EU-US Trade Relationship

Cristina Veronica ANDREESCU¹, Roxana Corina SFETEA²

¹Department of Foreign Languages, Faculty of Medicine, The university of Medicine and Pharmacy “Carol Davila”, 8 Blvd. Eroilor Sanitari, Bucharest, 050474, Romania, ¹E-mail: vyraeme@yahoo.com, ²E-mail: rsfetea@yahoo.com

Abstract This paper aims to analyze the elements that define the trade relations between the EU and the U.S. The economic power of the two giants is overwhelming. The two large economies import, export, invest and get more foreign investment than any other country or international organization combined. The historical perspective enables the discussion of the stages of the development of the economic relations between the U.S. and the European countries after World War II, from the heyday of the economic power represented by the United States (1945-1965), through the period marking the end of the American domination (1966-1986) leading to the economic balance between the two giants (1986-present). To better understand the economic and political framework, the role of the New Transatlantic Agenda (NTA-1995), which establishes the strategy of transatlantic relations in the post-Cold War, is outlined and debated.

Key words: Power, investment, trade, economy, income

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1. The Historical Perspective

It was the 1990’s that brought much attention upon the transatlantic economic relations, from both the politicians and scholars. This happened because in the 1980’s the policy makers from America focused mainly on the rise of Japan and East Asia, rather than on what is nowadays known as the transatlantic economic relations. At the same time, Europe was much concerned with the completion of an internal market by 1992, as well as with the signing of the Treaty of European Union that same year to form a European Union. At the beginning of the 1990’s, to meet the challenges in Eastern Europe, Russia, and elsewhere, Secretary of State James Baker called for the construction of a new “Euro-Atlantic architecture” (Peterson in Mark Pollack, Gregory Schaffer, 2001, p.3) The president of the European Community’s Council of Ministers called for “a new framework for enhanced political and economic ties” between the two blocs. (Smith and Woolcock in Gregory Schaffer, 2001, p. 3)

There was a sudden desire for transatlantic declarations, agendas, partnership, free trade agreements and action plans. In fact that was the background for the adoption in December 1995 of the New Transatlantic Agenda (NTA) committing the European Union and the United States to a closer cooperation in many various fields.

In their article, Mark Pollack and Gregory Schaffer bring into discussion Featherstone and Ginsberg’s book The United States and the European Union in the 1990’s and their view of the periods of EU-US economic relations. The two authors of the book identify three major periods:
1. The period from 1945 to around 1965, in which the United States was the world’s economic hegemonic power.
2. The period from around 1966 to around 1986, when there was a decline of US’s economic power and the ascent of Europe, Japan and other Asian nations.
3. The period since 1986, when the relative economic power of the United States stabilized to be about equal to that of the European Union.


The US economic policy which followed the World War II was mainly created in reaction to the economic autarky and depression of the 1930’s. The period between the two World Wars was characterized by a decline of the world trade with approximately 60 percent in volume. As Mark Pollack and Gregory Schaffer mention, “US imports fell from $4.40 billion in 1929 to $1.45 billion in 1933, and US exports plunged from $5.16 billion to 1.65 billion.” (2001, p.8)

As a result, output dropped, unemployment rose, the Great Depression spread.
At the end of the World War II, the United States was the world’s dominant military and economic power. The world’s market economies combined could not equalize the US national income. The European economies were crushed. Mark Pollack and Gregory Schaffer underline: “While US gross domestic product increased from 1938 to 1946 by 106 percent, European economies experienced large percentage decreases during that period: Germany (48 percent), Austria (43 percent), Italy (21 percent), and France (17 percent).” (2001, p. 8)

If the ending of the World War I meant for America isolationism, the US leaders decided after the World War II that it would be better to view a reconstructed Europe as a key point for the US security and future economic growth. America invested money to finance the reconstruction of the Western Europe. The Organization for European Economic Cooperation (OEEC) dealt with the Marshall Plan’s funds. The United States supported early proposals in the late 1940s to create a European customs union. It continued with the creation of the European Coal and Steel Community in 1951 and the European Economic Community (EEC) and European Atomic Energy Community (Euratom) in 1957. It was also the United States that brought into discussion the formation of the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) in 1945 and the General Agreement on Tariffs and Trade (GATT) in 1947.

The US dollar became the world’s primary exchange currency and the US Federal Reserve the world’s banker.

1.2. The End of the US Economic Dominance, 1966 – 1986

In the period between the mid-1960s and the mid-1980s, the United States was still preoccupied with Cold War concerns. At the same time, the United States realized that the Soviet threat was no longer such a big issue.

An important stage in the European integration was to take place in 1966, after which significant areas of the EEC policy would be decided by qualified majority (and not unanimous) vote. It was the French President Charles de Gaulle who pulled France’s representatives from Brussels in 1965 and who caused the EEC work in Brussels to shut down.

Immediately after it was adopted the Luxembourg Compromise, which in fact recognized that each member state retained the power to veto any legislation that it believed, would undermine an important interest. “The compromise led to nearly twenty years of legislative stagnation.” (Shaw 1996, p.36)

Two of the reasons for the declining of the US economic dominance would be that on one hand the United States was more preoccupied with its engagement in Vietnam and Cold War geopolitics, and on the other the United States gave particular attention to individual European states, rather than to the European Commission.

It was Europe’s time to level the balance. It was catching up quickly with the United States, economically speaking. From the late 1950s through the 1980s, the US share of world production dropped from over half to just over a quarter of world production. There was a rise of the European and Japanese economies, while US domestic production grew more vulnerable to imports from US allies.

“Imports more than doubled in proportion to US production between the 1950s and the end of the 1970s, increasing from 4.3 percent of production in 1953 to 10.6 percent in 1979. With the high valuation of the dollar in the early 1980s, the situation intensified, with imports reaching 15.3 percent of US production 1984. In 1971, the United States experienced its first trade deficit since 1939.” (Mark Pollack and Gregory Schaffer, 2001, p.10)

Whereas the United States was the world’s largest creditor nation following World War II, it was the world’s largest debtor nation by the mid-1980s, financed by foreign holdings of short-term US government debt. Facing such big problems, labour and industry went to Congress. For the first time since the early 1930s, Congress became active in trade policy. Throughout the 1980s, the US and EC increasingly managed import levels through “administrative protection”.

“Antidumping and countervailing duty suits proliferated. US and EC authorities spent much of their time negotiating and monitoring “voluntary export restraints” and “orderly market agreements”, in particular with Japan but also with each other. Trade economists estimate that around one-third of the manufactured sectors in the United States and the largest European economies were protected by nontariff barriers in the early 1980s.” (Cline in Mark Pollack and Gregory Schaffer, 2001, p.11)

A bitter conclusion for US economy; it was more dependent on foreign economic exchange than ever before in its history.

1.3. US – EU Economic Balance, 1986 to Present

According to Mark Pollack and Gregory Schaffer, there were two major events that occurred in 1986 and which affected the US-EU economic relations. Although one was domestic and the other was multilateral, both influenced the relation between the two parties.
1. In February 1986, the EC member states signed the Single European Act. This meant that the qualified majority decision making and the Community competence were expanded to other areas. The Luxembourg Compromise, signed after Charles de Gaulle refused to continue discussions in Brussels in 1965, was suspended. EC was finally getting closer to its dream of creating an internal market which could be compared in size with the one of the United States. 

2. In September 1986, GATT members launched the Uruguay Round of trade negotiations, which caused the formation of the World Trade Organization (WTO) on January 1, 1995. “The Uruguay Round of negotiations and European single-market project exemplified a general transatlantic shift toward neoliberal policy making at the domestic, bilateral, and multilateral levels. Both the single-market project and the Uruguay Round results reflected European leaders’ determination that more liberal trade and investment policies were required to respond to global competitive pressures.” (Mark Pollack and Gregory Schaffer, 2001, p. 12) At the same time the single-market and the Uruguay Round were mainly focused on opening markets. The opening markets combated behind-the-border regulatory measures, what was termed the “new protectionism” by trade economists. Some economists say that it is these behind-the-border national standards and regulations can be contradictory and duplicative. Although they are aimed at protecting the environment and consumer health and safety, they can really be a huge impediment to cross-border trade. The Single European Act and single-market initiative were a response to the competitive demands of a globalizing economy. By the mid-1990s, the United States and the European Community were relatively equal size in economic terms. In the same period, the two parties had balanced trade relationships in terms of exports and imports of similar products. As a result, they were each other’s most important sites for foreign direct investment. Nowadays the transatlantic direct investment amounts to around $700 billion. Bilateral transatlantic direct investment has grown faster than transatlantic trade in every year since 1989. In 1995, EC companies owned about 58 percent of all foreign direct investment in the United States, and US companies held about 44 percent of foreign direct investment in the EC.

2. New Transatlantic Agenda

During the 1990s, the officials from US and EC focused mainly on the economic side of the transatlantic relationship. They wanted to facilitate transatlantic trade and investment, as well as to reduce transatlantic trade tensions and to improve the coordination of their approaches in global and regional economic forums. US president Bush and Commission president Jacques Delors agreed in 1989 that regular meetings between high-level US and EC officials are more than necessary. These meetings led to the negotiation and signature of the Transatlantic Declaration of February 27, 1990, “pursuant to which US and EC agreed to a framework “for regular and intensive consultation.” (Mark Pollack and Gregory Schaffer, 2001, p. 14) This declaration had as key element the word interaction. It included semiannual meetings of the US president with the presidents of the European Commission and the Council of Ministers. It also stressed the importance of the biannual consultations of foreign ministers and consultations between the Commission and other US cabinet officials. As Mark Pollack and Gregory Schaffer underlined, the declaration “formalized a mechanism for systematic US - EC consultations at the highest political levels.”(2001, p. 14) This cooperation meant eliminating all kinds of trade barriers. For example, in December 19, 2003 the European Commission released its nineteenth annual report on barriers to trade and investment in the US, detailing the obstacles that EU exporters and investors faced in the US. It focused on those obstacles which the EU believed were affecting the legitimate rights of EU companies to conduct trade with the US. EU Trade Commissioner Pascal Lamy said: “Although the vast majority of transatlantic trade passes unhindered, we need to review regularly those obstacles which exist and pursue action to remove them. This will ensure that business on both sides of the Atlantic benefit from clearer, more transparent trading conditions. This is also why we need to advance in the Positive Economic Agenda adopted in May 2002.” (EU Annual Report, 2003) In addition to removing trade barriers, continued EU-US co-operation will yield significant economic benefits through the creation of additional trade and investment opportunities. Hence, the commitment to pursue the Positive Economic Agenda adopted by both parties in 2002. After the creation of the European Union in 1993, there was a greater focus on the transatlantic consultative mechanism. That is why in December 1995, the United States and EC signed in Madrid a document entitled the New Transatlantic Agenda, which set forth four priority areas for US – EU cooperation:
1. promoting peace and stability, democracy and development around the world; 
2. responding to global challenges (international crime, terrorism, immigration, health issues)
3. contributing to the expansion of world trade and closer economic relations (addressing multilateral and bilateral economic trade)

4. building bridges across the Atlantic (the promotion of transatlantic contacts between business people, scientists and so on).

NTA exchanges on trade and economic relations are conducted within the framework of the Transatlantic Economic Partnership (TEP). The joint declaration of the December 1998 US – EU summit insisted that implementing the TEP would “help ensure that our wider cooperation on economic matters is not undermined by trade disputes between us.” (EU Delegation 1998, p.4)

This ambitious agenda of co-operation between the EU and US in such a large number of areas requires intensive dialogue. The yearly Summits between the Presidents of the European Commission and the European Council and the President of the United States are the edge of an intensive dialogue for the implementation of the NTA.

The Summits are prepared by a Group of Senior Level Representatives (SLG), (composed of senior officials each from the European Commission, the EU Presidency and the US State Department) which has been entrusted to oversee work of the NTA. The SLG meets 4-6 times a year and prepares a report to the Summit leaders on achievements and new priorities. It is supported in its work by a NTA Task Force, which follows closely the day-to-day implementation of the NTA, prepares the SLG meetings, and recommends areas for SLG input.

The parties attached to the Agenda a joint US-EU Action Plan which included means to enhance prosperity. The words used now were “cooperate”, “coordinate”, “consult”, “work together”, “combine efforts”, “act jointly”, and the most important “reinforce existing dialogue”.

3. The Economic Context of the EU – US Relations

As John Peterson stressed, “the combined economic power of the US and EU is daunting.” (2001, p.47) Together they account for about half of both world GDP and global trade (and this also includes inter-EU trade). It should be mentioned that the total value of transatlantic visible trade has almost doubled since 1988.

As the world’s two largest economies and the most active participants in the process of economic globalization, the United States and the European Union are at the centre of the economic developments. They import, export, invest, and receive more foreign investment than any other country or trade bloc. This is the result of the fact that their primary trade and investment targets are each other. In 1996, the value of bilateral trade combined with sales of US and EU foreign affiliates in each other's markets exceeded US $1.7 trillion.

But in terms of volume, the transatlantic investment is much more impressive than the transatlantic trade. US investment in Europe is approximately equivalent to all American investment in the rest of the world combined. The US itself attracts more than 40 percent of all external investment (Eurostat, 1998).

European firms were the largest foreign investors in forty-one American states, and the second largest in another eight.

“But it is the sheer scale of investment that impresses most: the EU invested more in Texas in 1998 than Japan invested in the entire US”. (John Peterson, 2001, p.47)

The transatlantic trade and investment relationships work together. That is why a great part of the transatlantic trade is a product of intra-industry specialization (which means the interchange of similar goods within a single industry), and more than 20-30 percent of all bilateral trade takes place within corporations that have branches or assets in both areas.

In 2001, the total amount of 2-way investment amounted to over $1.5 trillion, with each partner employing about 4 million people in the other. Total investment outflows from the EU to the US for this same year were $108 billion (46% of total EU foreign investment), while $82 billion of US investment flowed into the EU (69.3% of total US overseas investment outflows). In 2002, exports of EU goods to the US amounted to $240 billion (24.2% of total EU exports), while imports from the US amounted to $176 billion (17.7% of total EU imports). Concerning trade in services, exports of the EU amounted in 2002 to $124 billion (38.3% of total EU exports) while imports from the US amounted to $111 billion (36.8% of total EU imports).

As John Peterson asserted, the value of these two great powers is more than impressive, is daunting. For example, the value of trade in billions of dollars will be presented below for the year 1996 (the year is chosen randomly).

1. European Union (extra-EU) 2065
2. United States 1805
3. Japan 914
4. Canada 446
5. Hong Kong, China 369
6. Republic of Korea 331  
7. Peoples' Republic of China 326  
8. Singapore 299  
9. Switzerland 231  
10. Mexico 207


1. European Union (extra-EU) 2065  
2. United States 1805  
3. Japan 914  
4. Peoples' Republic of China and Hong Kong, China 700  
5. ASEAN1 (extra-region) 570  
6. Canada 446  
7. EFTA2 (extra-region) and Turkey 334  
8. Republic of Korea 331  
9. Mexico 207  
10. Australia and New Zealand 195


1 ASEAN: Singapore, Malaysia, Indonesia, Thailand, Philippines, Brunei Darussalam and Vietnam.  
2 EFTA: Iceland, Liechtenstein, Norway, Switzerland

3. Conclusions

The currencies of the both groups (US dollars and EU’s Euro) are used in foreign transactions almost in any part the world. Any change in rate of these two currencies can have important repercussions in various transactions with almost any product. To minimize the influence of currency rate changes, companies can buy forward the needed currency and in that case the deal can be done without any influence of currency change, either negative or positive.

The way the trade is going on between these two groups can be considered as a model by other trade players, the political and legal frame being of the highest standard, which is normal for countries tied by common political aims. They are the leading members of the same military association which aim to defend and promote worldwide the values of democracy. This fight for the democratic life has been clearly expressed by the US president Woodrow Wilson, on April 2, 1917: “The world must be made safe for democracy.”

Bibliography