

## Global Investor: Ties That Should Bind

**Jeffrey E. Garten**  
**Newsweek International**

April 29, 2007 issue - German chancellor Angela Merkel is in Washington this week pushing for a quantum leap in closer economic ties between the EU and the United States. The basic idea isn't new. It could be traced to the Marshall Plan of 1947 and to a number of transatlantic free-trade proposals. But this is a particularly timely initiative and the Bush administration should welcome it with open arms.

To be sure, Merkel is not calling for a typical trade agreement focused on tariffs, subsidies and other overt barriers to commerce. That's because trade accounts for just 20 percent of the \$3 trillion transatlantic economy. The rest consists of investment, resulting in a level of interpenetration of the European and American economies that is unprecedented. Europe accounts for two thirds of all investment flows into America in 2005, and almost half of all U.S. investment abroad ends up in Europe.

Merkel wants much deeper transatlantic cooperation in areas such as securities trading, accounting standards, corporate governance, drug testing, food safety, environmental and energy policies, and communication technology. She is not arguing for big policy breakthroughs as much as for roll-up-the-sleeves work to harmonize laws and standards between the two gigantic economic areas.

The chancellor is not ahead of the global market; she is trying to keep up with it. In the case of capital flows, for example, the NYSE just completed its merger with Euronext, creating the most global of stock exchanges, and regulators such as the U.S. Securities and Exchange Commission and the U.K.'s Financial Services Administration now must figure out whose rules apply. A similar challenge relates to reconciling European suspicion of hedge-fund activities with Washington's lighter regulatory touch.

If anything, Merkel's ideas don't go far enough. Both she and President Bush could emulate the kind of cooperation that has existed in the military realm since World War II. They could exchange top officials—in this case senior civil servants—for a period of three years in such areas as antitrust, securities law and central banking. This would lead to a corps of men and women deeply versed in the different institutional cultures of the United States and the EU. It would transfer not just knowledge of one another's systems but sensibilities about how to move regulators and standard setters toward common goals.

The two leaders should also establish a group of independent "wise men"—say three from each side—to collectively present alternative scenarios of what the transatlantic economic

relationship could be a decade from now. The group should report back next year at this time, when a high-profile debate could take place over its ideas. Alongside the nitty-gritty of the work done by government officials, bold ideas are also necessary to provide a strategic vision of where policies and markets could be heading, as well as to fire up the public's imagination for new transatlantic arrangements.

Finally, leaving Tokyo out could be a big mistake. Japan is also a vibrant democracy with a post-industrial economy, and one critical to the United States and EU. Merkel and Bush should figure out a strategy of reinvigorating the trilateral economic relationship between Washington, Brussels and Tokyo. Of course, China, India, Brazil, Russia and others are also key nations, but they are at a much different stage of development. Moreover, every negotiation cannot be a global one, or policy change would come much too slowly and be swamped by market forces. The United States, EU and Japan could take the lead in showing what the next stage of globalization should be—and make sure that their markets remain open when others are ready to enter them with the attendant reciprocal obligations.

The chancellor's transatlantic initiative could be a boost to commerce at a time when the momentum for conventional trade liberalization could be slowing—witness the degeneration of the Doha Round. It could be a counterpunch to populist pressures that are emerging around the world to slow foreign investment and to follow nationalist policies in the natural-resources arena. Merkel's ideas could lay the foundations for a stronger financial system in the face of global economic imbalances, a rapidly weakening dollar and the exponential growth of highly complex derivatives that have distributed risk in ways that worry almost every central banker and finance minister. Her efforts could help the EU and the United States consolidate their environmental policies in order to lead the way toward new carbon-reducing global policies involving China, India and other developing nations. What's not to like?

*Garten is the Juan Trippe Professor of International Trade and Finance at the Yale School of Management.*

© 2007 Newsweek, Inc.