

US EU Relations: redefining win-win

By Frank Owarish, Ph.D., International Business, Ph.D.,
Computer Science, Executive Director International Institute
for Strategic Research and Training (think tank)
www.strategicresearch.info/default.aspx

History

- Over the past decades, US relations have been mostly positive either with the EU and its predecessors or the individual countries of western Europe
- US has been the dominant 'partner' in terms of its technological and financial capabilities

The American challenge

- Jean Jacques Servan-Schreiber in the book called the 'American Challenge' (1967) warned against Europe's becoming merely an economic colony of the United States

Silent economic war

- Jean Jacques Servan Schreiber found a collaborator in Michel Albert, one of whose reports struck him particularly; it presented the United States and Europe as engaged in a silent economic war, in which Europe appeared to be completely outclassed on all fronts

Intra-Europe Cooperation

- Jean Jacques Servan Schreiber drew attention to the importance of transnational cooperation in Europe
- There were other notable advocates also Jean Monnet, Paul Henri Spaak

EU the first steps

- **1951 6 members of coal and steel community**
 - **France, Germany (W.), Italy, Belgium, Netherlands, Luxembourg**
- **1957 Treaty of Rome: European Community**
 - **Common market**
 - **Elimination of internal trade barriers**
 - **Common external tariff**
 - **Free movement of factors of production**
- **1973 1st enlargement: Britain, Ireland, Denmark**

EU growth

- **1981 2nd enlargement: Greece**
- **1983 3rd enlargement: Portugal, Spain**
- **1992 single European act**
 - Remove all frontier controls
 - Principle of mutual recognition to product standards
 - Open public procurement to non-national suppliers
 - Lift barriers of competition to banks and insurance
 - Remove restrictions on foreign exchange transactions
 - Abolish restriction on cabotage (trucking)
- **1994 Maastricht treaty: European Union**
- **1996 4th enlargement: Austria, Finland, Sweden; 2003 5th enlargement: Poland, Hungary, Czech Republic, Lithuania, Estonia, Latvia, Slovenia, Cyprus, Malta, Slovakia**

The Euro

- **Maastricht treaty:**
 - **European common currency adopted 1/1/99**
 - **Common foreign and defense policy**
 - **Common citizenship**
 - **EU parliament with “teeth”**

Note: Sweden, Denmark, Britain opted out of use of Euro

10 new countries have to qualify

Benefits of Euro

- **Lower transaction costs for individuals / business**
- **Prices comparable across the continent; increased competition**
- **Rationalization of production across Europe to reduce cost**
- **Pan-European capital market**
- **Increase range of investment options available to both individuals and institutions**

Euro issues

- **ECB has monetary policy control not nations**
 - **Sets interest rates, monetary policy**
 - **Is independent; instructs national central banks**
- **EU is not an optimal currency area**
 - **Few similarities in structure of economic activity (e.g., Finland vs Portugal)**
 - **Interest rates too high in depressed regions or too low for economically booming regions**
 - **May need fiscal transfers from prosperous to depressed regions**
- **Economic and political issues may conflict**

EU issues

- Norway opted out
- UK: BREXIT
- Turkey membership pending
- The PIGS issues

EU growth path

- Nonetheless EU is on a growth path despite the so-called 'growing pains'
- Currently made up of 28 countries

US EU relation

Typical format among 'friendly'
states/groups:

- Cooperation
- Competition
- Conflict

New US Administration in 2017: new tone

- Donald Trump became the President of the US
- He advocates America First with rather negative ideas about EU
- He pinpointed trade imbalance with Germany
- He expressed support for BREXIT

2017 G20-1

- The 'drama' played out at the 2017 G20 where the US representative while agreeing that free trade was important pinpointed US stance for 'fair trade'

2017 G20-2

- The United States broke with other large industrial nations over trade as the Trump administration rejected concerns among allies about spreading protectionism and made clear that it would seek new approaches to managing global commerce (NYT 03192017)

2017 G20-3

- Trade imbalance with Germany: the United States is the biggest purchaser of German goods, buying 107 billion euros, or \$115 billion, worth last year (2016). Germany imported goods from the United States worth 58 billion euros

2017 G20-4

- “We are going to look to our counterparts to continue to trade, but to look to have more balanced trade,” Mr. Mnuchin (US) said. “That means over time reducing our trade deficits. I think we can do that in a way that’s good for the American worker, that’s good for our companies and that’s good for our counterparties.”

2017 G20-5

- Mnuchin (US): “We believe in free trade,” adding “We want to re-examine certain agreements.”
- “Balanced trade has to be what’s good for us and what’s good for other people...It has to be a win-win situation.”

US-NAFTA; US-China

- The US is taking a similar stance with NAFTA as well as with China

Fact: EU is bigger than US

- The adjusted GDP of the 28 EU member nations is bigger than both China and the US, the traditional list of world's economic super powers

Consumer spending

- The EU, plus periphery nations, accounted for 28.5% of all consumer spending in 2014, above both the 26.6% spent by US consumers and the 15.6% spent by the emerging economies of the Brazil, Russia, India and China combined. This attracts global companies to the region.

US Companies in Europe

- "Gaining access to wealthy consumers is among the primary reasons that US companies venture overseas, and hence the continued attraction of Europe to US firms," by Joseph P. Quinlan, chief market strategist for US Trust who pinpointed just how important the EU's economy is to the world.
- Source: <http://www.businessinsider.com/charts-eu-economy-is-bigger-than-the-us-2015-6>

Investment

- The investment between the EU and the United States is the real driver of the transatlantic relationship, contributing to growth and jobs on both sides of the Atlantic. Moreover, it influences trade figures positively, as it is estimated that a third of the trade between the EU and the United States actually consists of intra-company transfers.

Note: there is an important point here which may have been overlooked at the recent G20

- Source: http://ec.europa.eu/eurostat/statistics-explained/index.php/USA-EU_-_international_trade_and_investment_statistics

Important point

- Trades among countries or economic entities are not in terms of exports and imports alone given the increasing importance of intra-company trades; it is also important to look at balance of services and financial and monetary transactions as reflected in the balance of payments

Cross investment

- Total EU-27 FDI outflows to the United States increased to EUR 163.4 billion in 2011 and dropped again in 2012, down to EUR 62.9 billion. Inward flows, i.e. the flows from the United States to the EU-27, also decreased in 2012 by more than a half from the previous year, down to EUR 98.8 billion.
- Source: http://ec.europa.eu/eurostat/statistics-explained/index.php/USA-EU_-_international_trade_and_investment_statistics

Conclusion1: food for thought

- There is no doubt that trades and investments between the US and EU remain important and may become more so increasingly
- There has to be an increasing dialogue instead of one party dictating to the other!

Conclusion2: change of tone

- VP Pence on a visit to Europe stated that President Trump supports a partnership with the EU: "So today it's my privilege, on behalf of President Trump, to express the strong commitment of the United States to continued cooperation and partnership with the European Union." (New York Times, Feb 20, 2017). Such a partnership is on solid ground even though it makes sense from time to time to review and redefine the terms thereof for the benefit of both sides.