safety standards will increasingly define competitive advantage. Services are already the predominant employer on both sides of the Atlantic, but service trade rules are still in their infancy. The multilateral, rules-based trading system--a product of European-American cooperation--is broken and requires immediate attention. Growing competition from China challenges the core of our democratic system and impact the economy: the rule of law, transparency, due process and the role of the state in the economy. Both European and American societies are experiencing growing income and wealth inequality at a time when their peoples lack the skills necessary to succeed in the new economy. And the existential threat posed by climate change lends new urgency to transatlantic technological cooperation.

The window of opportunity for a transatlantic effort to confront common problems and to maximize the benefits of shared European and American economic leadership will not remain

open indefinitely. Economies are changing too rapidly and economic competitors are gaining ground on both Europe and the United States. Left unaddressed, the challenges posed by technological change, inequality, China and climate will spawn populist, inward-looking, protectionist and ultimately unsuccessful remedies that could slowly decouple the economic ties that have fueled the transatlantic economy for generations.

To seize the opportunity to present a united front in dealing with the future, Americans and Europeans need to learn from their setbacks. They must acknowledge that the challenges have broadened, not narrowed. An even more comprehensive, articulated transatlantic compact may be needed, one that both solidifies the world's deepest economic relationship while addressing the promise and problems posed by the inexorable rise of China, the rapid advent of the digital economy and the threats of climate change and inequality. **Whatever their political leanings, Americans and Europeans will have to accept that deepening the transatlantic market is not possible without compatible efforts to protect privacy, competition and the dignity of work in the digital age, to slow climate change and to provide their citizens with the skills needed to compete in the marketplace, the reassurance that there will be jobs for them in the future economy and a safety net to cushion the disruptions attendant with a rapidly changing economy and society.**

As then U.S. presidential candidate Barack Obama reminded the transatlantic community in Berlin in 2008: "America cannot turn inward....Europe cannot turn inward. America has no better partner than Europe. ... Trade has been a cornerstone of our growth and global development. But we will not be able to sustain this growth if it favors the few, and not the many. Together, we must forge trade that truly rewards the work that creates wealth, with meaningful protections for our people and our planet. This is the moment for trade that is free and fair for all....[Such] Partnership and cooperation...is not a choice; it is the one way, the only way, to protect our common security and advance our common humanity....But the task is never easy. True partnership and true progress require constant work... They require allies who will listen to each other, learn from each other and, most of all, trust each other."

To revive the transatlantic economic dialogue, and deepen the transatlantic marketplace, Americans and Europeans need to redefine the parameters of their shared partnership. A dialogue that focused first on tariffs, then non-tariff barriers and regulatory convergence, now needs to broaden its scope to include dealing with the challenges of growing global competition, especially from China, the trade and investment implications of global warming, the digital age and, even more so than ever, the implications for the future of work of the unfolding interaction of globalization with the advent of robotics and artificial intelligence.

This will take renewed political will and commitment. It will require a reframing of both the substance and the aims of transatlantic deliberations, accommodating them to new economic, technological, strategic and political realities. Brussels and Washington should not be deterred from their ultimate goal: a barrier-free transatlantic market by a date certain. The long-term health of the transatlantic community and future of the Transatlantic Alliance rests in the balance.

To that end, the European Union and the United States should:

- Aim to re-launch their efforts to create a Transatlantic Economic Partnership by 2030
- Establish a bilateral working group in 2021 focused on the Transatlantic Economic Partnership 2030. This should be comprised of European Commission and U.S. government officials—including regulators—to assess the lessons learned from the Trans-Atlantic Trade and Investment Partnership (TTIP) negotiations, to sort out the implications for

transatlantic commerce of any UK exit from the EU and make recommendations about how to proceed with transatlantic negotiations. Just as the recent U.S. and Japan economic dialogue was led by the U.S. vice president and the Japanese deputy prime minister, the U.S.-EU bilateral working group should be chaired by comparable high-level EU and U.S. leaders.

- Engage members of the U.S. Congress and the EU Parliament in these deliberations on an ongoing basis through the designation of individual members from the relevant committees as rapporteurs who would be charged with participating in the new transatlantic assessment dialogue, reporting back to their respective legislative committees and to the U.S. Congress and the European Parliament with public reports. Complementing this effort appropriate EU and U.S. legislative committees should invite their counterparts to testify on forthcoming issues with a transatlantic impact.
- The Transatlantic Business, Labor, Consumer and Environmental Dialogues should conduct their own retrospective on the TTIP negotiations and make recommendations in 2021 to help shape the Transatlantic Economic Partnership 2030 dialogue.
- Create a Digital Dialogue with business, labor and consumer representatives, to make recommendations by 2021 regarding what both Europe and the United States should do to deal with the challenges and opportunities posed by the emerging digital economy, including issues of privacy and the workforce challenges posed by the advent of artificial intelligence and robotics.
- Organize a consortium of European and American think tanks to make joint recommendations by 2021, based on experience on both sides of the Atlantic, on how to best prepare Americans and Europeans to cope with the challenges resulting from the rapidly accelerating pace of change in their respective societies, this effort should look at educational and retraining needs and the social safety net.

## **The economic context**

The economic fates of Europe and America are, and have been for some time, inextricably linked through trade and investment. An economic deepening of the transatlantic relationship is needed now more than ever given the economic and competitiveness challenges facing both sides of the Atlantic.

The Great Recession shook the transatlantic market unlike any event since the Great Depression and recovery was slow. After relatively good performance in recent years, economies are slowing again. The International Monetary Fund expects the U.S. to be growing by no more than 1.9% in 2020, while the Euro area will be expanding at 1.5%. Much of this is attributable to a dramatic slowdown in productivity growth on both sides of the Atlantic. In the European Union, annual productivity grew by only 0.9% in the period 2014-2018 compared with a growth rate of 2% per year from 1995 to 2000. In the United States, productivity fell even more sharply, from an average of 2.4% in the latter part of the 1990s to 0.7% annual growth from 2014-2018.

Employment has rebounded since the depths of the Great Recession, with joblessness measuring 3.7% in mid-2019 in the U.S. Unemployment also fell in the European Union, but it still remains high: 6.3% in mid-2019. Moreover, employment growth has slowed sharply in both the Euro area and the United States in the first half of 2019, presaging a rise in joblessness.

Demonstrating that the fortunes of the European Union and the United States rise and fall together, transatlantic commerce rebounded sharply from the Great Recession, with trade in goods improving 60% between 2009 and 2018, after falling 21% in just one year between 2008 and 2009. But trade growth is also forecast to slow in the years ahead.

Meanwhile, China has become a larger exporter than either the US or the EU, accounting for roughly 17% of world exports. Neither America nor Europe is likely to reclaim that top spot on their own. But together the transatlantic market, comprising both the EU and the U.S., is still a far larger force in global trade, but will remain so only if it operates as a unified player in world commerce.

Inequality has emerged as a significant challenge on both sides of the Atlantic. Since 1985, the OECD estimates that the ratio of income held by the top 10% of the income earning population compared to the income earned by the bottom 10% has grown from 7 to 1 to 10 to 1. And the IMF believes that rising inequality slows economic growth.

Current transatlantic workforce challenges may only intensify in the medium term thanks to the rapid advent of robotics and artificial intelligence. The OECD estimates that 12% of the German and Spanish populations, 10% of the UK public and 9% of the French and American population are at risk of losing their jobs to automation. Such job losses would rival or even exceed estimates of job losses thanks to globalization in many countries. Moreover, those losing their jobs will, disproportionately be service workers—truck drivers, cashiers, back office white collar workers and, possibly, professionals such as lawyers, accountants and financial service workers.

Despite such challenges, European Union and the United States still constitute a \$30 trillion commercial space, the most significant economic region in the world, bar none. The transatlantic marketplace accounts for over 35% of world GDP in terms of purchasing power. European majority-owned foreign affiliates directly employ roughly 4.7 million U.S. workers. U.S. affiliates directly employ an estimated 4.3 million workers in Europe in 2015.

The United States exports more than \$300 billion in goods each year to Europe and, in addition, nearly \$300 billion in services. The European Union sells nearly \$500 billion in goods to the U.S and more than \$200 billion in services.

In the digital age, much of this trade is digitally enabled. U.S. exports of digitally enabled services to Europe were more than double total U.S. exports to Latin America and almost double U.S. exports to the entire Asia-Pacific region. In turn, the United States accounted for 32% of the EU's digitally-enabled business services exports to non-EU countries. Moreover, the U.S. (18%) is the largest source of imports of such services by the EU.

And the transatlantic relationship remains the most innovative in the world: 57% of total global R&D expenditures by U.S. foreign affiliates occur in Europe, totaling more than \$30 billion. European affiliates account for 72% of all R&D performed by majority-owned foreign affiliates in the United States, more than \$40 billion.

The future is not bleak. A digital revolution is occurring on both sides of the Atlantic that will transform the American and European economies and societies. Worldwide cross-border trade in data is growing rapidly and by some estimates now surpasses in value that of merchandise trade. The 5G wireless network, the internet of things, quantum computing, robots and artificial intelligence are recreating the European and American business environments.

The data revolution can spur job creation and enhance competitiveness if managed properly. European studies suggest big data analytics alone could boost EU economic growth by an additional 1.9% by 2020 and create 100,000 new data-related jobs. And a recent analysis of 12 developed economies found that artificial intelligence has the potential to double annual economic growth rates in the countries analyzed over the next two decades.

No community, no sector, no sphere of human endeavor is immune. But better data governance is needed to dispel uncertainty and increase trust by American and European citizens. And no progress toward a fully functioning 21st century partnership between the U.S. and Europe is possible without a common or at least interoperable digital policy framework requiring new and coordinated approaches to public policy to maximize the effectiveness of digital technology and to deal with its inevitable effects on society. If the European Union and the United States do not articulate such a vision, standards and rules for the digital economy others will do it. As a 2016 White House assessment “Artificial Intelligence, Automation and the Economy” concluded “Whether [this] leads to unemployment and increases in inequality over the long-run depends not only on the technology itself but also on the institutions and policies that are in place.” Sadly, that report failed to acknowledge the indispensable value of international norm setting necessary to maximize the gains and minimize the costs of the digital revolution.

In the years ahead, Europe and America need jobs and growth. This will require structural reforms, renewed investment and productivity increases. Technical standards and domestic labor, environmental and health and safety regulations will need to become more compatible. The trade and investment environment will need to be reshaped to reflect the growing importance for future prosperity of both services and the digital economy. The European and U.S. economies are increasingly driven by such business activities. And the international regulatory framework in which this activity is conducted in the 21st century—for 5g networks, artificial intelligence, robotics—must reflect the nature of these rapidly changing activities.

For these reasons both the European Union and the United States can ill afford to drag their feet on deepening their economic relationship in trade, investment and the regulatory framework for the digital age. But efforts to liberalize and upgrade transatlantic trade and investment face growing obstacles. In the wake of the failure of the TTIP negotiations, Brussels and Washington have engaged in a far less ambitious undertaking, attempting to find common ground on lowering some industrial tariffs and some regulatory standards. Complicating matters has been the imposition of steel and aluminum tariffs by the United States, European retaliation for those duties, American threats of auto tariffs, European reluctance to include agriculture in any such discussions, European preoccupation with Brexit and bitter transatlantic disagreements over the future of the World Trade Organization.

Governments on both sides of the Atlantic have as-of-yet failed to come to grips individually, let alone collectively, with the myriad challenges that need to be overcome to fully maximize the economic potential of the transatlantic marketplace and the dawning digital economy. The fate of both the American and the European economy hangs in the balance.

## **The political context**

Populism is roiling politics on both sides of the Atlantic. The British public’s 2016 referendum vote to exit the European Union echoed by the American public’s election of Donald Trump as U.S. president later that year signaled that the transatlantic relationship—symbolized by the U.S.-UK “special relationship”—would henceforth play out in a profoundly new political

environment. The rise of the populist AfD in Germany, the League in Italy, the Sweden Democrats and the continued strength of the National Rally in France have further complicated the transatlantic political context. These nationalist populist parties hold more seats in national parliaments and in the European Parliament than at any time in recent history complicating any effort to further the strategic alliance with the United States.

President Trump's repeated support for Brexit, his claim that European nations are unfair in their trading relationship with the U.S. and free riders on security matters are the most concerted American rhetorical attack on the transatlantic relationship in modern times.

The once positive image of the United States held by Europeans, the glue that held the transatlantic relationship together despite policy differences in the past, has been severely eroded. Citizens of many of America's closest European allies now hold quite unfavorable views of the United States, including more than six-in-ten Germans, Dutch and French.

This degree of anti-Americanism coupled with President Trump's attacks on the European Union complicate the political environment facing any effort to deepen the transatlantic economic relationship in the short run.

Moreover, the frustrated ambitions for the TTIP negotiations also served notice of a new political environment surrounding trade and investment issues in both the European Union and the United States. International economic liberalization has always been controversial on both sides of the Atlantic. But now opposition to globalization has impacted such efforts in new ways.

Barely half the French and Poles and only four-in-ten Italians and a third of the Greeks believe that their nation's involvement in the global economy is a good thing. Moreover, those who back the populist parties in France, Germany, the Netherlands, Sweden and the United Kingdom are all less likely to support international economic integration than is the rest of the population. Moreover, less than half the public in France, Germany and Italy hold the view that trade creates jobs. And many in Europe say that deeper economic integration is a race to the bottom, threatening Europe's environmental and consumer safety norms, calling into question one of the principle goals of any effort to come up with common technological and consumer standards.

At the same time, barely four-in-ten Americans believe that U.S. involvement in the global economy is a good thing. And a plurality says trade slows the economy, destroys jobs and lowers wages. Moreover, a majority of Trump supporters voice the view that trade deals are bad for the nation, complicating any effort to deepen the transatlantic marketplace.

The opposition to international economic integration is a reminder that economic change brings social disruption that can spur a political response. Greater trade integration creates both winners and losers, especially in the short term.

Moreover, the political turmoil generated by globalization is only a precursor of the looming job dislocation on both sides of the Atlantic threatened by greater reliance on artificial intelligence and robots. The digital revolution driving automation all but eliminates distance as a factor in doing business, heightening competitive pressures on firms and workers, inexorably driving ever greater use of algorithms and robots. This may trigger its own reaction among white-collar workers who have previously been largely immune from global competition. Research consistently finds that the jobs that are threatened by automation are highly concentrated among lower-paid, lower-skilled and less-educated workers. While a small minority of Europeans have actually used a robot at home or work, a strong majority



think robots will steal people's jobs and only a minority believe they will boost job opportunities. In the United States, half the public thinks automation hurts American workers. The personal, community and national adjustment costs that accompany trade liberalization and technological change should not be underestimated. They call for complementary policy measures to ensure that economic evolution works for all.

## The Strategic Context

Transatlantic economic relations are deeply imbedded in an increasingly challenging strategic environment. China's growing trade with and investment in both Europe and the United States, Washington's concerns about Huawei's penetration of computer networks, Russian assertiveness in Eastern Europe, the Middle East and American and European domestic politics, the U.S. imposition of economic sanctions on Iran and its trading partners in the wake of the American withdrawal from the Iran nuclear agreement and subsequent rising security tensions in the Persian Gulf are all reminders that the impetus for deeper U.S.-EU economic integration faces increasingly challenging geo-political concerns.

China is now Europe's premier import partner, supplying one-in-five EU imports, and its number two export partner, buying one-in-ten EU exports. Between 2014 and 2018 EU imports from China grew by 6.9% per year and exports expanded by 6.2% annually. And the EU trade deficit with China grew by 34% over that same period as China's demand for EU exports grew slower than European demand for products from China.

In 2016, Chinese investment in European companies peaked at EUR 35 billion, a 77% increase compared with 2015. Such investment has fallen off dramatically since then, registering only EUR 17 billion in 2018, amid a dramatic decrease in Chinese FDI worldwide. Recent trends highlight the economic risks related to these surging investments. Advanced manufacturing assets accounted for more than one third of the total of Chinese FDI in 2016, with a particular focus on machinery. Chinese interest is growing rapidly in sectors that remain restricted to foreign investors back in China. This highlights a lack of reciprocity.

Chinese investment flows into the EU are in stark contrast with stagnant or even declining FDI by European companies in China, particularly in financial services where EU companies have long been frustrated in their attempt to compete head-to-head with local players in the Chinese market. And Chinese investors have shown an interest in leading-edge European high-tech companies, firms whose technologies are both the seed corn for future European competitiveness and often have strategic military relevance.

The United States does even more trade with China. U.S. goods and services commerce with China totaled an estimated \$737 billion in 2018, with \$179 billion in exports and \$558 billion in imports. The U.S. goods and services trade deficit with China was \$379 billion. In 2016 Chinese companies invested a record \$46 billion in the US economy. More than 90% of Chinese FDI in 2016 was targeting US services and advanced manufacturing sectors. But by 2018 such FDI had fallen to just \$5 billion, amid Chinese restrictions on the outflow of capital, American calls for screening Chinese investment and growing tensions between Beijing and Washington.

Russia poses a different and far more immediate strategic challenge to the U.S.-EU economic relationship. Moscow's intervention in Ukraine led to the imposition of economic sanctions on Russia by both the EU and the United States. Between 2014 and 2018, EU goods exports to Russia declined by 4.7% annually and imports from Russia fell by 2% per year. Over the

same period, US goods exports to Russia fell by 3% per year and imports fell by more than 9% annually.

But the EU stake in Russian trade far exceeds American exposure. Even after the decline in commerce in the wake of the sanctions, EU merchandise imports and exports with Russia are 10 times that of U.S. trade with Russia. So the economic cost the EU pays for Russian sanctions is much greater. Thus the EU has even more of a self-interest than America in expanding other trade opportunities to fill the gap created by the Russian sanctions.

## **The Social Compact**

Americans and Europeans live in an era marked by change on steroids. Transatlantic society is being transformed by economic, political, cultural, technological and demographic forces that threaten instability on both sides of the Atlantic and that risk tearing apart the U.S.-EU relationship.

In the modern world the pace of change is accelerating. And European and American publics are finding this quite difficult. Half or more say they do not like the pace of modern life and strong majorities believe that their traditional way of life is getting lost. The publics' unease with the rapid transformation inherent in modern life has contributed to disillusionment, instability and populism.

Economic transformation driven by trade and technological innovation strengthens productivity and boosts growth, raising overall welfare. But the benefits created are often not fairly distributed, driving much of the public opposition to globalization.

In the future, if the productivity gains hoped for from artificial intelligence and robotics do not translate into broadly shared prosperity for workers and consumers, then additional wealth inequality may ensue that will be politically destabilizing.

The human costs of adjusting to change should not be underestimated and this challenge calls for complementary policy measures to ensure that the transatlantic economy of the future works for all.

The OECD has found that one-in-five Europeans of working age has low literacy and low numeracy skills and one-in-four lack the skills to effectively make use of information and communication technologies. Americans are weak performers in literacy, numeracy and are below average in problem solving in technology-rich environments.

Both Europe and the United States need to commit themselves to stronger basic education to create a firmer foundation of literacy and numeracy for all their citizens. And they need to institute lifelong learning programs, apprenticeships and other means of upgrading skills to ensure that their citizens can succeed both in competition with China and in the technology-driven world of the future.

This will require resources. Currently, spending on such labor market programs varies widely in the transatlantic space: Denmark spends 3.2% of GDP, the Netherlands 2.4% of GDP, Germany over 1.4% and the U.S. only .24%.

The modern transatlantic market economy has long been buoyed by a social safety net that both prepared the labor force for the evolving demands of the workplace and helped individuals weather the vicissitudes of economic ups and downs. Since Bismarck's nascent social welfare programs in Germany in the late 19<sup>th</sup> century, eventually adopted and



expanded by France, the United Kingdom, the Scandinavian countries, the Netherlands and, during the New Deal, the United States, to one degree or another transatlantic governments have had a reciprocal social contract with their citizens. Their publics accepted technological change and increasing international competition. And their governments helped their citizens adjust in a constantly evolving economic environment.

Creation of an ever-deeper transatlantic marketplace will require governments on both sides of the Atlantic to renew and evolve their social contracts. Americans and Europeans will need to jointly consider compatible tax and social welfare schemes that address the prospect of a more integrated European-American economy facing similar technological transformation while ever mindful of the need to not pose new competitive disadvantages for their businesses.

## Going Forward

In July, 2018 EU Commission President Jean-Claude Juncker and U.S. President Donald Trump set up a joint executive working group to work toward zero tariffs, zero non-tariff barriers and zero subsidies on non-auto industrial goods; to reduce barriers and increase trade in services, chemicals, pharmaceuticals, medical products, as well as soybeans; to launch a close dialogue on standards in order to ease trade, reduce bureaucratic obstacles and slash costs; to reform the WTO and address unfair trading practices. Progress has been slow.

What is missing is a broader ambition—to address the new challenges posed by the emerging digital economy, to comprehensively reform the rules-based multilateral trading system, to confront the competition posed by China and to reframe ambitions for deeper transatlantic economic integration in a broader security context. Nor is there a joint strategy to achieve a transatlantic marketplace by a date certain. And there has been no effort to engage publics on both sides of the Atlantic to address their concerns, the objections that all but doomed TTIP.

Many of the factors that encouraged TTIP's initial launch remain unchanged. Globalization, demographic trends and technological developments continue to transform the world at an ever-accelerating pace. The promise of the digital age gives even greater urgency to deeper transatlantic cooperation on issues relating to privacy, technological standards and the future of work. But the ensuing stresses continue to drive centripetal political, economic and social developments. European and American cooperation is needed even more than before to provide steadiness and predictability in the global system at a time when multilateral solidarity is fracturing.

European and American economic engagement with the Asia-Pacific is evolving. The United States has pulled out of the Trans-Pacific Partnership, a free trade agreement negotiated with 11 other nations bordering the Pacific that it originally championed. The Trump Administration favors bilateral or regional deals and has renegotiated the U.S. free trade pacts with South Korea, Canada and Mexico. The EU has completed individual trade deals with Japan, Canada and Vietnam and is negotiating accords with Indonesia and the Philippines.

A decade from now both trade and investment ties with the Asia-Pacific may well outweigh those across the Atlantic and they will almost certainly be fraught with greater tensions and more disputes. American and European companies will be ever more deeply imbedded in China, India and Southeast Asia. Their interests will lie in establishing technical norms and common regulatory practices with Asian governments. European and American strategic

interests and the focus of their foreign policy will follow.

With the growing importance of Asia in the global economy, and, in particular, with China's emergence as a global force, U.S. and EU cooperation is even more important to ensure that common transatlantic technical standards, based on the appeal of what is still the world's largest market, become the prevailing global standard, especially for emerging information, bio, nano and similar cutting-edge technologies. Common standards convey competitive advantage that would enable European and American firms, workers and economies to reap the benefits of being first movers and trendsetters.

As important, greater U.S. and EU economic cooperation will ensure that Western values and regulatory principles—transparency, due process, accountability and the rule of law—prevail in the resolution of inevitable trade and investment disputes and in the promulgation of the new rules of the road for the 21<sup>st</sup> century economy. It is the assertion and strengthening of these norms of democratic capitalism that could prove to be the most enduring legacy of a deeper transatlantic economic partnership.

Alliances stick together when they have common projects. Since the end of the Cold War Europe and the United States have drifted apart. The rise of populism on both sides of the Atlantic threatens to create new tensions in the alliance. Anti-Americanism is on the rise in Europe. Yet Americans still believe that Europe not Asia is America's most important partner. How long such sentiment will predominate is unclear, but American millennials already see Asia as more important. Facing both an economic and demographic imperative, creation of a more integrated transatlantic economic space is long overdue and will give the Alliance a new, shared purpose based on mutual values and interests.

A deeper economic partnership will build on the principles of openness to trade and a commitment to free markets that have driven economic liberalization on both sides of the Atlantic. These were enshrined in the international economic organizations crafted jointly by Europe and the United States over the last half century, institutions that have served the world well since then. In this spirit, renewed cooperation will help revive the multilateral trading system, reforming and updating the World Trade Organization, in order to maximize the global benefits of increased commerce in a non-discriminatory manner.

Once a more integrated transatlantic market has been realized it can be opened to others on a reciprocal basis and can serve as a model for further multilateral liberalization around the world, breathing new life into the WTO. Only Europe and the United States have the economic, political and institutional capacity, desire and will to provide such leadership at this time.

## **The Strategic Challenges and Opportunities**

The world confronts critical challenges over the next two decades: the movement of people, inequality, potential job displacement from rapid technological change, a warming climate and security challenges such as proliferation, mass atrocities, and transnational criminal and terrorist networks. It also faces unparalleled opportunities: the emergence of a global middle class with economic, democratic and human rights aspirations. Ever greater opportunities for international trade and investment. And the emergence of new technologies that promise unprecedented opportunities for human development.

The transatlantic alliance is the necessary partnership for dealing with these challenges and for maximizing the benefits created by these opportunities. Only through deeper U.S.-

European strategic and economic ties can people on both sides of the Atlantic hope to cope with the future that lies ahead of them.

Before the middle of this century the US and European markets will no longer dominate the world. The emerging and developing countries, which accounted for a fifth of the world's wealth in 2005 will account for a third by 2025. The European Union will no longer be the world's largest exporter. The center of gravity of world production and world trade will have moved to Asia. The gap between rich and poor within countries may have grown, even as the gap between rich and poor nations may have narrowed, exacerbating social and political tensions within developed, emerging and developing societies. And collaboration across borders, enabled by the vastly enhanced power of digital communications tools and technologies in the hands of a new generation, will be transforming the economic and social environment around the world.

At the same time, while the world's population will rapidly grow to 8 billion, and three-fifths of those people will be Asian, richer nations will be aging. Europe will become the region with the oldest population. Both Europe and the United States will face an even larger budgetary burdens thanks to the pension and health care needs of their ageing societies. Migration, already a volatile issue, will become a major challenge, with one-in-seven Europeans likely to be a migrant by 2025 as climate change sets millions of people around the world on the move.

By the end of the first quarter of this century, global demand for fossil fuel will have grown substantially. Europe could face growing competition for energy from China, India and other emerging markets, leading to new strategic frictions. At the same time, the United States, with its newfound natural gas reserves, may become more energy self-sufficient, altering America's economic and strategic calculus.

Climate change and the need to address it will dominate much of the transatlantic agenda in the years ahead. The burgeoning use of carbon-emitting energy sources will hasten global warming, creating food shortages, intensifying migration pressures, while aggravating health problems. The need to drastically reduce carbon emissions will spark a global race to develop a suite of new green technologies. Europe and the United States will be most successful if they cooperate in this endeavor as they compete with China for 21<sup>st</sup> century dominance in such innovation.

The world over the next few decades will be one in which economic, political and strategic power is more evenly distributed. This multi-polar, digitally-connected world could prove contentious. Moreover, the economic success of undemocratic regimes could pose new challenges for the democratic values shared by Europe and the United States. And there will be ongoing questions about how to best deal with terrorism, failed states and unstable regions in the Middle East and Africa.

Looking forward, opportunities abound for the extension of European and American values and interests. Globalization is generating unprecedented abundance, lifting people out of poverty. The rise of a middle class in countries all over the world is generating demand for the technologies created by European and American entrepreneurs and innovators. It is also creating a whole generation of people hungry for the democratic and capitalistic values and opportunities first incubated in the transatlantic space. Europe and the United States have the chance to shape those emerging values and to benefit from this new economic dynamism.

But this will be impossible without sustained transatlantic cooperation. This effort itself will give new purpose and meaning to the transatlantic alliance. And the test case for this cooperation is a renewed effort to deepen U.S.-EU economic integration. If America and Europe cannot work together in their economic self-interest, broader cooperation on global issues will not be credible.

## Finishing the Journey

A transatlantic economic partnership is the culmination of a long journey that began in the 1990s, with many starts and stops along the way. Successful ventures owe their realization to many individuals and organizations. Since its founding in 1992 the Transatlantic Policy Network has been a forum for dialogue within the transatlantic policy community, advocating a stronger partnership through deepening economic ties between the European Union and the United States. TPN seminars for policy makers and business leaders have been instrumental in the creation of the New Transatlantic Agenda, the Transatlantic Business Dialogue, the Transatlantic Economic Partnership and the Transatlantic Economic Council, all precursors of the TTIP. TPN annual reports have raised ambitions and framed the debate over the future of the transatlantic economic and strategic partnership.

## No Room for Failure

Europe and America cannot afford to fail in creating a transatlantic economic partnership. The cost of not succeeding would be profound and long lasting. Potential economic growth and jobs would be lost. There would be no bilateral spur to revival of multilateral trade and investment liberalization. The European Union and the United States would continue to drift apart economically and strategically. Competitors around the world would take note and take full advantage. Future global technical standards and regulatory norms and practices would not reflect transatlantic values. And Europe's temptation to divide into differentiated circles of integration—a two-speed Europe—might accelerate, leading to less predictable and more ad hoc transatlantic relations. The alliance would likely be shaped issue by issue, potentially leaving the United States to concentrate more on relations with individual European governments, undermining a half century of Europe's effort to speak with one voice in dealing with America and Washington's long desire to have one person to call in Europe. With so much at stake, a new beginning for the transatlantic economic partnership is urgently needed because the cost of doing nothing is too great.

*This paper is the responsibility of its authors and does not necessarily reflect the views of any individual participant or organization.*

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