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# PAPER SERIES

## SUMMARY

Early in the twenty-first century, there is a general feeling that the primacy of the transatlantic economy is in its twilight. Given the global weight of the transatlantic partnership, disputes and disagreements between the United States and Europe invariably take on global dimensions. Against this backdrop, the world cannot afford the transatlantic economy to fail, which makes the all the transatlantic bickering since the crisis began all the more discouraging.

The current economic crisis presents a unique opportunity for leaders on both sides of the Atlantic to rewrite and reconfigure some of the basic fundamentals of the transatlantic economy. Only strong cooperation and coordinated response to the global crisis would underpin and support the transatlantic economy's role as one of the most important components of the global economy.

## THE TRANSATLANTIC PARTNERSHIP: TWILIGHT OR TRANSFORMATION?

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The transatlantic economy remains the largest and most dynamic commercial artery in the world. However, early in the twenty-first century, there is a general feeling that the primacy of the transatlantic economy is in its twilight. A new world order is the making, according to the consensus, lead by China, India, Russia and other developing nations. Following this logic, the rise of the developing world portends the decline of the U.S. and Europe, or the standard bearers of the global economy.

Against this backdrop, it is hardly surprising that fear and alarm have grown in the United States and Europe over the seismic shift underway in the world economy. On both sides of the Atlantic, alarm bells are ringing over the potential for lost jobs, lower incomes, and soaring imports courtesy of the new world economic hierarchy. The benefits of globalization are increasingly being questioned, with a powerful undertow slowly eroding support for a process that has been hugely beneficial to stakeholders in both the U.S. and Europe.

In that globalization's demise would produce only losers, the challenge before the transatlantic economy is quite simply: the mentality that the developing nation's rise goes hand-in-hand with the decline of the U.S. and Europe needs to be disposed of,

and quickly. What's urgently needed is a more dynamic and forward-looking mindset that embraces the core principle that the integration of Poland, Turkey, South Africa, and other developing nations in the global economy will benefit all parties involved.

### The Primacy of the Transatlantic Economy

The overarching importance of the transatlantic economy is one of the best kept secrets in the world. Despite all the chatter about the rise of China and India, and the spectacular growth of sovereign wealth funds, the transatlantic economy accounts for around 45% of world GDP (based on a Purchasing Power Parity basis). Over half of world exports and world imports originate with the transatlantic economy. Meanwhile, in 2007, the transatlantic economy accounted for nearly three-fourths of global outward foreign direct investment stock and for a similar share of global M&A deals. Finally, in terms of wealth, or personal consumption, there is no global substitute for the transatlantic economy—the U.S. and Europe accounted for 60% of global personal consumption expenditures in 2007, up slightly from a decade ago.

All of the above is another way of saying that is no more important



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commercial artery in the world than the one that binds the United States and Europe together. Hence, when one half of the transatlantic partnership suffers or goes into recession, like the United States in 2008, the other half suffers as well. Courtesy of the U.S. subprime meltdown and attendant global credit crisis, the transatlantic economy fell into one of the deepest recessions since the Great Depression in late 2008. Growth has rebound but there are still a number of structural challenges ahead for both the U.S. and Europe. Protectionism must be avoided.

Given the global weight of the transatlantic partnership, disputes and disagreements between the United States and Europe invariably take on global dimensions. To this point, barring U.S.-E.U. cooperation, the Doha trade negotiations are bound to fail. Aid and assistance to the developing nations will flounder. Global issues like the war on terrorism, talks on climate change, energy security, peace in the Middle East, the proliferation of weapons of mass destruction—all of these critical issues hinge on collaboration and cooperation between the United States and Europe.

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Against this backdrop, the world cannot afford the transatlantic economy to fail, which makes the all the transatlantic bickering since the crisis began all the more discouraging. Instead of cooperation and collaboration, conflict and competition have marred the transatlantic partnership over the past few years. At the macro level, the transatlantic debate has pivoted around U.S. demands for more fiscal stimulus versus European demands for more industry regulation. In large part, Europe has been more circumspect about priming the fiscal pump versus the United States which is on its way to a federal budget deficit in excess of 13% of GDP. Not surprisingly, but unfortunately, the financial crisis has done more to divide than unite the U.S. and Europe. Transatlantic financial sector reform is being debated and crafted in silos, with little cross-border coordination. The Greek financial crisis threatens to undermine the Europe's single currency project, a prospect that would be huge blow to the transatlantic economy.

In general, the west has had a bad crisis—the U.S.-led model of capitalism has been discredited; Europe's uncoordinated response to the crisis, coupled with the sovereign debt crisis of Greece, has left the

Continent the “sick man” of the global economy; and in Asia, Japan's incompetence in generating growth juxtaposed against the ease by which China sailed through the crisis solidified Asia's new economic order, with the Middle Kingdom firmly on top.

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From all of the above, the crisis has left the west weaker and handicapped in shaping the global economic agenda of the future. While “the rise of the rest” has garnered the most attention from the media and policy elites over the past few years, the decline of the west is equally as important, if not more so. The legitimacy of the west is in decline; the near 6 billion who live outside the West no longer feel beholden to Western-dominated institutions and have lost faith western ways of economic management. The rest of the world is becoming more detached from the west.

One key risk to this backdrop is that soaring unemployment on both sides of the Atlantic trigger populist, inward, anti-trade and investment policies in Washington and Europe. The rate of unemployment in both the United States and Europe is poised to climb in the near term, and the higher the jobless rate, the greater the pressure on policy makers to guard against outside forces and pursue policies that may be detrimental to the transatlantic economy. On this last point, U.S. efforts to encourage American firms to invest more at home rather than overseas could result in less foreign direct investment in Europe. By the same token, European policies that aim to protect and shelter so-called “national champions” could damage and halt transatlantic deal-making.

Related to the above is another risk—that both the United States and Europe squander the Great Recession of 2008/2009 by failing to think big, or think outside the box in tackling some of the structural deficiencies and impediments to growth that have long burdened the transatlantic economy.

The current crisis is also an opportunity. Hence, the need for transatlantic leadership has never been greater. Cyclical forces (the current economic recession) and secular dynamics (the growing clout of the emerging markets) should be met with a renewed transatlantic effort to tackle and overcome many of the barriers that stand in the way of further US-Europe integration. Rather than muddling through—the most likely scenario—the transatlantic

partnership should view the current crisis as a golden opportunity to fundamentally alter the current backdrop.

## The Road Ahead

The transatlantic economy needs to transform its thinking and actions as it pertains to the growing economic influence of the developing nations. This requires a three-front strategy from the U.S. and Europe:

### 1. Identify and Cooperate in Areas of Mutual Interest

The United States and Europe should engage and work with the developing nations in a number of key areas that are mutually beneficial to all parties. Ripe areas of cooperation include global climate change and the environment; energy security; and the challenges associated with a rapidly aging population.

Where possible, the U.S. and Europe should collaborate on how best to tackle these issues. The transatlantic partnership needs to actively engage China, India and others on how best to create new energy technologies, renewable energy sources, and global warming regulations that steadily reduce carbon emissions. In that virtually every nation in the world confronts a rapidly aging population, joint efforts should also be directed at securing the future for the global elderly.

In addition to the above, the U.S. and Europe should work to increase the participation and involvement of China and other key developing nations in the deliberations of various multilateral organizations, notably the International Monetary Fund and World Bank. Such a strategy would help facilitate and coordinate global macroeconomic policies and turn many developing nations into global stakeholders.

### 2. Continue to Strengthen the Transatlantic Partnership

The stronger the transatlantic economy, the better positioned the United States and Europe will be to meet the challenge posed by the rise of the developing nations. In this respect, strengthening the transatlantic partnership is critical in ensuring a smooth functioning global economy.

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Among all the commercial arteries in the world, the transatlantic economic ties are the deepest and thickest. However, various transatlantic tariffs and non-tariffs, regulations and bi-lateral industry impediments have slowed the pace of transatlantic integration, notably in many service areas. The transatlantic economy could become even more competitive and dynamic if various protectionist layers on both sides of the Atlantic were removed, allowing for an even deeper level of transatlantic integration across various sectors. The task for policymakers is to find mutual areas of cooperation and convergence that will ultimately strengthen the overall transatlantic economy.

Above all else, the U.S. and Europe need to work diligently so as not to allow specific bi-lateral tension points to fester, thereby precipitating a transatlantic split. Neither party can afford a divorce. Such a scenario would devalue the global influence of the transatlantic partnership; it would undermine joint efforts in integrating others into the global economy and would represent a leap backwards in fostering global prosperity.

### 3. Get Things Right At Home

Adjusting to the competitive challenge of China and other developing nations requires that the United States and Europe get their own economic house in order, a dynamic that would help boost the confidence and competitiveness of the transatlantic partnership relative to the rest of the world.

The “to-do” list in the United States includes increasing the national savings rate; reconciling unsustainable Medicare and Medicaid payments, in addition to reforming social security; strengthening America’s public school system; and cutting the federal budget deficit.

In Europe, creating the right conditions for sustainable economic growth is imperative. Towards this end, the EU should implement measures that would lead to labor market reform, the creation of a pan-European capital market, the deregulation of the service economy and the implementation of the Lisbon Agenda.

In the end, there are many complementary and convergent interests that can bind the transatlantic economy and the developing nations together. The task is to identify these interests and construct a working relationship for all parties. Failure to do so will come with a high price. While the transatlantic economy remains one of the most vibrant components of the world economy, maintaining this position will not be easy. Avoiding the twilight means the transatlantic partnership must undergo a period of transformation.

### **Wanted: A Transatlantic Reset**

All of these issues have been broached and debated at length in the past, although little energy and coordination has been forthcoming from both sides of the ocean. However, with the transatlantic economy in need of a major "reset", now is the time for transformational policies.

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Similarly, now is the time to push ahead in numerous other areas that require joint US-EU cooperation. More transatlantic coordination and common goal-setting is needed in areas such as biofuel standards, container cargo security, green product standards, reinsurance, health care, intellectual property rights, import product standards, accounting standards, and other areas where greater transatlantic standardization and the harmonization would help promote growth on both sides of the Atlantic.

In the end, the current economic crisis presents a unique opportunity for leaders on both sides of the Atlantic to rewrite and reconfigure some of the basic fundamentals of the transatlantic economy. With the financial systems of both the U.S. and Europe impaired by the toxicity of non-performing loans, what better time to revamp and create a transatlantic capital markets? With the transatlantic economy in shambles, what better time than to push ahead with the idea of a deeper, more integrated transatlantic marketplace? And with both the U.S. and Europe energy-deficient and struggling with global climate change, what better time for the two parties to aggressively coordinate their responses to these global challenges?

Leaders on both sides of the Atlantic should seize the opportunity at hand. Rather than looking inward and

retreating behind protectionist barriers, legislators and policy makers should adopt bolder far-reaching initiatives, setting a new and sounder course for the transatlantic economy. A more aggressive and coordinated response to the global crisis would underpin and support the transatlantic economy's role as one of the most important components of the global economy. Related to this last point, that the transatlantic economy is too big to fail should be top of mind of policy makers on both sides of the Atlantic.

### **ABOUT GLOBSEC PAPER SERIES**

Globsec Paper Series provides Slovak and broader security community with policy recommendations by decision and opinion-makers throughout Euro-Atlantic. Their aim is to foster the discussion on current international security issues and transatlantic agenda bringing upon critical assessment the topic.

### **ABOUT GLOBSEC**

GLOBSEC is the annual high-level leading international foreign policy and security conference in Central Europe. Since 2005, this forum has been gathering the most influential governmental, nongovernmental, corporate leaders and opinion builders, including journalists and security experts. GLOBSEC annually creates an unparalleled venue for international and domestic security community to discuss solutions to key transatlantic and global security challenges in Central Europe.

### **ABOUT SAC**

The Slovak Atlantic Commission (SAC) is an independent, non-partisan, non-governmental organization which deals with national and international security issues. Aim of the Slovak Atlantic Commission is to support constructive and active involvement of the Slovak Republic in international affairs with emphasis on cooperation in the Euro-Atlantic community, support of transatlantic cooperation and effective implementation of foreign and security policy of SR through building a net of individuals and institutions (state, non-governmental and private), unified in strong security community. The Slovak Atlantic Commission represents a net of leaders who bring ideas to power and give power to ideas.