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North Atlantic Trade and Investment Links: For Internal and External Openness

Proposals for transatlantic integration of any kind arouse strong interest because of the economic power of the potential partner countries. The following article attempts to assess the impact of a "free trade and investment area" and examines the costs and benefits involved.

The idea of a common market between the United States of America and the European Union is again enjoying high political currency. The first moves in this direction in the sixties were overtaken by the Kennedy Round of multilateral trade negotiations. All that remains of the planned North *Atlantic* Free Trade *Area* of that period is the acronym NAFTA, which now stands for the North *American* Free Trade *Agreement* and symbolises the "Americanisation" of US trade policy. In 1994 the original NAFTA changed semantically into TAFTA (Trans Atlantic Free Trade Area), a joint British, German and Canadian initiative, which in 1998 became the New Transatlantic Marketplace Agreement (NTMA), at the suggestion of the European Commission, and finally, at the EU-US summit in London, the joint Transatlantic Economic Partnership (TEP) initiative. At the same time both sides wish to reinvigorate the multilateral process in Geneva, at the World Trade Organisation (WTO), with the EU in favour of a "millennium round" of global trade talks while the US rather prefers a selective sector-by-sector approach. Once again the question therefore arises as to the usefulness of an economic alliance spanning the North Atlantic, its political feasibility and its compatibility with the multilateral trading system and increasingly global corporate strategies.

The EU and the USA are at the centre of transatlantic integration efforts and they are also, in accordance with the "hub and spoke" model of "imperial harmonisation",[1] the hubs of the (existing and planned) regional integration schemes on each side of the Atlantic: NAFTA and FTAA (Free Trade Area of the Americas) on the American side, EEA (European Economic Area), "Europe Agreements" and "Partnership Agreements" on the European side. At the same time supraregional links are being created or reinforced between the "spokes" (for example, between Canada and EFTA) and between "hubs" und "spokes" (such as between the EU and Mercosur, while the USA and the EU is each involved on its own account in integration or co-operation projects with the other hub of the triade, namely Eastern Asia: APEC (Asia-Pacific Economic Co-operation) and ASEM (Asia-Europe Meetings). In this web of overlapping co-operation agreements within and between regions, still including a multitude of other arrangements,[2] a North Atlantic economic agreement could possibly perform a bridging function and curb centrifugal tendencies while acting as a catalyst for multilateral deals.

Economic Power

Proposals for transatlantic integration of any kind arouse strong interest because of the economic power of the potential partner countries. The European Union and the United States have respectively just under 7% and 5% of the world population but account for around 30% and 25% of world GNP; together, they therefore generate more than half of the total and almost five times more than their share of the world population (Table 1). Their share of world trade is not quite as large. In 1996 they accounted for 50.6% of merchandise exports (EU 38.8%, USA

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[1] Robert Z. Lawrence: Regionalism, multilateralism, and deeper integration, Washington, DC, 1996, p. 3.

[2] Examples are (1) sub-regional agreements such as CEFTA (Central European Free Trade Agreement), CAN (Comunidad Andina de Naciones) and AFTA (Asean Free Trade Area), (2) bilateral agrements such as the planned co-operation agreement between the EU and Mexico and (3) preference systems such as the Lomé Agreement, CBI (Caribbean Basin Initiative) and the recent US Africa Initiative, the "Africa Trade Bill".

11.8%) and 51.3% of imports (EU 36.2%, USA 15.1%).[3] Their trade shares fall to 35.2% for exports and 37.7% for imports if intra-EU trade flows are excluded.[4] Adjusting the figures in this way also makes their trade shares more or less the same: while the EU shares fall by a half, the US shares increase by almost one-third; in the case of imports the EU even falls behind the USA. The US import ratio (imports as a percentage of GDP) is then significantly above that of the EU, while their export ratios are almost identical (Table 1). Measured in terms of the overall foreign trade ratio (exports+imports/2 as a percentage of GDP), the US economy is therefore now more open than the European economy (9.7%, as against 9%).[5] Finally, if one imagines the EU and the USA as a single large North Atlantic region ("Atlantica") and accordingly considers trade between the two sub-regions as internal trade, this region would have accounted for around one-third of world trade in 1996; its foreign trade ratio in 1995 would have been just over 7% (Table 1). If the EFTA countries on the European side and Canada and Mexico on the American side are also included in the area – in other words, if the EEA and NAFTA are "integrated" arithmetically, "Atlantica's" share of world GDP rises to almost 60%, whereas its share of world trade falls below 30% because of the "internalisation" of further foreign trade flows and its foreign trade ratio declines to little more than 5%.

Table 1
Basic Economic Data, 1995/96: EU, USA, "Atlantica"[a]

		EU	USA	Atlantica
Gross domestic product (GDP)	$ bn	8398	6952	15350
	% world	30.2	25	55.1
Population	mn	372	263	635
	% world	6.6	4.6	11.2
Per capita GDP	$	22571	26422	24166
Exports to third countries	$ bn	793	623	1143
	% BIP	9	8.4	7.1
	% world[b]	19.7	15.5	30.5
Imports from third countries	$ bn	771	818	1298
	% GDP	8.9	11.1	7.4
	% world[b]	18.3	19.4	32.9

[a] GDP and population data for 1995, trade data for 1996.
[b] World exports and imports, excluding intra-EU trade, and in the case of "Atlantica" also excluding intra-"Atlantica" trade.

Sources: IMF: Direction of Trade Statistics. Yearbook 1997; World Bank: World Development Indicators (CD-ROM).

Table 2
Interregional Foreign Trade Flows, 1996[a]

	All goods		Industrial goods		Agricultural products	
	$ bn	% world[b]	$ bn	% world[b]	$ bn	% world[b]
WE-NA	3272 (338.9)	13.7 (15.0)	2642	151	28.0	10.2
EU-USA	272.5	11.4 (12.0)	227.9	13.0	21.5	7.9
WE-EE	208.1	8.7 (9.2)	144.1	8.2	26.9	9.8
EU-Asia[c]	430.9	18.0 (19.0)	382.4	21.8	30.9	11.3
EU-Japan	108.1	4.5 (4.8)	83.0	4.7	5.3	1.9
NA-LA	238.0 (106.2)	9.9 (4.7)	172.1	9.8	28.8	10.5
NA-Asia[c]	520.2 (529.9)	21.7 (23.4)	439.5	25.0	54.8	20.0
USA-Japan	180.7	7.5 (8.0)	152.9	8.7	19.1	7.0

[a] Figures in brackets with North America incl. Mexico.
[b] Share of interregional world trade.
[b] Asia incl. Australia and New Zealand, excl. Middle East.

WE = Western Europe; EU = European Union; EE = Eastern Europe (incl. Baltic and CIS states), NA = North America; LA = Latin America.

Sources: WTO: Annual Report 1997; IMF: Direction of Trade Statistics, Yearbook 1997.

Bilateral Trade

Bilateral trade between Western Europe (EU + EFTA) and North America (USA + Canada + Mexico) amounted to $338.9 billion in 1996, equal to 6.4% of total world exports. The EU and the USA alone accounted for 5.1 percentage points of this, equal to 80.4% of bilateral trade between the two regions. If world trade is adjusted to take account of EU internal trade, the shares rise to 8.4 and 6.7% respectively. If all other intra-regional trade flows are also eliminated (within North America and Latin America, within Western Europe and Eastern Europe, within the Asia-Pacific region and within Africa), thus leaving only trade between the world regions (in the WTO regional classification, with the exception of Mexico being included in the North American region), the shares of world trade for North Atlantic merchandise trade are 15% (EEA-NAFTA) and 12% (EU-USA). North Atlantic

[3] The average share of exports and imports together comes to 51% (EU 37.5%, USA 13.5%). Based on IMF: Direction of Trade Statistics, Yearbook 1997.

[4] Their average share of exports and imports together in this case amounts to 36.5% (EU 19%, USA 17.5%). Based on IMF: Direction of Trade Statistics, Yearbook 1997.

[5] Viewed over a fairly long time-span, it can be seen that the USA has opened its economy far more rapidly than the EU, or Japan. This is attributable mainly to a steady rise in the import ratio, which in the mid-eighties surpassed that of the EU for the first time (European Economy, No. 3, 1997 (The European Union as a World Trade Partner), pp. 25 ff.

trade is therefore by far the smallest of the inter-regional trade flows within the triade, since trans-pacific trade between North America and Asia and European-Asian trade amounted to respectively 23.4% and 19% of inter-regional world trade in 1996. At the same time, however, trade between Western Europe and North America is more than three times as large as NAFTA trade with Latin America (4.7%) and two-thirds greater than trade between Western and Eastern Europe (9.2%, including the Baltic states and the CIS Commonwealth of Independent States). US-EU trade is also one-and-a-half times as large as US trade with Japan (8%) and towers even more over EU trade with Japan (4.8%). The overall picture is not significantly different if trade is broken down into industrial goods and agricultural products (Table 2).

North Atlantic trade has declined almost continuously since the mid-eighties in relation to both total world trade and inter-regional trade, as a fall in the partner countries' shares of world trade has combined with a decrease in intra-area trade as a proportion of their total trade. The shares of world trade of both the EU and the USA have indeed fallen, and their bilateral trade has contracted even more rapidly than their trade with third countries (Table 3). According to the customs union theory, this would limit possible welfare benefits for the partner countries from a North Atlantic free trade area while "the discrimination effect of bilateral trade liberalisation to the detriment of third countries must not be underrated".[6]

Table 3
Shares of World Trade and Bilateral EU-US Trade, 1990 and 1996[a]

	All goods		Industrial goods		Agricultural products	
	1990	1996	1990	1996	1990	1996
Share of world trade:						
EU exports	21.1	19.7	26.6	24.3	16.0	15.5
EU imports	19.8	18.1	21.6	18.0	27.4	21.7
US exports	16.4	15.5	17.9	17.6	21.0	19.6
US imports	20.4	19.4	23.2	23.0	14.1	13.6
EU-US trade						
$ bn	207.9	272.4	169.7	227.9	18.7	21.5
% of world exports	8.7	6.8	10.5	8.2	6.6	5.1
EU share of:						
US exports	26.3	20.5	27.6	20.8	20.4	16.6
US imports	20.0	18.0	22.5	19.6	17.1	15.3
US share of:						
EU exports	20.6	18.3	20.7	18.9	14.5	12.2
EU imports	20.8	19.3	26.5	25.4	15.5	15.7

[a] Excluding intra-EU trade.

Sources: IMF: Direction of Trade Statistics, Yearbook 1997; WTO: Annual Reports 1996 und 1997; data supplied by the WTO Secretariat.

Direct Investment

Merchandise trade is not, however, the only economic link between Europe and America. Reciprocal direct investment is far more important, particularly as the services sector, which contributes the lion's share of the aggregate GDP on both sides of the Atlantic (approximately 70% in the EU and even more than 70% in the US), is more closely integrated via direct investment than via trade. In 1996 services (excluding wholesale and retail trade) accounted for 46% of the total stock of US direct investment in Europe, compared with 34% for manufacturing industry. In the same year services accounted for 35% of European direct investment in the USA and industry for 42%.[7] Around two-thirds of all foreign direct investment in the USA comes from the EU and almost half of US direct investment abroad is carried out in the EU, whereas the EU's shares of US merchandise exports and imports are only about one-fifth. The disparity is even more pronounced in manufacturing industry than in the economy as a whole (Figure 1). These ratios have barely changed over the years.

The picture is similar if transatlantic trade and direct investment ties are viewed from the standpoint of the EU. In 1995 around 45% of the combined direct investment of German, French, British, Italian and Dutch companies in non-EU countries went to the USA, whose share of third-country exports by these five countries was, by contrast, less than one-fifth. In the case of inward investment and imports the disparity is even more striking – 55% against 19% – and has also become even more pronounced since 1989 (Figure 2). Indeed, the transatlantic ties created by direct investment are much closer than the trade ties.[8] This can also be seen as a sign of convergence between the two economic areas.[9]

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[6] Horst Siebert, Rolf J. Langhammer, Daniel Piazolo: TAFTA: Fuelling trade discrimination or global liberalisation? in: Journal of World Trade, Vol. 30, No. 3, June, p. 18.

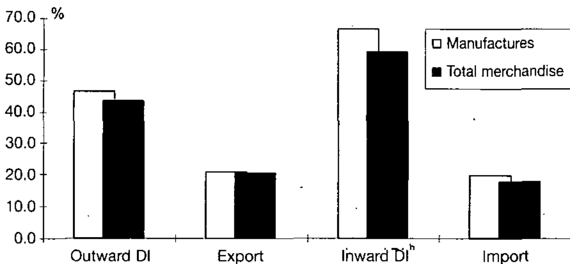
[7] Based on US Department of Commerce: Survey of Current Business, September 1997, pp. 88 and 128.

[8] Dunning demonstrates this using the delta coefficients for 1990, relating the bilateral trade and investment shares to world shares (John H. Dunning: The European internal market programme and inbound foreign direct investment (Part 1), in: Journal of Common Market Studies, Vol. 35, No. 1, March, pp. 22 ff.). Dunning finds the opposite to be true of inter-European transactions, in other words, trade ties are stronger than direct investment ties. He interprets this disparity as being "consistent with the fact that extra-EC trade barriers, and the notion of 'Fortress Europe' as perceived by some non-EC foreign investors, has led to more defensive (and possibly trade-replacing) FDI than in the case of intra-EC transactions" (p. 23).

[9] See James R. Markusen, Anthony J. Venables: The increased importance of direct investment in North Atlantic economic relationships: a convergence hypothesis, in: Matthew. B. Canzoneri, Wilfred. J. Ethier, Vittorio Grilli (eds.): The new transatlantic economy, Cambridge 1996.

At the same time, transatlantic direct investment and trade flows are closely interwoven. Shipments by US parent companies to their subsidiaries in Europe (for processing and resale in almost equal parts) and by European subsidiaries in the USA to their parent companies now account for almost half of total US merchandise exports to Western European industrial countries. Similarly, about half of US merchandise imports from these countries consists of intra-firm shipments of this kind, which are growing strongly, and more rapidly than total bilateral trade (Figure 3). These trade flows are growing more or less in parallel with the sales of subsidiary companies, or even more rapidly. For example, (merchandise) imports by European subsidiaries from their American parent companies increased by 8.3% a year between 1982 and 1994 and their (merchandise) sales rose by 6.0%. Shipments of products for resale increased slightly more rapidly than products for processing (by 8.5%, compared with 8.3%) while shipments of capital equipment have stagnated at a low level.[10] The total merchandise exports of the USA to Western Europe increased by 6% a year over the same period.[11] This all points to marked complementarity between trade and direct investment in North Atlantic economic relations.

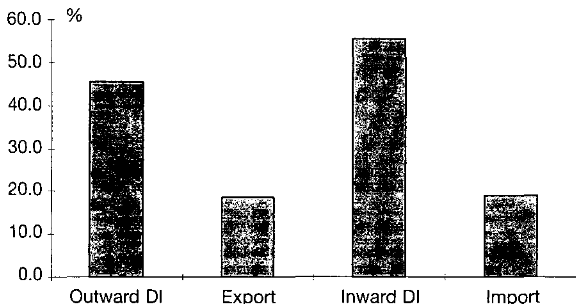
Figure 1
Trade and Direct Investment Links between the USA and the EU, 1996[a]



[a] EU share of the US data shown.
[b] EU excluding Greece and Portugal.

Sources: US Department of Commerce, Survey of Current Business, September 1997; WTO, Annual Report 1997.

Figure 2
Trade and Investment Links between the EU and the USA, 1995[a]



[a] US share of the EU data shown (EU = Germany, France, Italy, Netherlands, United Kingdom).

Sources: OECD, International Direct Investment Statistics, Yearbook 1997; IMF, Direction of Trade Statistics, Yearbook 1997.

Additional or wider complementarity is to be seen in the fact that rising US direct investment in Western Europe has gone hand in hand with an increase in the intra-European and intra-firm export shares of the subsidiary companies in that region. This can be shown to have generated particularly strong impetus towards integration during the first 25 years of the economic unification process in Western Europe, the years from 1957 to 1982.[12] In later years regional exports by subsidiaries initially declined in relation to their total sales (from 32.7% in 1982 to 29.3% in 1989), but then rose again (to 31.2% in 1994). By comparison, intra-firm exports continued to rise rapidly as a share of subsidiaries' total regional exports, from 43.6% in 1982 to 56.5% in 1989 and 61.2% in 1994.[13] US corporations are also overrepresented in sectors classified by the European Commission as particularly sensitive from the standpoint of the internal market.[14] In these sectors ("high-impact industries") sales by European subsidiaries have increased much more rapidly than in industry as a

[10] Based on US Department of Commerce:, Benchmark Survey (US Direct Investment Abroad) 1982 and 1994.

[11] Based on IMF: Direction of Trade Statistics, Yearbook 1989 and 1997.

[12] Dunning shows that "the most impressing trading performance was recorded by the EC affiliates of US MNEs" und concludes that "the fact that between 1957 and 1982 the share of exports to non-US countries (mainly European) of their total sales rose threefold, and over two-thirds of this trade was intra-firm, points strongly to the complementary interplay between extra-EC FDI and intra-EC trade" (John H. Dunning, op. cit., p. 4). The expansion of internal trade between US subsidiaries in Europe is viewed as "the most dramatic effect of Mark 1 integration", that is to say the first phase of EC integration (1958-85) (p. 4).

[13] The exports of subsidiaries are net of shipments to the USA, in other words they are essentially identical with their exports to other Western European countries or to their sister companies in those countries, as exports to Eastern Europe and other world regions are insignificant. Exports (and total sales) comprise not only goods but also services (data based on US Department of Commerce:, Benchmark Survey (US Direct Investment Abroad) 1982, 1989 and 1994).

[14] A distinction is made between high-impact sectors (beverages; drugs; office equipment/computing; radio, television, communications; electronic components; instruments; finance, except banking; insurance) und moderate-impact sectors (other food products; other chemical products; other machinery; household appliances; transportation equipment; textile products and apparel; rubber products; glass products; wholesale trade; business services). See Pierre Buigues, Fabienne Ilzkovitz, Jean-Francois Lebrun: The impact of the internal market by industrial sector: the challenge of member states, in: European Economy (special edition) 1990.

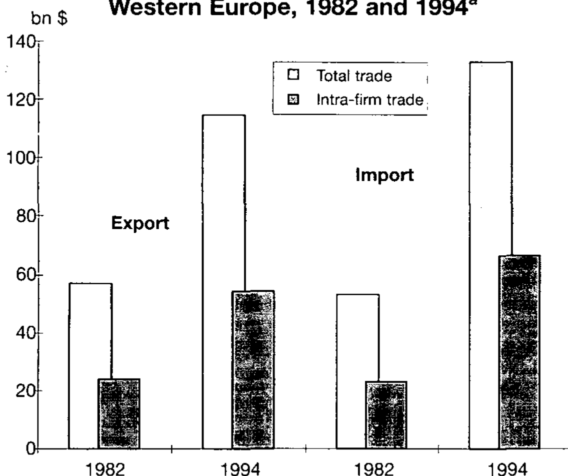
whole, and also slightly faster than sales by US subsidiaries in other countries.[15] It is also concluded that US direct investment in Europe makes a positive contribution to integration because of its concentration on technology intensive sectors such as motor vehicle manufacture, because "the more technology intensive sectors are also those which tend to be more integrated across national boundaries".[16]

Transatlantic Free Trade Area

The impact of a transatlantic "free trade and investment area" on insiders and outsiders is difficult to assess. It is also questionable whether it would be politically feasible. It is estimated that the complete removal of customs barriers on all bilateral merchandise trade would lead to an increase of 11% in US exports to the EU and one of 6% in EU exports to the USA.[17] Simply removing customs duties on industrial goods is expected to generate growth in trade in both directions of only around 4%, since the most-favoured-nation duties levied by the EU and the USA on industrial goods are already low and are due to decrease even further when the tariff reductions agreed in the Uruguay Round and the multilateral Information Technology Agreement (ITA) of early 1997 are implemented. The bulk of transatlantic trade in industrial goods will then be duty-free.

Using a general equilibrium model,[18] Baldwin and Francois conclude that a preferential reduction of tariffs on industrial goods between the EU and the USA – *post*-Uruguay Round and *post* ITA – would not produce any significant real income effects in the partner countries or in third countries. A more comprehensive preferential agreement, also including the elimination of agricultural import protection and of existing anti-dumping measures as well as the further liberalisation of services and public procurement and a number of trade facilitation measures,[19] on the other hand, would benefit the EU and the USA to an extent comparable to the estimated impact of the Uruguay Round but would hurt other countries. The partner countries would, however, achieve even higher income gains, while third countries would also win, if the same liberalisation measures were applied on a most-favoured-nation basis. Finally, all the parties involved or affected would benefit the most from multilateral liberalisation in which case other countries would open their markets too.[20]

Figure 3
Total and Intra-firm Trade of the USA with Western Europe, 1982 and 1994[a]



[a] Intra-firm trade = trade of US and European parent companies with their affiliates in Europe and America, respectively.

Sources: IMF, Direction of Trade Statistics, Yearbook 1989 and 1997; US Department of Commerce, Benchmark Survey (US Direct Investment Abroad) 1982 and 1994; data supplied by the US Department of Commerce.

Political Costs and Benefits

Although the extent of protectionism in North Atlantic trade is fairly low overall, and the preponderance of intra-industry trade over inter-industry trade should soften political opposition to further liberalisation, the foreseeable political costs of a complete dismantling of bilateral trade barriers could outweigh the expected political gains and hence block the project, despite its economic advantages. In view of the low trade barriers outside of the "sensitive" sectors with relatively high protection, such as agriculture, textiles and clothing and the film industry, it is likely to be difficult to combat the forcefully expressed interest of these

[15] In high-impact industries the sales of European subsidiaries increased at an annual rate of 10.8% from 1982 to 1994, compared with 6.7% in industry as a whole and 10.4% for US subsidiaries in other countries (data based on US Department of Commerce: Benchmark Survey (US Direct Investment Abroad) 1982 and 1994).

[16] John H. Dunning: The European internal market programme and inbound foreign direct investment (Part 2), in: Journal of Common Market Studies, Vol. 35, No. 2, June, p. 201.

[17] Jeffrey J. Schott: Reflections on TAFTA, in: Bruce Stokes (ed.): Open for Business: Creating a Transatlantic Marketplace, Council on Foreign Relations, New York 1996.

[18] The model comprises 12 countries or country groups/regions and 22 sectors, for 13 of which the authors assume constant returns to scale and perfect competition and for the other 9 increasing returns to scale and imperfect competition. It is also assumed that labour and capital move freely across sectors but are internationally immobile. This seems to be a weak point of the model in view of close international capital links and global company strategies.

[19] Trade facilitation measures concern customs procedures, product standards and conformance certifications, licensing requirements, and related administrative sources of trading costs. It is assumed that trading costs are reduced to the equivalent of 6% of the total value of trade.

[20] Richard E. Baldwin, Joseph F. Francois: Is it time for a TRAMP? in: Otto G. Mayer, Hans-Eckart Scharrer (eds.): Transatlantic relations in a global economy (forthcoming).

sectors in maintaining or increasing import protection by mobilising the domestic export sector to voice equally strongly its interest in improving market access. Eichengreen also sees increased integration through direct investment as a political obstacle to bilateral liberalisation: "US multinationals in Europe will adopt the interests and outlooks of European firms, just as European multinationals operating in the US will share interests with American firms. Ford and General Motors, with subsidiaries in Europe, are likely to side with European firms on the question of whether Japanese transplants producing in the United States should have access to the European market. AT&T, which already possesses production links in Europe, is more likely than telecommunications firms with an exclusive US base to accept domestic content provisions in EU government procurement contracts".[21]

On the other hand, if sensitive sectors were excluded, bilateral liberalisation would not only have little economic impact because of its limited "mass", it would also be difficult to reconcile with the relevant GATT provisions, which require that a newly-formed free trade area (or customs union) apply to "substantially all the trade" between participating countries in products originating in those countries. This requirement would hardly be fulfilled if individual "important" sectors were excluded from the liberalisation. The WTO Understanding on the Interpretation of Article XXIV of the GATT 1994 states that the contribution of a free trade area or customs union to the expansion of world trade is diminished "if any major sector of trade is excluded". Basically the same applies to integration projects in the services sector: Article V of the General Agreement on Trade in Services (GATS) provides that any preferential liberalisation of services must have "substantial sectoral coverage" and that "agreements should not provide for the a *priori* exclusion of any mode of supply (of services)". However, the Uruguay Round does not lay down clearly what should be understood by "substantially all the trade" or "substantial sectoral coverage". Moreover, the current practice of multilateral surveillance of regional preferential trade agreements is considered to be "one of the most unsatisfactory of all GATT procedures".[22]

Selective Tariff Reductions

Selective tariff reductions limited to non-sensitive sectors or product groups would be economically

[21] Barry Eichengreen: Transatlantic economic relations at the end of the twentieth century, in: Amerikastudien – American Studies, Vol. 42, No. 1, p. 55.

[22] Gary P. Sampson: Compatibility of regional and multilateral trading agreements: Reforming the WTO process, in: American Economic Review, Vol. 86, No. 2, May 1996, p. 90.

Georg Koopmann/Christoph Kreienbaum/Christine Borrmann

Industrial and Trade Policy in Germany

The present study is part of a collaborative research project under the title "International Joint Research on the Market Systems of the Three Economies", i.e. Japan, the United States and Germany. Project partners are the Japan Research Institute, the Centre for Strategic and International Studies, Washington DC, the HWWA Institute for Economic Research, Hamburg, and the Royal Institute of International Affairs, London. The project aims at providing countries in transition and developing countries with a map of alternative routes for their burdensome journey towards a well working market economy.
The focus of the project was on two major features of the market systems: Corporate Governance (Schmidt/ Drukarczyk/Honold/Prigge/Schüler/Tetens, Corporate Governance in Germany, 1997, ISBN 3-7890-4623-X) and Industrial and Trade Policies. The present study deals with German industrial and trade policy against the background of the current debate on Germany's quality as a business location, the country's underlying philosophy of »Ordnungspolitik« and market competition, Germany's membership in the European Community, and the challenges posed by German unification.

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more efficient and less problematic from the standpoint of trade policy if they also included third countries, in other words if tariffs were removed on a most-favoured-nation basis. The product groups could be selected in accordance with the "dominant supplier" principle, which was also used in earlier multilateral tariff rounds to curb "free-riding". In regional terms, the APEC variant of "open regionalism" proposed by Wonnacott would be a possible model. Wonnacott advocates adopting the most-favoured-nation approach for the APEC-wide reduction of tariff and non-tariff trade barriers and concentrating on liberalisation in products "where APEC countries are the predominant suppliers, and where, as a consequence, the granting of a "free ride" to non-APEC nations is a relatively small problem".[23] Sectoral parallels are the above-mentioned Information Technology Agreement and the complete removal of tariffs on ten product groups agreed among eleven countries or country groups in the Uruguay Round (the "zero-for-zero approach").

One objection that could be raised to such an approach is that sectoral arrangements might inhibit further liberalisation, because "easy" liberalisation in dynamic sectors with a high level of intra-industry trade would "consume" political capital that would therefore no longer be available to combat the "hard core" of protectionism in sensitive areas.[24] However, because of the limited scope for offsetting in the North Atlantic " market for protection " (see above), these "bastions" can almost certainly not be "worn down" in bilateral negotiations but only in an extended multilateral framework in which the necessary political counterweight can be created by winning improved market access in third countries.

A selective transatlantic tariff reduction on a most-favoured-nation basis would obviously not be an innovative "big bang" in trade policy terms but at most a modest prelude to multilateral negotiations in the WTO. As well as dismantling conventional border barriers, the EU and the USA could – again on a selective and, where applicable, most-favoured-nation basis – also introduce elements of "deeper integration" in transatlantic economic relations that went beyond the WTO *acquis* by applying the country-of-origin principle in international trade and preventing not only governmental but also private sector trade distortions due to corporate strategies.[25] Examples of this can be found, among others, in the field of technical obstacles to trade and in competition policy.

Mutual Recognition Agreements

At the world economic summit in Denver in June 1997 the EU and the USA agreed on the mutual recognition of certificates attesting to the conformity of products (and production processes) with existing technical requirements for a broad range of products representing around one-fifth of bilateral trade. It is estimated that the mutual recognition agreements, which are primarily the result of the initiative taken by representatives of the private sector in Europe and the United States engaged in the Transatlantic Business Dialogue,[26] will eliminate technical obstacles to trade worth more than $1 billion, which corresponds to a tariff equivalent of 2-3%.[27] The North Atlantic trade partners are thus following a path that has already been trodden at regional level in Europe (in the European Community and under the EEA Treaty) and also, albeit less far, in America (in the context of NAFTA) and has a precursor at the multilateral level in the WTO Agreement on Technical Barriers to Trade.[28] The WTO Agreement also points to the more far-reaching option of the mutual recognition of technical regulations themselves.[29] Here the European Commu-

[23] Paul Wonnacott: Merchandise trade in the APEC region: Is there scope for liberalisation on an MFN basis? in: The World Economy (Special issue on global trade policy 1995, edited by Sven Arndt and Chris Milner) 1995, p. 50.

[24] See, for example, Juergen B. Donges, Andreas Freytag, Ralf Zimmermann: TAFTA: Assuring its compatibility with global free trade, in: The World Economy (Special issue on global trade policy 1997, edited by Sven Arndt and Chris Milner), Vol. 20, No. 5, August 1997, pp. 574 f.

[25] Lawrence distinguishes between "deeper integration" ("integration that moves beyond the removal of border barriers") and "shallow integration", in other words pure trade liberalisation (Robert Z. Lawrence, op. cit., p. 8). In essence, deeper integration involves the elimination of regulatory differences between partner countries, either by co-ordinating policy or through mutual recognition, whereas pure trade liberalisation merely grants national treatment to the subjects of the partner country.

[26] The Transatlantic Business Dialogue was formed in November 1995 in Seville by business leaders from the two sides. At the subsequent European-American summit in Madrid in December 1995 the politicians agreed the New Transatlantic Agenda, which provides for the creation of a New Transatlantic Marketplace, as consensus could not be found for the more ambitious plan for a Transatlantic Free Trade Area (TAFTA) (objections to it had been raised mainly in France and the USA).

[27] See Amerika Dienst, No. 3 of 11. 2. 1998, p. 3 and U.S. Information and Texts No. 30 of 31. 7. 97, p. 26.

[28] In Article 6.3 of the Agreement the WTO member countries are "encouraged to be willing to enter into negotiations for the conclusion of agreements for the mutual recognition of results of each other's conformity assessment procedures".

[29] In this regard Article 2.7 states: "Members shall give positive consideration to accepting as equivalent regulations of other Members, even if these regulations differ from their own, provided they are satisfied that these regulations adequately fulfil the objectives of their own regulations".

nity's "new approach", entailing mutual recognition cum minimum harmonisation, has set new benchmarks which have also been transferred to the EEA, whereas NAFTA has been "silent" on this score.[30] The EU and the USA, or the EEA and NAFTA, could adopt this approach in stages in bilateral trade – and in parallel also devise uniform standards (full harmonisation) on a case-by-case basis, preferably in conjunction with the development of international standards which would also apply in third countries – so that gradually a North Atlantic "single common regulatory area" (Weidenfeld) would come into being which is currently still a far-distant vision.[31] Such a development would also be particularly beneficial to the participating countries from the point of view of contemporary integration theory, according to which the removal of technical obstacles to trade increases welfare even if it entails trade diversion or supply switching from outsiders to insiders.[32] In order to prevent third countries from being disadvantaged, however, they must be given access to the North Atlantic "regulatory club".

Competition Policy

In 1991 the EU and the USA concluded a bilateral co-operation agreement on competition policy in response to the increasing internationalisation of competition (and restraints on competition), which is increasingly causing national competition policy to "spill over" onto the territory of trading partners and hence indicates the need for an approximation or co-ordination of competition policy among countries or country groups. One important innovation in the agreement, which makes it a model for other accords, is the reciprocal commitment of the EU and the USA to "positive comity".[33] Applying this principle, at the request of the Antitrust Division of the US Department of Justice, the European Commission would, for example, prosecute cartel agreements in Europe that impeded exports by American companies, and vice versa.[34] By way of a further example, the US competition authorities would refrain from applying its own competition rules if the main effect of restrictions on competition occurred in the EU, despite originating in the USA; in that case they would give the EU authorities precedence, and vice versa.[35] The "classical" example here would be export cartels, which in the USA as in the EU countries are largely exempt from the general prohibition on cartels. International conflicts can also arise in connection with mergers, for example if the competition authorities' assessment of the balance between the gain in efficiency and the increase in market power is different in the EU from that in the USA and if industrial policy considerations also influence the decision on a merger between previously competing companies. Mergers are expressly excluded from the new comity provisions, however.[36] The key problem of the exchange of confidential information also remains unresolved. Here too merger procedures are excluded.[37] Finally, the question arises as to the extent to which the bilateral framework can be squared with the internationalisation and globalisation of competition. There is a body of evidence, including the experiences in the merger of Boeing and McDonnell Douglas, that suggests that in the final analysis multilateral rules are needed to overcome the problem of cross-border political externalities associated with competition and industrial policy.

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[30] In accordance with the "new approach" developed in the Single European Act of 1986, in principle all laws, regulations and administrative practices of the individual member states are equally valid and must therefore be recognised as such by the other member states. The common setting of minimum requirements on a case-by-case basis is to prevent a "race to the bottom". At the same time, however, the Community is also continuing to strive for full harmonisation (unification) of regulations in numerous fields.

[31] Policy Forum: Transatlantic Free Trade, in: The Washington Quarterly, Vol. 19, No. 2, p. 130. As a first step in harmonisation, the Transatlantic Business Dialogue recommends the development of uniform motor vehicle standards (Susan Philip Poteate: Transatlantic Business Dialogue convenes Third Annual Conference in Rome, in: Business America, December 1997, p. 20).

[32] Unlike what happens in the "classical" integration model of Jacob Viner, here trade creation and trade diversion thus work in the same welfare-increasing direction. The reason for this is seen in the fact that technical obstacles to trade, in contrast to customs tariffs or voluntary export restraints, for instance, imply no trade rents but "only" cause the waste of resources. For details, see Richard E. Baldwin, Anthony A. Venables: Regional economic integration, in: Kenneth Rogoff, Gene M. Grossman (eds.): Handbook of International Economics, Vol. 3, Amsterdam 1995.

[33] The traditional rule for dealings of one state with another in the field of competition policy is "negative comity", in other words a form of voluntary self restraint on the part of national competition authorities. In particular, they refrain from causing companies to behave in ways that contravene the laws or economic policy of the partner country, even if such behaviour were required from a national point of view. This principle has proved inappropriate as a means of resolving international conflicts of law in competition policy.

[34] Davidow cites the example of the Nielsen rating system and certain restrictions it used in Europe to disadvantage rivals. See Joel Davidow: Recent developments in the extraterritorial application of U.S. antitrust law, in: World Competition, Vol. 20, No. 3, March 1997, p. 12.

[35] Such a "who-goes-first" clause is to be embodied in a codicil to the bilateral co-operation agreement. See European Commission: XXVI. Report on Competition Policy, Brussels and Luxembourg 1997, p. 107.

[36] The European Commission, for instance, does not have the freedom to waive or delay the application of the EU merger control regulation. See European Economy, No. 3, 1997 (The European Union as a World Trade Partner), p. 196.

[37] See Sebastian Graf von Wallwitz: Das Kooperationsabkommen zwischen der EU und den USA, in: Europäische Zeitschrift für Wirtschaftsrecht, No. 17, 1997, p. 529.