TRANSWORLD

THE TRANSATLANTIC RELATIONSHIP AND THE FUTURE GLOBAL GOVERNANCE

ISSN 2281-5252 WORKING PAPER 40 | OCTOBER 2014

Competitive Interdependence: Transatlantic Relations and Global Economic Governance

Chad Damro

This paper investigates how the transatlantic relationship affects global and regional economic governance. The analysis is guided by the concept of "competitive interdependence," which helps to identify the fundamental dynamics shaping the bilateral relationship between the European Union and United States of America as well as the implications of their relationship for others. Largely in response to the multilateral stalemate in the World Trade Organisation's Doha Round negotiations, the European Union and United States now prioritise and compete in the pursuit of bilateral agreements with largely economic objectives. But the relationship also has a firm basis for cooperation, especially when considering the bilateral characteristics of market size and institutional features. Against this background, the paper also assesses the ways in which competition and interdependence drive the negotiations for a Transatlantic Trade and Investment Partnership and investigates the likely implications of such an agreement for transatlantic relations and global and regional economic governance more generally.

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 290454

Competitive Interdependence: Transatlantic Relations and Global Economic Governance

Chad Damro*

Economy Trade Regulation Transatlantic relations

Introduction

This paper investigates how the relationship between the European Union (EU) and United States of America (US) affects global and regional economic governance. While there is a plethora of global and regional institutions in the international economic governance architecture, this paper uses as the point of departure a major change for international economic relations that has occurred in the World Trade Organization (WTO).[1] The focus on this particular change is instructive because the international trade agenda has now expanded to include a number of issues beyond the traditional focus on liberalization of trade in goods and, therefore, has the potential to affect all regional and global economic governance arrangements. Indeed, trade agreements now include provisions for various behind-the-border and new trade measures, and the "new trade politics" dictate that trade policy touches upon most aspects of economic governance (Young and Peterson 2006).[2]

The decade-long stalemate in the WTO's Doha Round negotiations represents a particularly prominent international development for bilateral EU-US economic relations and how they approach and shape global and regional economic governance. The effect of this particular change is also worth focusing upon because the EU and US are recognized trade powers (Meunier and Nicolaïdis 2006), and it is here that we 1) see most clearly the core factors that drive transatlantic economic relations and the resulting implications for global economic relations, 2) are able to broaden the analysis to include various economic policy areas, including traditional trade policy and behind-the-border and new trade issues, and 3) will be able to address more general prospects

1 For a discussion of how changes in the international economy and the resulting adjustments by the EU and the US have affected the bilateral EU-US economic relationship, see Tentori and Zandonini (2014). Of course, international financial institutions, especially the International Monetary Fund (IMF), are also critical instruments of economic governance. While the IMF does not figure prominently in this analysis focused on trade and regulatory issues, for a useful discussion of its role see Joyce (2013) and Copelovitch (2010).

2 With the reduction of tariff barriers on trade in goods, the scope of the international trade agenda now covers a variety of other non-tariff barriers to trade. Many of these non-tariff barriers to trade are "behind-the-border" issues that act as technical or regulatory barriers. The expanded scope also includes so-called trade-plus and new trade issues like services, investment, competition and public procurement. While these behind-the-border issues often overlap with new trade issues, both are appreciably different from tariff reductions on trade in goods.

**** Chad Damro is Senior Lecturer of Politics and International Relations and Co-Director of the Europa Institute at the University of Edinburgh. He is also Jean Monnet Chair and Head of the Jean Monnet Centre of Excellence, University of Edinburgh.***

for the transatlantic relationship.

The EU-US role in shaping regional and global economic governance architecture is best captured by the dynamics that follow from the notion of "competitive interdependence." According to this understanding, the bilateral transatlantic relationship is one in which the "EU and the US are simultaneously competitors and interdependent because, to a significant degree, each defines success vis-à-vis each other" (Sbragia 2010:369). When combined with the stalemate in the Doha negotiations, this competitive interdependence drives the EU and US to compete for bilateral deals while also advancing their interdependence in ways that promote their common interests throughout the global economy.[3]

Following the 2003 collapse of Doha negotiations at the Cancun Ministerial, the US stated its intention to negotiate bilateral deals to pursue its trading interests. The EU has moved more slowly in this direction, but it now also is increasingly pursuing bilateral trade deals. The multilateral (whether regional or global) implications of these changed preferences are significant as the EU and US are now individually pursuing and competing over the negotiation of separate regional and bilateral deals – which typically include behind-the-border and new trade issues – across the globe. This prioritisation of bilateral deals may reduce EU and US ambitions and ability to conclude a multilateral deal at the WTO (da Conceição-Heldt 2014).

Bilaterally, the EU and US have simultaneously continued to develop their economic relationship over the last decade. Despite infrequent but high-profile disagreements, they have a deeply interdependent and highly institutionalised bilateral relationship. Their bilateral framework agreements initiated collaboration to set the WTO negotiating agenda. This collaboration often pushed forward efforts to include various behind-the-border and new trade issues on the WTO negotiating agenda. However, the Doha stalemate has shifted the EU-US focus away from guiding the WTO agenda to advancing the potential for bilateral policy adjustments in behind-the-border and new trade issues.[4]

Nowhere are these new dynamics seen more clearly than the recent launch of bilateral negotiations over a Transatlantic Trade and Investment Partnership (TTIP). The TTIP negotiations are indicative of how deeply integrated the transatlantic marketplace has become precisely because they include issues beyond the liberalization of trade in goods. Given its comprehensive coverage of behind-the-border and new trade issues, a TTIP agreement would hold the potential to influence global regulatory standards.

In effect, the EU and US have shifted their drive to address behind-the-border and new trade issues away from directly influencing the WTO negotiating agenda. Instead they are now pushing their regulatory standards in bilateral trade deals with other markets. They are also negotiating the pursuit of bilateral regulatory adjustments via TTIP, which would, due to the relative size of their combined markets, indirectly allow them to set global regulatory standards.

3 For the purposes of this paper, such bilateral trade deals include agreements reached between any two actors, whether they be individual states or regional groupings. Of course, regional agreements are not bilateral agreements when they are negotiated among more than two states (eg, North American Free Trade Agreement). However, the following discussion does not draw significant analytical distinctions between the implications of bilateral versus regional agreements. Rather, the terms "bilateral agreement" and "regional agreement" are generally used interchangeable throughout the paper.

4 Of course, these bilateral agreements could also help to build a multilateral order. To do so, the bilateral agreements would have to be "compatible" in a way that then feeds back "into the broad stream of the multilateral system at a later stage" (interview with cabinet member of European Commissioner, 5 December 2013).

The paper proceeds in the following manner. The next section discusses the different EU and US approaches to the multilateral WTO negotiations before Cancun. The section also reveals the significant change that led to a convergence in approach and resulted in the EU and US both pursuing bilateral agreements with largely economic objectives. The second section then explores the competitive side of competitive interdependence. This section details the types and content of the various bilateral agreements the EU and US have negotiated with third markets. The third section then turns to the interdependent side of competitive interdependence, emphasizing two prominent characteristics of the transatlantic relationship – market size and institutional features – and how they help to shape bilateral EU-US relations as well as the global economy. The next section provides a short case study of the TTIP negotiations, which has elements of both competition and interdependence. This section highlights the reasons why the EU and US have agreed to launch negotiations as well as the likely implications of such an agreement for global and regional economic governance. The paper concludes with a summary of the findings and a discussion of what the findings mean for the future of transatlantic relations and global economic governance.

1. Different Approaches and Important Changes in the Doha Context

Over the last century, Europe and the US have been pivotal players in shaping and responding to changes in the global political economy (Smith 2009, 2011). Following World War II, both were central to initiating liberalization via the General Agreement on Tariffs and Trade and the successor World Trade Organization (WTO). But their approaches to the international trading system have not been perfectly consistent. Despite their history of cooperation and the emergence of similar trading interests to tackle behind-the-border and new trade issues, the EU and US still can take different approaches to the international trading system. One such prominent difference in approach arose out of changes in the WTO's Doha Round trade negotiations. The changes became apparent, in particular, following the Cancun Ministerial in 2003.

While the Doha Round started in 2001, the WTO's Fifth Ministerial Conference in Cancun, Mexico, was convened to assess ongoing negotiations and prepare for the round's conclusion. The Ministerial, however, is known for its failure to push forward the multilateral negotiating agenda and the resulting stalemate that lingers today. The failure was particularly important for transatlantic relations and served as "a watershed for international economic governance, as it laid bare the inability of Europe and the United States to force a settlement" (McGuire and Lindeque 2010:1340).

One of the hallmarks of the Ministerial was the ascendant role played by developing countries in the negotiations. It is difficult to speak of one common position or coalition of developing countries in general or specifically in relation to the Cancun Ministerial. Nonetheless, some common factors can be identified that may help to explain the role of many developing (and now, emerging) countries. First, by the end of the 1990s, many developing countries were beginning to establish coalitions and promote actively their interests in international trade negotiations (Drahos 2003, Narlikar 2003, Singh 2006). Second, the developing countries believed that they had not benefited from previous trade rounds and that their priorities had not been given sufficient attention in WTO negotiations (Gallagher 2008, Kol and Winters 2004).[5]

5 While the same motivations hold true today for many developing countries, emerging economies – such as the so-called BRICs of Brazil, Russia, India and China – are increasingly central actors in the dynamics of global economic governance (interview with member of European Commission's Bureau of European Policy Advisors, 4 December 2013; interview with cabinet member of European Commissioner, 5 December 2013).

The outcome of the Cancun Ministerial prompted a reappraisal by the EU and US of their overall commitment and negotiating approaches to the multilateral trading system. Following Cancun, the US announced that it would concentrate on negotiating regional and bilateral trade deals, rather than on reviving the Doha round. The general US approach became known as "competitive liberalization" (Sbragia 2010), which emphasized the negotiation of bilateral agreements in the pursuit of trading interests. In particular, the US "favored market-driven outcomes and focused on opening markets by removing barriers to the movement of goods, services and capital" (Sbragia 2010:369). The US position, however, was not a total abandonment of the pursuit of multilateral negotiations in favor of bilateral deals. Rather, the US's competitive liberalization strategy represented a "trade policy mix complementing multilateral trade negotiations parallel to regional and bilateral initiatives [… but, at the same time,] US trade and investment interest are thus to be achieved by gaining preferential market access in growing markets where commercial concerns prevailed over other considerations" (Loon 2013:223).

Following Cancun, the EU continued to support multilateral negotiations, even proposing a strategy that same year for reviving the trade round (European Commission 2003). This commitment to the multilateral level reflected the EU's approach since 1999, known as "managed globalization" (Meunier 2007), which went so far as to institute "a de facto moratorium on bilateral agreements in the early years of the Doha round"(Abdelal and Meunier 2010:358). According to Meunier, EU Trade Commissioner Pascal Lamy (1999-2004) moved managed globalization into the guiding principle of EU trade policy as "a broad and encompassing doctrine that subordinated trade policy to a variety of trade and non-trade objectives, such as multilateralism, social justice and sustainable development" (2007:906). To do so, he rallied EU member states with diverse trade interests around this notion of managed globalization, which was "vague enough to appeal to everyone, from individual member states to various social actors"(Abdelal and Meunier 2010:356).

The US and EU post-Cancun approaches of competitive liberalization and managed globalization were significantly different in important respects relating to global governance. "Whereas the Americans preferred to liberalize without empowering international organizations, the Europeans embraced supranational rules and jurisdictions which would ensure that bureaucracies would continue to have supervisory and regulatory responsibilities for the long-term sustainability of market practices" (Abdelal and Meunier 2010:355-356).

Despite the EU's commitment to managed globalization, a significant change occurred in 2006 with the Commission's release of *Global Europe: Competing in the World* (European Commission 2006). The EU had actively asserted its doctrine of managed globalization within the Doha Round, but the stalemate following Cancun and the departure of Lamy in 2004 opened a recalibration of EU trade policy in which it could be viewed in "the context of the 2005 Lisbon Strategy" as a "tool to help create jobs and stimulate growth" (Loon 2013:222). As Meunier argues, "Two years [after Lamy's departure], it seemed that the doctrine of managed globalization had been all but abandoned by the EU, officially replaced in 2006 by the shorter-term, more trade-centred and mercantilist objectives laid out in the communication 'Global Europe'. This doctrinal shift was perceived as a return to the roots of trade policy, with the EU now back to pursuing economic instead of normative foreign policy objectives" (Meunier 2007:906).

According to the Commission, the Global Europe strategy was the basis from which to pursue "a new generation of competitiveness-driven bilateral free trade agreements with key partners, in which economic criteria is a primary consideration. The Commission will ensure that these agreements are a stepping stone for future liberalisation, not a stumbling block, by building on the WTO: tackling issues which are not ready for multilateral discussion and by going beyond the market opening that can be achieved in the WTO."[6] The EU position that bilateral deals would contribute to the WTO negotiations resembles elements of the US's trade policy mix and a belief that such initiatives would help lead to the conclusion of the Doha Round. It also resembles the US approach to negotiate bilateral agreements for largely economic objectives as opposed to non-trade objectives.

Despite the official EU and US positions supporting multilateral negotiations, da Conceição-Heldt (2014:66) argues that such a shift toward bilaterals raises two problematic challenges for the "efficacy and legitimacy of the global trade regime." First, the proliferation of bilateral trade agreements may create a complex system of "overlapping trade rules that erode the WTO principle of non-discrimination or reciprocity and thus weakens multilateral trade rules" (da Conceição-Heldt 2014:66). There is still debate on this point as Fabry et al. (2014:8) argue that "It is still too early to determine whether this increase in the number of bilateral agreements at the global level is a stumbling block for multilateralism or whether, on the contrary, it may make it possible to impart a fresh boost to the method." The second challenge, however, may be more problematic: "the negotiation of [preferential trade agreements] draws negotiating capacity away from multilateral negotiations" (da Conceição-Heldt 2014:66). Such a drain on negotiating capacity may also include a reduction in the political will and energy to conclude the stalemated Doha Round.

Notwithstanding their sanguine commitment to continuing the multilateral Doha negotiations, the EU and US had strong reasons to shift their focus to negotiating bilateral deals. Pushing their trade priorities in the WTO is now costly to the EU and US because "[d]ecisions are no longer made solely by the so-called Quad (EU, US, Japan, Canada). Instead, the current round of multilateral negotiations in the WTO is notable above all for the new-found strength of some developing countries, such as India and Brazil, intent on not letting the US and the EU run the show" (Abdelal and Meunier 2010:358).

While the EU's focus on bilateral deals largely occurred after "the Bush Administration already had five years' experience of negotiating" trade agreements (Sbragia 2010:370), they were able to make up lost ground. Indeed, the EU already had experience negotiating regionally with its closest neighbours as part of the enlargement process. But this experience was largely based on the motivation for political stability in their immediate vicinity (Loon 2013:221). With the launch of the Global Europe strategy, the EU began negotiating agreements "based on new motivations, revealing an increasing accommodation of commercial interests rather than political objectives" (Loon 2013:222). With the EU and US both pursuing the negotiation of bilateral agreements for largely economic objectives, the competitive side of competitive interdependence well and truly came to the fore as a significant force shaping global economic relations.

2. The Competitive Side of Competitive Interdependence

According to Sbragia, the competitive side of competitive interdependence arises because both the EU and US have major stakes in third markets that prompt them to pay attention to and respond to market access granted to each other in those markets. Because "[c]ompetition between US and EU firms for access to those markets, indeed, underpins much of the external politics of trade in both the US and the EU […] neither can afford to ignore the other's inroads into such markets" (Sbragia 2010:369). This strategy of competition plays out in the use of international institutions which provide opportunities to constrain competitors as well as attempts "to

6 European Commission DG Enterprise and Industry, *Free Trade Agreements*, updated 3 February 2014, http://ec.europa.eu/enterprise/policies/international/facilitating-trade/free-trade.

expand their territorial reach by negotiating [free trade agreements] that establish advantageous rules of trade" (Sbragia 2010:369). However, for Sbragia, the use of international institutions is not centrally or directly linked to the trade round negotiations in the WTO. Rather, the EU and US "use the WTO to constrain the other while trying to expand their influence through the use of WTO-compliant trade agreements" (Sbragia 2010:370). Given the stalemate in the Doha Round and the resulting de-emphasis of the WTO negotiations, this dynamic creates a focus for the EU and US to compete in the negotiation of bilateral agreements.

Beyond the rise of developing countries in global trade negotiations that followed from Cancun, a related change can be identified that is important for transatlantic economic relations and the negotiation of agreements with third markets: the issues on the international trading agenda have begun to change. This change has had a direct impact upon the content of the trade agreements the EU and US competitively pursue with third markets. As discussed above, both the EU and US now tend to push more economic objectives in these agreements. But within these more economic objectives, the so-called behind-the-border and new trade issues have taken on prominence over those targeted in traditional negotiations over the reduction of tariff barriers on goods. As Directorate-General Enterprise notes, "Traditionally, barriers to trade were addressed mainly through reductions in tariffs. But to create open markets in the 21st century, Europe needs to look beyond tariff reduction to the trade barriers that lie behind borders. As tariffs fall, these barriers - such as restrictive regulations or standards - become increasingly important."[7]

This change helps to illuminate what is expected to be the content of EU and US bilateral agreements with third markets. They include issues that are not just traditional tariff reductions. They are more in line with trade issues that can adversely affect domestic rules and are, therefore, referred to as behind-the-border or new trade issues. These may include to varying degrees the types of issues that fall under what Young calls commercial policy and social trade policy: services, intellectual property rights, subsidies, trade-related investment measures, investment, competition policy, government procurement, agriculture (subsidies), sanitary and phytosanitary rules, technical barriers to trade, environment and core labour standards (Young 2007).[8]

Because, the EU and US face difficulties getting these types of behind-the-border and new trade issues addressed through the Doha negotiations, they creep into the trade negotiations each is pursuing with third markets. The approach to negotiations taken by these two trade powers is similar in that "it is clear that the EU, like the US, uses preferential bilateral agreements to pry open the markets of the South in exchange for access to its own markets" (Meunier and Nicolaïdis 2006:911). This competitive prying open of third market has as much to do with the economic objective of reducing tariff barriers as it does with addressing behind-the-border and new trade issues. In effect, the EU and US now compete over the externalization of their preferred domestic market-related policies and regulations to third markets.

The EU and US have long been able to use trade power to push their economic interests (whether regulatory or tariff reductions) at the global, regional and bilateral levels. But following the Cancun collapse, the efficacy of their trade power at the global level has been undermined and resulted in a shift away from the WTO toward bilateral and regional preferential trade agreements (PTAs).[9] Indeed, the EU and US drive for signing PTAs has

7 Ibidem.

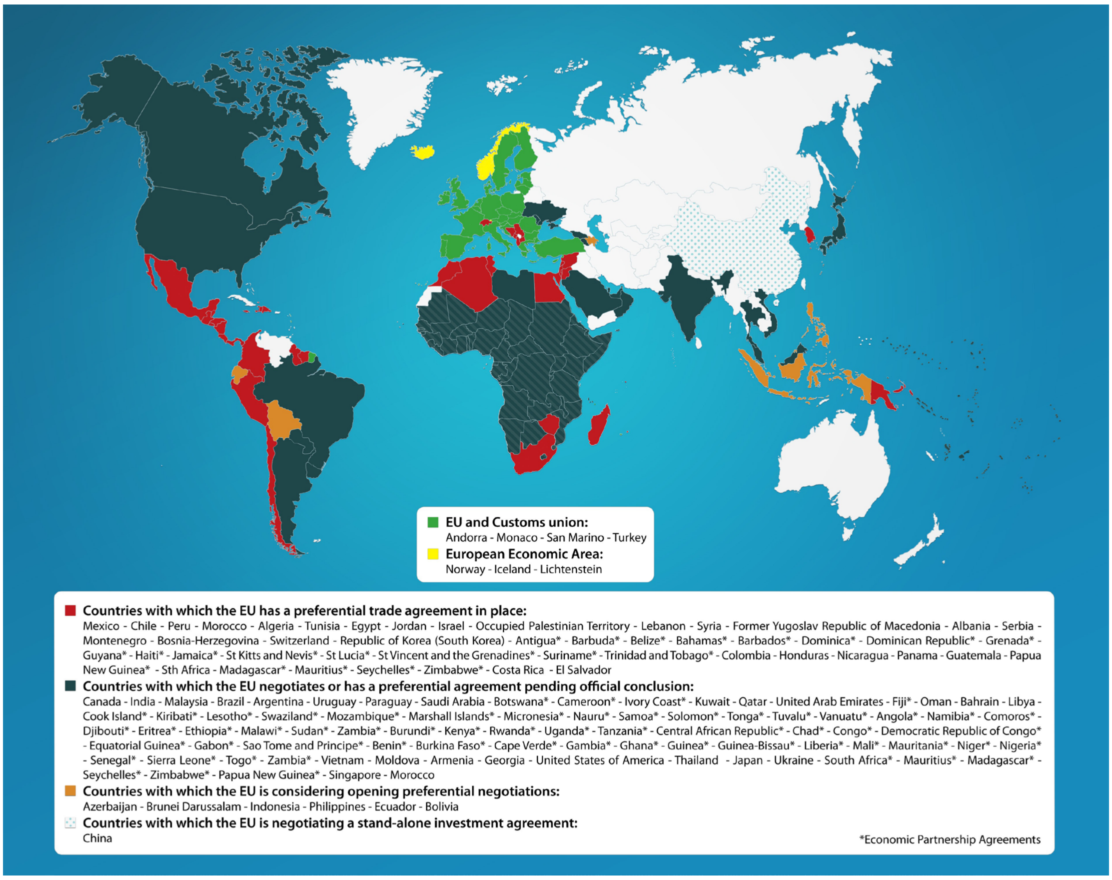
8 For a discussion of the various trade and non-trade objectives that the EU and US pursue in their bilateral trade agreements, see Horn et al. (2010).

9 Of course, this shift by the EU and US to bilateral and regional agreements reflects a broader shift by many countries. According to Baccini and Dür, a large number of factors have contributed to this rise in PTAs, including the stagnation of the process of multilateral trade liberalization, the search for economies of scale, the desire to signal commitment to specific trade and economic policies, the protection of foreign direct investments and the geopolitical interests of the participating countries. Baccini and Dür (2012:57) also

grown considerably since the Doha stalemate, with each competing for greater access to third markets.[10]

The EU has signed a multitude of trade agreements with third markets. According to the Commission, the EU has signed 45 preferential trade agreements and is negotiating a further 87 PTAs (see Figure 1). These PTAs include both bilateral and regional agreements, such as Economic Partnership Agreements with developing markets. As part of its Neighbourhood Policy, the EU also aims to conclude Deep and Comprehensive Free Trade Agreements that, "on top of removing tariffs, also open up markets on services, investment, public procurement and include regulatory issues."[11] These particular regional agreements are designed to align neighbour's "regulations with those of the EU in return for greater access to the EU market for their exports and services" (Dreyer 2012:1).

• Figure 1 | **EU Trade Agreements**



Source: European Commission DG Trade, *EU Trade Relations Worldwide: A Map*, updated April 2014, http://trade.ec.europa.eu/doclib/html/149622.htm

posit a major reason is a response to the preferential trade policies of other countries, whereby "countries excluded from an agreement try to avoid the negative consequences of trade diversion by signing new agreements."

10 For listings of the EU and US's regional trade agreements formally notified to the WTO and those for which early announcements have been made, see the WTO website, *Participation in Regional Trade Agreements*, http://www.wto.org/english/tratop_e/region_e/rta_participation_map_e.htm.

11 European Commission DG Trade, *Agreements*, updated 20 June 2014, http://ec.europa.eu/trade/policy/countries-and-regions/agreements.

For the US, PTAs provide "more comprehensive and stronger disciplines than the WTO Agreement."[12] According to the United States Trade Representative, the US has preferential trade agreements in force with twenty countries (see Table 1). The individual countries of Canada and Mexico are included in the regional North America Free Trade Agreement while multiple countries (Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) are part of the Dominican Republic-Central America Free Trade Agreement.

• Table 1 | **US Free Trade Agreements**

Third market	Date of entry
Australia	2005
Bahrain	2006
Canada	1994
Chile	2004
Colombia	2012
Costa Rica	2009
Dominican Republic	2007
El Salvador	2006
Guatemala	2006
Honduras	2006
Israel	1985
Jordan	2010
Korea	2012
Mexico	2004
Morocco	2004
Nicaragua	2006
Oman	2009
Panama	2012
Peru	2009
Singapore	2004

Source: US Trade Representative, *Free Trade Agreements*, http://www.ustr.gov/node/89.

The US is also negotiating a regional, Asia-Pacific trade agreement, known as the Trans-Pacific Partnership (TTP) Agreement, with eleven negotiating partners now including Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam. The TTP is intended to be "an ambitious, comprehensive and high-standard agreement."[13] According to the Obama Administration, the US is pursuing the TPP in order to "boost U.S. economic growth and support the creation and retention of high-quality American jobs."[14]

In addition to its various bilateral and regional trade agreements, the US also pursues Trade and Investment Framework Agreements (TIFAs), which serve as strategic frameworks and provide principles for consultation and possible further cooperation on issues including market access, labor, environment, intellectual property rights and capacity building.[15] The US has entered into fifty such TIFAs with individual countries and regional groupings of countries.[16] Finally, the US has negotiated a series of Bilateral Investment Treaties (BITs), which

12 US Trade Representative, *Trade Agreements*, http://www.ustr.gov/node/30.

13 US Trade Representative, *Joint Statement at the TPP Ministers Meeting in Singapore*, 20 May 2014, http://www.ustr.gov/node/8817.

14 US Trade Representative, *The United States in the Trans-Pacific Partnership*, 12 November 2011, http://www.ustr.gov/node/7176.

15 US Trade Representative, *Trade & Investment Framework Agreements*, http://www.ustr.gov/node/1989.

16 Ibidem.

help "protect private investment, to develop market-oriented policies in partner countries, and to promote U.S. exports."[17] The US has negotiated forty-two of these BITs.[18]

Overall, the competitive side of the transatlantic relationship shows a record of increasing negotiation of bilateral trade and investment agreements. While the detailed content of these agreements (eg, amount of goods covered, coverage of both goods and services, which sectors covered) remains open to further scrutiny, it is clear that the EU and US both now prioritize the pursuit of such agreements with third parties. As a possible sign of the competitive nature of these developments, it is also worth pointing out that all of the third parties with which the US has negotiated a PTA – with the exception of Australia – also have or are currently negotiating a PTA with the EU.[19]

3. The Interdependent Side of Competitive Interdependence

This section explores the features of interdependence that help to shape the transatlantic marketplace and, in turn, to shape their approaches to global economic governance. Despite the competitive developments detailed above, the EU and US are not solely competing to sign the most bilateral and regional trade agreements. Indeed, Europe and the US have a close and interdependent bilateral economic relationship (McGuire and Smith 2008).[20] The relationship is driven by the large sizes of their markets and the institutionalization via "framework agreements" of the deep interdependence they share. These agreements provide the basis for an extensive and regularized relationship between the EU and US that is based upon measures to increase dialogue and cooperation among high-level political actors and regulators.

Given the previous liberalization of their sizable markets and the progress made under their bilateral framework agreements, the EU and US are increasingly focusing on behind-the-border and new trade issues. While different regulations and approaches to regulation do exist in the bilateral relationship, the goal of increasing dialogue and cooperation is to adjust policies in a manner that overcomes problematic differences in regulatory standards. Such potential processes of policy adjustment, which may be understood to be convergence, harmonization and/or mutual recognition (Gilpin 2001), are not simple matters.[21]

17 US Trade Representative, *Bilateral Investment Treaties*, http://www.ustr.gov/node/551.

18 US Office of Trade Agreements Negotiation and Compliance (TANC), *Bilateral Investment Treaties*, http://tcc.export.gov/Trade_Agreements/Bilateral_Investment_Treaties. The EU's member states have also negotiated almost 1200 bilateral investment agreements, which are in the process of being replaced by EU-level agreements. See European Commission DG Trade, *Investment*, updated 11 June 2014, http://ec.europa.eu/trade/policy/accessing-markets/investment.

19 The EU conducts its trade and economic relations with Australia under a 2008 partnership framework agreement. See European Commission DG Trade, *Australia*, updated 9 September 2014 http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia.

20 Of course, there are also occasional high-profile disagreements between the EU and US, such as various WTO disputes (Petersmann and Pollack 2003). However, these disputes are infrequent and often over-blown in the news media (Young 2009).

21 According to Gilpin, states can adjust policies and solve the potential problems raised by national differences through convergence, harmonization and mutual recognition. The notion of convergence "assumes that time and the market will lead to a blurring of national differences" while "the harmonization approach maintains that eradication of significant national differences should be an explicit goal of international negotiations" (2001:192), and mutual recognition suggests that "every nation should accept [and recognize] the legitimacy of the rules by which other nations manage their economies" (2001:194). For more on similar types of policy adjustment, see Drezner (2001) and Holzinger and Knill (2005). For a discussion of mutual recognition, equivalence and approximation, see Young (2014). Likewise, the High Level Working Group (2013:4) adds the pursuit of equivalence as a means to pursue policy adjustment.

Two characteristic of interdependence – market size and institutional features – are discussed in this section, with attention given to the extent to which developments in these areas have contributed to the largest bilateral economic relationship in the world.[22] Developments in these two characteristics also help to demonstrate a bilateral shift toward behind-the-border and new trade issues, which has important implications for the transatlantic approach to global economic relations.

3.1 Market Size

On their own, the EU and US are the two largest economies in the world. The 2012 gross domestic product of the EU, at 16,644.3 billion dollars, is slightly higher than the US's 16,244.6 billion dollars.[23] As Drezner argues, their relative market sizes and the fact that both have relatively low economic vulnerability qualifies them as "great powers" (2007:36). While the stand-alone sizes of the EU and US economies are impressive, the sheer size of the joint transatlantic marketplace is staggering. The figures paint a picture of the two largest industrialized markets creating a bilateral economic relationship that dwarfs all others.

Beyond being great powers in their own right, when their trade and investment flows (see Box 1) are combined, the transatlantic marketplace accounts for the largest bilateral relationship in the global economy. Taken together, in 2012 they generate "some $30 trillion in annual output, which accounts for just under half of the world's overall economy" and 30% of trade worldwide (Fabry et al 2014:1). Investment, in particular, is an important foundation of the transatlantic marketplace. As the Commission notes: "Total US investment in the EU is three times higher than in all of Asia" and "EU investment in the US is around eight times the amount of EU investment in India and China together." Investments are thus "the real driver of the transatlantic relationship, contributing to growth and jobs on both sides of the Atlantic."[24] These mutual investment stocks are unequalled in the global economy.

Box 1 | EU-US trade and investment figures (2012-2013)

Trade in goods

- EU goods exports to the US in 2013: €288.3 billion
- EU goods imports from the US in 2013: €196.1 billion

Trade in services

- EU services exports to the US 2013: €158.8 billion
- EU services imports from the US in 2013: €146.1 billion

Foreign direct investments

- Investment stocks inward in 2012: €1536.4 billion
- Investment stocks outward in 2012: €1655.0 billion

Source: European Commission DG Trade, *United States*, updated 9 September 2014, http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states.

22 As discussed below, there is also room for interest groups and civil society input into the transatlantic negotiations. While the role of these actors is addressed in the section on institutional features, for a proposal to treat these three factors separately, see Damro (2012, 2013).

23 World Bank, *World Development Indicators 2014*, http://databank.worldbank.org/data/views/reports/tableview.aspx.

24 European Commission DG Trade, *United States*, updated 9 September 2014, http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states.

The comparative size of this balanced bilateral economic relationship helps explain the prominence of the transatlantic marketplace in the global economy. For example, according the Shaffer and Pollack (2008:19), "[b]ecause of the size of their markets, where the US and EU agree on a common regulatory policy, they are well-positioned to promote it globally. [. . .] Where they disagree, there is often deadlock, reflecting the equal size of their economies and markets." The EU and US are well-positioned "because of their market power and resources, and they can attempt to play smaller countries off of each other" (Shaffer and Pollack 2008:4). At the multilateral level, the relationship is also prominent because it "defines the shape of the global economy as a whole" as either "the EU or the US is also the largest trade and investment partner for almost all other countries in the global economy."[25] Thus, the transatlantic marketplace is crucially important for the global economy.

More specifically at the bilateral level, the sheer size of each market and their interdependence influences the behaviour of the other. As the Commission notes, the EU and the US "enjoy the most integrated economic relationship in the world".[26] This deep integration leads to deep interdependence.[27] As a result of such deep interdependence, the EU and US know that disagreements can be particularly disruptive to the general transatlantic marketplace and to specific European and American constituents across sectors. This creates pressure to pursue cooperative coordination that will prevent disputes in the first place. It seems, therefore, that a combination of *market size* and *deep interdependence* tends to shape and determine EU and US approaches to the transatlantic marketplace.

Despite their similarly large sizes and the pressures of deep interdependence, the two markets also have clear differences in their approach to regulation (Ahearn 2009:7-9).[28] For example, Smith (2012) and Vogel (2012) argue that the US is increasingly relaxing its regulation while the EU is developing more restrictive regulation.[29] When regulatory approaches and standards differ, the costs of engaging in commerce increase (Ahearn 2009:4). Therefore, the potential costs of these different regulatory approaches and standards, coupled with deep interdependence, may encourage the EU and US to seek policy adjustments (eg, convergence, harmonization, mutual recognition) that can reduce these costs. Of course, despite the potential gains promised, these processes of policy adjustment are not simple matters (see below).

Given the large size and deeply interdependent nature of the transatlantic marketplace, the EU and US have negotiated a series of formal agreements that, since the end of the Cold War, have helped to manage and institutionalize mechanisms to overcome differences and adjust policies. The remainder of this section now turns to these important features of the transatlantic marketplace.

25 Ibidem.

26 Ibidem.

27 This deep interdependence can also be seen in the interpenetration of the two economies. As mentioned above, there is a high degree of investment in the EU by the US and vice versa. Likewise, there is considerable interconnection of the value chains between the two partners. For instance, the US is the top supplier of value-added in EU imports and, at the same time, they are the top export destinations of EU value-added exports (author indebted to Alessandro Giovannini for this point).

28 According to an EU insider, "we have very very different mandatory systems in terms of how we implement standards. In Europe we rely on public bodies that control standards, to make sure that machines are in compliance. In the US it is very private company based and very decentralized in that respect" (interview with cabinet member of European Commissioner, 5 December 2013).

29 According to Smith, these differences are not explained by cultural factors (such as approaches to risk) but rather by "distinctive regulatory tradeoffs": in the US between environment and competitiveness, and in the EU among environment, competitiveness, and integration (Smith 2012). Vogel (2012) argues that the EU has overtaken the US in regulatory leadership due to changes in political pressures, elite preferences and views on risk management. For further work on EU-US regulatory cooperation, see Pollack and Shaffer (2009). On the role of California and the EU as regulatory leaders, see Vogel and Swinnen (2011).

3.2 Institutional Features of Interdependence

Both the EU and US have high levels of regulatory capacity.[30] In their bilateral relationship, they both find themselves engaging with another large market that generates a considerable amount of regulation and has similarly high levels of regulatory capacity. Due to their balanced size and regulatory capacity, these two actors have developed a cooperative framework – often with the goal of pursuing policy adjustments – through which to manage their relationship.[31]

The management of the transatlantic marketplace is notable for the series of formal framework agreements signed between the EU and US. While the Transatlantic Declaration was signed in 1990 with an aim to increasing consultation, significant institutionalization of the relationship began with the 1995 New Transatlantic Agenda (NTA). The NTA and its accompanying Action Plan provided a "concrete blueprint for action" (Gardner 1997:2) on a variety of issues. The NTA established a Senior Level Group (SLG) to meet every three months in order to monitor the implementation of the NTA and set the agenda for bi-annual EU-US Summits. On the US side, the SLG consisted of State Department Under-Secretaries for Political Affairs and Economic Affairs. On the EU side, members of the SLG included representatives from the European Commission (delegates from Directorates-General for external relations and trade) and the EU Presidency (representatives from the national foreign ministry).

The NTA was also notable for helping to launch interest "dialogues" as contributors to the policy-making and adjustment process. The Transatlantic Business Dialogue (TABD) was the first to attain such recognition. This is perhaps not surprising because following from Sbragia's notion of competitive interdependence, we should expect firms to play an important role in shaping the transatlantic marketplace. However, business interests are not the only groups that enjoy privileged recognition through a formal dialogue. The EU and US agreed to follow the TABD with the creation of a Transatlantic Labour Dialogue (TALD), Transatlantic Environment Dialogue (TAED) and Transatlantic Consumer Dialogue (TACD). While the TALD and TAED are no longer active, environmental issues are now subsumed into the work of the TACD.

As a direct response to the commitments of the NTA, the EU and US agreed the 1998 Transatlantic Economic Partnership (TEP). The agreement included extensive lists of issues on which the EU and US would coordinate their multilateral and bilateral action. Specifically for bilateral action, the TEP envisioned increasing coordination on technical barriers to trade in goods (specifically regulatory cooperation, mutual recognition, alignment of standards and regulatory requirements, consumer product safety), services (keeping markets open, reduction of existing barriers through mutual recognition, trade aspects of services regulations), procurement, intellectual property, agriculture (food safety, plant and animal health and biotechnology), environment, labor, consumers, competition law procedures, and electronic commerce.

At the multilateral level, the EU and US agreed under the TEP to establish regular bilateral meetings to ensure closer cooperation and provide leadership in WTO negotiations. The idea behind these bilateral meetings was

30 On regulatory capacity, see Bach and Newman (2007).

31 This is not to say that the framework for EU-US collaboration is a panacea for cooperation. Indeed, in Pollack and Shaffer's study of agricultural biotechnology, they argue that the record shows "only limited evidence of genuine deliberation, particularly deliberation with concrete policy consequences. Deliberation, we argue, is a hothouse flower that flourishes only under restrictive conditions, and the sharp disagreements, intense politicization, and distributive conflicts that characterize agricultural biotechnology have all prevented US and EU policymakers from engaging in a joint deliberative search for the best policy in this area" (Pollack and Shaffer 2009:5-6).

to "explore and compare each others' policy positions on key issues on the multilateral agenda, and [. . .] In some cases we may develop common positions or elaborate proposals to be submitted in multilateral discussions and negotiations" (European Council 1998). As an effort to steer the WTO negotiating agenda, the Doha stalemate calls into question the success of this TEP cooperation. Indeed, these efforts may be seen as largely having been taken over by bilateral initiatives (see below) designed to, indirectly, set global regulations due to the attractor size of the combined transatlantic marketplace.

The TEP also established an organizational and procedural framework (based on the TAD and NTA frameworks) that increased the institutionalization of consultation. In addition to bi-annual EU-US Summits, the TEP originated additional Cabinet-level meetings to occur every three months among the US Deputy Assistant Secretary of State, the European Commission's Directorate-General Head of Unit for Trade and the European Council Presidency representative (usually head of external relations for trade). This group, known as the TEP Steering Group, would monitor and report on the implementation of agreements reached under the TEP, receive recommendations from different business and civil society dialogues and act as an Early Warning System. In this last capacity, the TEP Steering Group would identify and monitor economic "friction points" (ie, contentious legislation that is pending) before they become disputes.

The next major framework agreement, the 2007 Transatlantic Economic Council (TEC) agreement – signed by US President George W. Bush, European Commission President Manuel Barroso, and EU Presidency's German Chancellor Angela Merkel – formalized and institutionalized the relationship at the highest levels. The TEC meets at least once a year and, *inter alia*, prepares for the annual EU-US Summits. The TEC brings together high-ranking officials from the European Commission and the US cabinet to guide and encourage work on transatlantic economic harmonization. The TEC, now co-chaired by EU Trade Commissioner Karel De Gucht and US Deputy National Security Adviser for International Economic Affairs Michael Froman, agreed in early 2010 to "focus the regulatory work of the TEC on economically relevant issues of mutual interest, to identify a number of issues where EU-US cooperation could produce achievable results in a reasonable time frame and to engage in a strategic discussion on selected global economic issues. The rationale of the TEC is clear: to ensure transatlantic harmonization by preventing barriers and by creating new opportunities for business and thus contributing to the overall political priorities of generating growth and jobs" (European Commission 2010).

In the context of these framework agreements, the EU and US have also taken significant strides specifically to increase policy adjustment via consultation and collaboration *among regulators*. In April 2002, the EU and US developed the Guidelines on Regulatory Cooperation and Transparency, which included a political commitment to dialogue and cooperation between regulators across the Atlantic.[32] Later that same year (December), the Positive Economic Agenda (PEA) was agreed as a way to increase dialogue between regulators and was "designed to promote transatlantic co-operation by focusing on areas where there is goodwill on both sides to achieve upstream convergence and/or mutual recognition of rules, standards etc. in areas where considerable gains can be sought."[33]

At their 2005 Summit, the EU and US launched an Initiative to Enhance Transatlantic Economic Integration and Growth. One of the Initiative's eleven priorities was to promote EU-US regulatory cooperation with an aim "to build effective mechanisms to promote better quality regulation, minimize unnecessary regulatory divergences to facilitate transatlantic trade and investment and increase consumer confidence in the transatlantic market"

32 For the regulatory guidelines, see the European Commission DG Enterprise and Industry website: http://ec.europa.eu/enterprise/policies/international/files/guidelines3_en.pdf.

33 See European Commission DG Trade, *The Positive Economic Agenda*, http://trade.ec.europa.eu/doclib/html/114066.htm.

(European Council 2005). The most recent formal development in cooperation among transatlantic regulators is the High-Level Regulatory Cooperation Forum (RCF), which held its first meeting in 2006.[34] The EU and US have also now established three separate regulatory dialogues on 1) automobile safety; 2) chemicals; and 3) radio and telecommunications, information communications technology and electrical equipment.[35]

The EU and US have also engaged in significant cooperation and information sharing regarding the impact assessments they undertake as part of their respective procedures for developing regulations. For example, in May 2008, the European Commission and the US Office of Management and Budget produced a joint paper in the framework of the TEC entitled Review of the Application of EU and US Regulatory Impact Assessment Guidelines on the Analysis of Impacts on International Trade and Investment. As a result of the comparison of the respective systems, the "recommendations made in the paper have been integrated into the Commission's Impact Assessment Guidelines. The US authorities have agreed to do the same in their guidelines for regulatory impact assessment."[36]

As discussed above, this series of bilateral agreements has increasingly institutionalized the relationship and has focused on regulatory issues. It has also created a framework within which the EU and US have begun pursuing policy adjustments and have launched new transatlantic trade and investment negotiations.

4. Competitive Interdependence Today: The Transatlantic Trade and Investment and Partnership

The most recent development in the transatlantic marketplace is the launch in June 2013 of negotiations for a Transatlantic Trade and Investment Partnership (TTIP). While the successful completion of an agreement is far from a foregone conclusion, the negotiation of this agreement is significant because it highlights a number of factors related to the notion of competitive interdependence. It tends to reflect and bolster the interdependent side of the relationship by increasing the large size and interdependence of these markets individually and combined, as well as increasing the focus on regulatory issues and the potential gains to be achieved by bilateral policy adjustment. However, the TTIP negotiations also draw on the primary tool (PTAs) employed in the competitive side of the relationship and provide a crucial case in which two great trade powers compete directly for leverage in a bilateral bargaining game.[37]

With the launch of the TTIP negotiations, the sizable and deeply interdependent transatlantic economic relationship has shifted to a new focus. While leaders in the EU had encouraged US President Barack Obama to pursue a PTA with Europe, it was following his election to a second term that US public commitment to the idea emerged.[38] In his State of the Union Address on 12 February 2013, Obama committed to the launch of talks on a comprehensive Transatlantic Trade and Investment Partnership with the EU. The first round of TTIP

34 For background, reports and statements on the RCF, see the US Office of Management and Budget website, http://www.whitehouse.gov/omb/oira_irc_europe.

35 See European Commission DG Enterprise and Industry, *EU-USA Regulatory Cooperation*, updated 1 March 2013, http://ec.europa.eu/enterprise/policies/international/cooperating-governments/usa/regulatory-cooperation.

36 See the European Commission website: Smart-regulation - Impact - International dimension, updated 16 April 2014, http://ec.europa.eu/governance/impact/inter_dimension/inter_dimension_en.htm.

37 For a discussion of TTIP as a crucial case for Market Power Europe, see Damro (2013).

38 As noted in Fabry et al. (2014:1), "the notion of a bilateral free-trade area between the United States and Europe actually dates back to the 1990s and was actively promoted in Europe by the United Kingdom and by Germany."

talks took place in Washington from 8-12 July 2013. In addition to the negotiators, 350 stakeholders attended.[39] While considerable input should be expected from business groups such as the TABD, these stakeholders are notable for including non-business representatives. Indeed, as Fabry et al. (2014:6) argue, "Unlike all previous negotiations, which have been of greater concern to producers, in the case of the TTIP we should expect greater attention from consumers". Such claims seem to be born out by the creation of the EU's Civil Society Dialogue. Set up as part of the TTIP process, this new Dialogue includes over 150 participants representing non-governmental organizations, industry associations, trade unions and other actors.

There seems to be considerable elite-level support for negotiating the TTIP – which would be the world's largest trade agreement – because of the economic gains it is purported to represent (Isernia and Basile 2014:39).[40] The TTIP is expected to contribute to economic recovery and growth on both sides of the Atlantic, which would increase the individual sizes of the EU and US markets and boost their collective economy. According to an independent study (commissioned by Directorate-General Trade) by the London-based Centre for Economic Policy Research, the TTIP would result in significant overall economic gains for the EU, US *and* the global economy (see Box 2).

Box 2 | Overall Economic Gains of TTIP

- An ambitious and comprehensive transatlantic trade and investment partnership could bring **significant economic gains as a whole for the EU** (€119 billion a year) and the US (€95 billion a year) once the agreement is fully implemented.
- Income gains are a result of increased trade. EU and US **trade with the rest of the world would increase by over €33 billion**. Overall, the extra bilateral trade between the two blocs, together with their increased trade with other partners, would represent a **rise in total EU exports of 6% and of 8% in US exports**. This would mean an additional €220 billion and €240 billion worth of sales of goods and services for EU and US based producers, respectively.
- Benefits for the EU and the US would not be at the expense of the rest of the world. On the contrary, liberalising trade between the EU and the US would have a positive impact on worldwide trade and income, **increasing GDP in the rest of the world by almost €100 billion**.

Source: Derived from European Commission (2013a), a summary of Centre for Economic Policy Research report (Francois 2013).

39 See European Commission DG Trade, *In focus: Transatlantic Trade and Investment Partnership (TTIP): The first round of negotiations, 7-12 July 2013, Washington DC*, updated 23 September 2014, http://ec.europa.eu/trade/policy/in-focus/ttip/resources/index_en.htm#ttipfirst-toggle.

40 To be sure, the US and the EU have agreed to open these negotiations not solely for economic purposes. The negotiations are also driven by geostrategic goals. On the one hand, the US views the TTIP as a mechanism for addressing a rising China (interview with member of European Commission's Bureau of European Policy Advisors, 4 December 2013). As Fabry et al. (2014:4) argue, "It is in the United States' interest to contain China's economic expansion and to ensure access to the region's markets in order for it to maintain its status as the world's leading power." For the EU, concerns about China and the US's increasing attention in Asia also contribute to the launch of the negotiations. As Fabry et al. (2014:4) point out, "the TTIP is viewed as an answer to the concern triggered by the United States' 'shift' towards the Pacific and its relative disengagement from the EU's area of influence."

One of the greatest expected gains from TTIP would come from negotiations over the reduction of regulatory barriers to trade (Fabry et al. 2014). According to the European Commission, "Studies suggest that between two thirds and four fifths of the gains from a future agreement would come from cutting red tape and having more coordination between regulators" (European Commission 2013c:2). The gains from addressing regulation have much to do with the fact that the EU and US "already have very low tariff arrangements in place: on average a 4 per cent tariff on imports. So, our main focus has to be to tackle those barriers which are behind the customs border – such as differences in technical regulations, standards and certifications. These often cost time and money. This is where we can make real savings for our businesses, create jobs and bring better value for consumers. Such barriers are estimated to be equivalent to slapping a traditional tariff on a product of between 10 and 20 per cent – so the current cost to business and consumers is high" (De Gucht 2013:3).

According to the Commission, the reduction of regulatory barriers in the transatlantic marketplace could be worth billions in new growth because it would reduce costs for doing business by making it easier for firms to comply simultaneously with US and European laws. In addition, closer cooperation would allow regulators to learn from each other and "reduce costs by reducing the number of inspections they have to perform. Also, where TTIP leads to shared approaches, those are more likely to be followed around the world, meaning a regulatory race to the top rather than a race to the bottom" (European Commission 2013c:2).

But how exactly will these regulatory gains be achieved in practice? The Commission argues that such gains can be achieved through two different approaches to policy adjustment: by working on existing regulations and by coordinating on future regulations. For existing regulations, this may occur by formally recognizing "that some regulations have broadly the same effect," by both sides moving "their regulation closer to internationally agreed ways of solving the problem at hand" or, when regulations are very different, by regulators increasingly cooperating "on how they put the regulation into practice" (European Commission 2013c:3). When coordinating on future regulations, regulators would engage most closely "when they design regulation for new products or update regulation of existing products. This is because it's easier to iron out our differences at the beginning than to change things around once we have already set up complex regulatory systems. The result should be that our regulations gradually become more compatible [… despite both sides having their own] procedures to analyse the consequences of new regulations – impact assessments in the EU and cost-benefit analysis in the US" (European Commission 2013c:4). Both of these types of regulatory cooperation represent processes of policy adjustments that, while likely to produce benefits, will not be uncontentious matters.

The gains from regulatory cooperation, however, are not exclusively bilateral. The potential multilateral economic gains were foreseen by the High Level Working Group on Jobs and Growth (HLWG) that was launched in 2011 to analyse a wide range of possible options for expanding transatlantic trade and investment.[41] For their final report, the HLWG looked at issues related to "Enhanced cooperation for the development of rules and principles on global issues of common concern and also for the achievement of shared global economic goals" (2013:1). More specifically, they stated that "Given the size and influence of the transatlantic partnership, the HLWG also supports the aim of developing rules in several areas that would not only be relevant to bilateral commerce, but would also contribute to the progressive strengthening of the multilateral trading system" (2013:5).[42]

41 "At the EU-US Summit meeting of 28 November 2011, the leaders of the European Union and of the United States directed the Transatlantic Economic Council (TEC) to establish a High Level Working Group on Jobs and Growth, led by US Trade Representative Ron Kirk and EU Trade Commissioner Karel De Gucht." European Commission DG Enterprise and Industry, *EU-US High Level Working Group on Jobs and Growth*, updated 19 July 2013, http://ec.europa.eu/enterprise/policies/international/cooperating-governments/usa/jobs-growth/index_en.htm.

42 The HLWG (2012:3-4) also raised the prospect of the negotiations "promoting greater compatibility, including, where appropriate, harmonization of future regulations, and to resolve concerns and reduce burdens arising from existing regulations through

The European Commission has argued that the issues under negotiation "could also shape global rules on trade."[43] This vast potential for setting global economic rules follows directly from the size of their markets (Shaffer and Pollack 2008). Indeed, a future global spill-over effect of the TTIP on other countries was modelled as part of the Centre for Economic Policy Research study of the economic benefits the agreement would generate for the rest of the global economy (Francois 2013). According to the European Commission's explanation of the report's analysis, this spill-over will result "because the large economic size of the EU and the US means that partner countries will themselves have an incentive to move towards any new transatlantic standards that the TTIP creates. This would improve market access between the EU, US and those countries, and may also reduce trade barriers between those countries themselves" (European Commission 2013b:10-11). Given the relative openness of the EU and US economies and the possible movement of third markets toward TTIP-generated standards, the agreement is expected to increase gross domestic product "in our trading partners by almost €100 billion" (European Commission 2013b:10).

This link to global rule-setting is crucially important for the EU and US as well as the future shape of the global economy because "the benefits of the TTIP are going to depend *in the longer term* on the two partners' ability to promote transatlantic standards on the world market" (italics added, Fabry et al. 2014:3). More generally, "the volume of transatlantic trade developed by the TTIP and the attraction exercised by this major market will give it a central role in the global governance of regulatory environments and raise questions regarding its potential impact on the dynamics of the international trade system, on the WTO's role and, ultimately, on multilateralism itself" (Fabry et al. 2014:8). Of course, for such multilateral gains and potential impact to materialise in the longer term, the EU and US will first have to conclude the TTIP and begin their processes of policy adjustment.

Conclusions

The importance of the bilateral transatlantic economic relationship for the global economy can hardly be overstated. As a result, changes in the relationship and the approaches taken by its two partners have serious implications for global and regional economic governance. This paper has focused on what is perhaps the most important change in international trade negotiations, the stalemate in the WTO's Doha Round. This focus on trade provides broader lessons for economic relations more generally because trade now touches upon most areas of bilateral, regional and global economic activity.

The confluence of the Doha stalemate and the expansion of the international trade agenda – especially the focus on regulatory issues – have played a prominent role in the approaches taken by the EU and US. The EU's managed globalization and the US's competitive liberalization approaches have gradually converged and led the transatlantic economic relationship toward what can be best described as one of competitive interdependence.

---

equivalence, mutual recognition, or other agreed means, as appropriate". For more on the potential role of harmonization and mutual recognition in the TTIP negotiations, see Fabry et al. (2014:4-5).

43 See European Commission DG Trade, *In focus: Transatlantic Trade and Investment Partnership (TTIP): About TTIP*, updated 15 March 2014, http://ec.europa.eu/trade/policy/in-focus/ttip/about-ttip. This position is also supported by interviews with member of European Commission's Bureau of European Policy Advisors (4 December 2013) and cabinet member of European Commissioner (5 December 2013).

On the competitive side of this relationship, both the EU and US have actively pursued a multitude of bilateral and regional preferential trade agreements. These agreements are notable for including provisions beyond traditional tariff reductions. Indeed, both actors are now known for emphasizing a variety of economic objectives (typically understood as behind-the-border and new trade issues) in such agreements. On the interdependent side, the EU and US have a close and deeply interdependent economic relationship. This deep interdependence reflects the similarly large sizes of their markets and increasingly focuses on behind-the-border and new trade issues. The relationship is managed by through a series of framework agreements that encourage – but do not require – bilateral policy adjustments.

The most recent and dramatic development in the transatlantic economic relationship is the decision to launch bilateral TTIP negotiations. In many ways, the TTIP can be viewed as the culmination of their increasingly interdependent (and, therefore, increasingly focusing on behind-the-border regulatory issues) bilateral economic relationship. At the same time, the TTIP can be viewed as the best way to address their multilateral aspirations in the face of the Doha stalemate.

But what does TTIP mean for the notion of competitive interdependence? If the TTIP is concluded, and, indeed, if it helps to promote transatlantic policy adjustment and to set global standards in the long run, then it should be easier for the EU and US to include those new TTIP-generated global standards in future bilateral agreements that each chooses to negotiate. The process of transatlantic policy adjustment will not be a simple matter. But if successful, the potential to set global standards follows largely from the market size of the transatlantic marketplace. If third markets currently feel pressure to agree EU or US standards in their respective bilateral agreements with the two partners in order to ensure access to the lucrative European and American markets, then pressure will increase substantially if those standards in question apply in the future to an even larger transatlantic marketplace. And if those standards are becoming global standards, then third markets will have little option but to agree them in their future bilaterals with the EU and US, which will make it easier for the two partners to negotiate them into the bilaterals. In short, the TTIP will increase the interdependent side of the transatlantic marketplace at the same time that it may create further incentives for the EU and US to compete in the pursuit of evermore bilaterals with third markets.

The transatlantic developments detailed in this paper suggest a number of important implications for global and regional economic governance. Nevertheless, it is important to point out that these implications are preliminary and depend upon future variation in the conditioning factors within, between and beyond the transatlantic relationship (Tocci and Alcaro 2014). In addition, the outcome of the ongoing TTIP negotiations – and any potential gains from policy adjustment – remains a very large question mark.

With these caveats in mind, the findings in this paper can contribute to our understanding of the hypotheses raised by the Transworld research project. First, it seems clear that EU and US preferences in economic governance have shifted focus from multilateral to bilateral. Second, developments in the formal WTO and bilateral governance arrangements will likely dictate future EU and US approaches to informal governance relations. In particular, as the EU and US strive to set global regulatory standards via their bilateral approaches (ie, EU-other, US-other, and via TTIP), they will increase pressure on participants in informal governance structures to follow their lead. Third, the transatlantic relationship in global economic governance most closely fits with the functional and enduring hypotheses. Fourth, if the transatlantic relationship is both functional and enduring in global economic governance, then it remains *effective* in so far as the attraction of the large size of the transatlantic marketplace encourages other actors to follow and adopt EU and US regulatory standards. Fifth, the transatlantic relationship in global economic governance remains *viable* as long as the EU and US are able to adjust their policies via TTIP and other initiatives. Finally, the transatlantic relationship in global economic governance has likely become less *accountable* because of the move away from the multilateral WTO where every member has a vote on the negotiations to a focus on bilateral initiatives where the EU and US have greater leverage when negotiating with others.

As Fabry et al. (2014) rightly argue, these broader developments and the more immediate initiation of TTIP negotiations give the transatlantic relationship a central role in the future of global economic governance. At the same time, they raise important questions about the impact of the EU and US on the dynamics of the international trading system, the WTO's role and multilateralism itself. The answers to these important questions will depend on the future complex interplay of the various internal, bilateral and international factors that condition the transatlantic relationship.

References

Abdelal, Rawi, and Sophie Meunier (2010), "Managed Globalization: Doctrine, Practice and Promise", *Journal of European Public Policy*, Vol. 17, No. 3 (April), p. 350-367, https://www.princeton.edu/~smeunier/Abdelal%20 Meunier%20pdf.pdf

Ahearn, Raymond J. (2009), "Transatlantic Regulatory Cooperation: Background and Analysis", *CRS Report for Congress*, No. RL34717 (24 August), http://fas.org/sgp/crs/row/RL34717.pdf

Baccini, Leonardo, and Andreas Dür (2012), "The New Regionalism and Policy Interdependence", *British Journal of Political Science*, Vol. 42, No. 1 (January), p. 57-79

Bach, David, and Abraham L. Newman (2007), "The European Regulatory State and Global Public Policy: Micro-institutions, Macro-influence", *Journal of European Public Policy*, Vol. 14, No. 6 (September), p. 827-846

Copelovitch, Mark S. (2010), *The International Monetary Fund in the Global Economy. Banks, Bonds, and Bailouts*, Cambridge, Cambridge University Press

da Conceição-Heldt, Eugénia (2014), "Adaptation and Change in EU Trade Governance: The EU's Paradigm Shift from Multilateralism to Regionalism and Bilateralism", in Manuela Moschella and Catherine Weaver, eds., *Handbook of Global Economic Governance. Players, Power and Paradigms*, London and New York, Routledge, p. 57-69

Damro, Chad (2012), "Market Power Europe", *Journal of European Public Policy*, Vol. 19, No. 5 (June), p. 682-699

Damro, Chad (2013), "Market Power Europe and the Transatlantic Trade and Investment Partnership", *European Ideas*, 2 November, http://www.europeanideas.eu/pages/economics/international-trade/market-power-europe-and-the-transatlantic-trade-and-investment-partnership.php

De Gucht, Karel (2013), *Transatlantic Trade and Investment Partnership: Opening free trade negotiations with the United States*, speech to Committee on International Trade (INTA) of the European Parliament, Brussels, 21 February, Speech/13/147, http://europa.eu/rapid/press-release_SPEECH-13-147_en.htm

Drahos, Peter (2003), "When the Weak Bargain with the Strong: Negotiations in the World Trade Organization", *International Negotiation*, Vol. 8, No. 1, p. 79-109

Dreyer, Iana (2012), "Trade Policy in the EU's Neighbourhood. Ways Forward for the Deep and Comprehensive Free Trade Agreements", *Notre Europe Studies and Research*, No. 90 (May), http://www.eng.notre-europe.eu/011-3231-.html

Drezner, Daniel W. (2001), "Globalization and Policy Convergence", *International Studies Review*, Vol. 3, No. 1 (Spring), p. 53-78, http://www.danieldrezner.com/research/policyconvergence.pdf

Drezner, Daniel W. (2007), *All Politics is Global. Explaining International Regulatory Regimes*, Princeton, Princeton University Press

European Commission (2003), *Reviving the DDA Negotiations: the EU Perspective*, COM(2003)734, 26 November, http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52003DC0734

European Commission (2006), *Global Europe: Competing in the World. A Contribution to the EU's Growth and Jobs Strategy*, COM(2006)567, 4 October, http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52006DC0567

European Commission (2010), *EU Commissioner for Trade to hold EU-US strategic trade talks and free trade discussions with Canada*, IP/10/1712, 14 December, http://europa.eu/rapid/press-release_IP-10-1712_en.htm

European Commission (2013a), *Independent study outlines benefits of EU-US trade agreement*, MEMO/13/211, 12 March 2013, http://europa.eu/rapid/press-release_MEMO-13-211_en.htm

European Commission (2013b), *Transatlantic Trade and Investment Partnership: The Economic Analysis Explained*, September, http://trade.ec.europa.eu/doclib/html/151787.htm

European Commission (2013c), *Transatlantic Trade and Investment Partnership: The Regulatory Part*, September, http://trade.ec.europa.eu/doclib/html/151605.htm

European Council (1998), *Transatlantic Economic Partnership - Action Plan*, Annex to 2129th Council meeting General Affairs, Brussels, 9 November, http://europa.eu/rapid/press-release_PRES-99-369_en.htm

European Council (2005), *EU-U.S. Declaration Initiative to Enhance Transatlantic Economic Integration and Growth*, Washington, 20 June 2005, http://europa.eu/rapid/press-release_PRES-05-159_en.htm

Fabry, Elvire, Giorgio Garbasso and Romain Pardo (2014), "The TTIP Negotiations: A Pirandello Play", *Notre Europe Synthesis*, 23 January, http://www.eng.notre-europe.eu/011-17621-.html

Francois, Joseph, ed. (2013), *Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment*, March, http://trade.ec.europa.eu/doclib/html/150737.htm

Gallagher, Kevin P. (2008), "Understanding Developing Country Resistance to the Doha Round", *Review of International Political Economy*, Vol. 15, No. 1 (February), p. 62-85

Gardner, Anthony Laurence (1997), *A New Era in US-EU Relations? The Clinton Administration and the New Transatlantic Agenda*, Aldershot and Avebury, Ashgate

Gilpin, Robert (2001), *Global Political Economy. Understanding the International Economic Order*, Princeton, Princeton University Press

High Level Working Group on Jobs and Growth (2013), *Final Report*, 11 February, http://trade.ec.europa.eu/doclib/html/150519.htm

Holzinger, Katharina, and Christoph Knill (2005), "Causes and Conditions of Cross-National Policy Convergence", *Journal of European Public Policy*, Vol. 12, No. 5 (October), p. 775-796, http://nbn-resolving.de/urn:nbn:de:bsz:352-opus-18618

Horn, Henrik, Petros C. Mavroidis and André Sapir (2010), "Beyond the WTO? An Anatomy of EU and US Preferential Trade Agreements", *The World Economy*, Vol. 33, No. 11 (November), p. 1565-1588

Isernia, Pierangelo, and Linda Basile (2014), "To Agree or Disagree? Elite Opinion and Future Prospects of the Transatlantic Partnership", *Transworld Working Papers*, No. 34 (June), http://www.transworld-fp7.eu/?p=1544

Joyce, Joseph P. (2013), *The IMF and Global Financial Crises. Phoenix Rising?*, Cambridge, Cambridge University Press

Kol, Jacob, and L. Alan Winters (2004), "The EU after Cancun: Can the Leopard Change its Spots?", *European Foreign Affairs Review*, Vol. 9, No. 1, p. 1-25

Loon, Aukje van (2013), "Domestic Politics in EU External Economic Relations: US-EU Competition in Trade", in Astrid Boening, ed., *Global Power Europe. Vol. 1, Theoretical and Institutional Approaches to the EU's External Relations*, Berlin and Heidelberg, Springer, p. 219-234

McGuire, Steven M., and Johan P. Lindeque (2010), "The Diminishing Returns to Trade Policy in the European Union", *Journal of Common Market Studies*, Vol. 48, No. 5 (November), p. 1329-1349

McGuire, Steven M., and Michael Smith (2008), *The European Union and the United States. Competition and Convergence in the Global Arena*, Basingstoke and New York, Palgrave Macmillan

Meunier, Sophie (2007), "Managing Globalization? The EU in International Trade Negotiations", *Journal of Common Market Studies*, Vol. 45, No. 4 (November), p. 905-926

Meunier, Sophie, and Kalypso Nicolaïdis (2006), "The European Union as a Conflicted Trade Power", *Journal of European Public Policy*, Vol. 13, No. 6 (September), p. 906-925

Narlikar, Amrita (2003), *International Trade and Developing Countries. Bargaining Coalitions in the GATT & WTO*, Abingdon and New York, Routledge

Petersmann, Ernst-Ulrich, and Mark A. Pollack, eds. (2003), *Transatlantic Economic Disputes. The EU, the US, and the WTO*, Oxford, Oxford University Press

Pollack, Mark A., and Gregory C. Shaffer (2009), *When Cooperation Fails. The International Law and Politics of Genetically Modified Foods*, Oxford, Oxford University Press

Sbragia, Alberta (2010), "The EU, the US, and Trade Policy: Competitive Interdependence in the Management of Globalization", *Journal of European Public Policy*, Vol. 17, No. 3 (April), p. 368-382

Shaffer, Gregory C., and Mark A. Pollack (2008), "How Hard and Soft Law Interact in International Regulatory Governance: Alternatives, Complements or Antagonists?", *SIEL Online Proceedings Working Paper*, No. 45/08

(July), http://ssrn.com/abstract=1156867

Singh, J. P. (2006), "Coalitions, Developing Countries, and International Trade: Research Findings and Prospects", *International Negotiation*, Vol. 11, No. 3, p. 499-514

Smith, Michael (2009), "Transatlantic Economic Relations in a Changing Global Political Economy: Achieving Togetherness but Missing the Bus?", *The British Journal of Politics & International Relations*, Vol. 11, No. 1 (February), p. 94-107, http://dx.doi.org/10.1111/j.1467-856x.2008.00351.x

Smith, Michael (2011), "The EU, the US and International Organizations: Trade Politics in the Global Political Economy", in Spyros Blavoukos and Dimitris Bourantonis, eds., *The EU Presence in International Organizations*, London, Routledge, p. 96-113

Smith, Mitchell P. (2012), *Environmental and Health Regulation in the United States and the European Union. Protecting Public and Planet*, Basingstoke, Palgrave Macmillan

Tentori, Davide, and Myriam Zandonini (2014), "The Future of the Transatlantic Economic Relationship: Opportunities and Challenges towards the TTIP", *Transworld Working Papers*, No. 35 (June), http://www.transworld-fp7.eu/?p=1547

Tocci, Nathalie, and Riccardo Alcaro (2014), "Rethinking Transatlantic Relations in a Multipolar Era", *International Politics*, Vol. 51, No. 3 (May), p. 366-389

Vogel, David (2012), *The Politics of Precaution. Regulating Health, Safety, and Environmental Risks in Europe and the United States*, Princeton, Princeton University Press

Vogel, David, and Johan F.M. Swinnen, eds. (2011), *Transatlantic Regulatory Cooperation. The Shifting Roles of the EU, the US and California*, Cheltenham and Northampton, Edward Elgar

Young, Alasdair R. (2007), "Trade Politics Ain't What It Used to Be: The European Union in the Doha Round", *Journal of Common Market Studies*, Vol. 45, No 4 (November), p. 789-811

Young, Alasdair R. (2009), "Confounding Conventional Wisdom: Political not Principled Differences in the Transatlantic Regulatory Relationship", *British Journal of Politics and International Relations*, Vol. 11, No. 4 (November), p. 666-689

Young, Alasdair R. (2014), "Europe as a Global Regulator? The Limits of EU Influence in International Food Safety Standards", *Journal of European Public Policy*, Vol. 21, No. 6 (September), p. 904-922

Young, Alasdair R., and John Peterson (2006), "The EU and the New Trade Politics", *Journal of European Public Policy*, Vol. 13, No. 6 (September), p. 795-814

The Project

In an era of global flux, emerging powers and growing interconnectedness, transatlantic relations appear to have lost their bearings. As the international system fragments into different constellations of state and non-state powers across different policy domains, the US and the EU can no longer claim exclusive leadership in global governance. Traditional paradigms to understand the transatlantic relationship are thus wanting. A new approach is needed to pinpoint the direction transatlantic relations are taking. TRANSWORLD provides such an approach by a) ascertaining, differentiating among four policy domains (economic, security, environment, and human rights/democracy), whether transatlantic relations are drifting apart, adapting along an ad hoc cooperation-based pattern, or evolving into a different but resilient special partnership; b) assessing the role of a re-defined transatlantic relationship in the global governance architecture; c) providing tested policy recommendations on how the US and the EU could best cooperate to enhance the viability, effectiveness, and accountability of governance structures.

Consortium

Mainly funded under the European Commission's 7th Framework Programme, TRANSWORLD is carried out by a consortium of 13 academic and research centres from the EU, the US and Turkey:
Istituto Affari Internazionali, *Coordinator*
German Marshall Fund of the United States
University of Edinburgh
Free University of Berlin
Fondation Nationales des Sciences Politiques
Sabanci University of Istanbul
Chatham House
European University Institute
University of Siena
Charles University of Prague
University of Mannheim
TNS Opinion
American University of Washington

Advisory Board

WWW.TRANSWORLD-FP7.EU