The US-European Relationship: Global Challenges and International Economic Architecture

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Introduction

I first would like to say thank you to my dear friend Thierry, whom I've had the pleasure of knowing now for 37 years – and how pleased I am to be here at his Institute to speak to you today.

The bond between the United States and the European Union has been forged over years of shared history and shared culture. That we can count on each other as partners in promoting peace, stability, and prosperity is as true today as it has ever been.

Today, I wish to share with you my impressions of why we need to reflect on the history of the U.S.-European relationship and how this can inspire us to meet today's global economic challenges and opportunities in the 21 century.

What are some of those challenges? Why is it incumbent upon the U.S., France and its other European partners to lead in shaping the response? Then I would welcome your frank comments, so that we can get a good dialogue going, even at this early hour of a Monday morning!

History of the U.S.-European Relationship

I've just come from Germany yesterday and had the great honor of being part of the official White House delegation, led by General Jones, to the 20th anniversary of German unity celebrations in Bremen. It was a thrill to be there those two days of wonderful festivities celebrating Friheit und Einheit in Bremen.

While the celebrations were for Germany, they were also symbolic for Europe -- a celebration of the final chapter of World War II and of a Europe, whole, free, prosperous and at peace.

But this outcome of a unified Germany was not inevitable. The problems were enormous. Leaders like General Lucius Clay, carried out the Berlin Airlift to keep Berlin free. Helmut Kohl, Hans-Dietrich Genscher, and George H.W. Bush were central figures in German unification in 1990.

Vision and courage of leaders on both sides of the Atlantic, French and American, too, made a united Europe possible. I'll name just a few:

Jean Monnet – whom I had met on a number of occasions, including once when Henry Kissinger and I went to Europe to solicit his views on improving US and European relations in the mid-1970's.

Robert Schumann – one of the great men of that era and a founder of the European Union.

And of the Americans one should not forget William Clayton, the cotton magnate, financier, and diplomat, who by the way was the first person to hold my position -- Under Secretary of State for Economic Affairs--who was the initial force behind the Marshall Plan and its primary drafter.

And of course the visionary leadership of George Marshall and President Harry S. Truman whose commitment—in word and in deed—helped bring to reality the dream of Europe prosperous and at peace. And there was the remarkable collaboration between President Charles de Gaulle and Chancellor Conrad Adenauer, which was critical to building cooperation between the continent's major powers.

With the economic stagnation of Europe in the mid-1970's, another French visionary, Jacques Delors, took another gamble in proposing European monetary and political union as a way to push Europe to compete globally against the rising economic power of Japan and the United States.

The signing of the Maastricht treaty in 1992 was the embodiment of this era of expansion and gave birth to the European Union as we know it today. The 2009 Lisbon Treaty further advanced the EU integration process on the political side, with the establishment of a permanent President of the European Council as well as a High Representative for Foreign Affairs and Security Policy.

As Secretary Clinton recently stated to the Council on Foreign Relations in Washington, “The post-Lisbon EU is developing an expanded global role, and our relationship is growing and changing as a result. And there is no doubt that a stronger EU is good for America and good for the world.”

This applies, in particular, to the newest members of the EU. Robert Schuman anticipated that the unity of Western Europe would serve as an incentive and magnate for the states in Eastern Europe, which “freed from the subjection that they have suffered until now, will ask to join us and request our moral support.” This is indeed what happened, with those new entrants to the EU, after undertaking painful political and economic reforms to do so.

Now, as in years past, the United States welcomes these developments. Because when we look over the arc of Europe’s economic and political development, we are encouraged by what the future holds when we work together towards common cause.

To paraphrase Jean Monnet, "Nothing is possible without men [and women]; nothing is lasting without institutions." Today’s international economic institutions are a testament to U.S. and European collaboration— the original General Agreement on Tariffs and Trade (GATT) the World Trade Organization (WTO), the IMF and World Bank.

These and other systems of cooperation have helped not only the U.S., France and all of Europe to reap the benefits of a global economy, but they also helped support the ability of millions around the world to do so as well.

Today’s U.S.-European Challenges

Today, we are at the dawn of a new era not unlike the one facing Monnet, Schumann, Truman, and Clayton in the 1940s and 1950s.

To be fair, I doubt even these visionaries could have imagined the challenges we face today—emerging nations with varied economic agendas, rapidly changing capital flows, and a global recession.

But we also face new opportunities for more inclusive partnerships, instantaneous availability of information, and a new global economic architecture of cooperation.

Now, just as in that post-war period, America is committed to working with the E.U. and other partners to ensure that we can address these new challenges and seize these new opportunities.

I would like to take a moment to share some of thoughts on how we can do exactly that.

A New Economic Geography

One of the fundamental characteristics of this new era is the new multi-polar global economy. Emerging nations have become financial, commercial, and technological players on the world's stage.

But these countries have economic agendas quite different from those of the handful of large industrialized economies that were managers of the global system for much of the last half century.

Many of these nations have high poverty rates. And the living standards of the average family are very different as well. Let's take the example of China. It has population of 1.3 billion people, but its per capita gross domestic product is only one-seventh that of the U.S.

According to the World Bank, its GDP per capita ranks 92nd in the world; Brazil is number 72 and India is 121. As a consequence, the kind of policies these countries pursue at home and internationally, and many of their priorities, will be different from those of industrialized economies.

Shifting Financial Flows and Circumstances

We've also seen a significant shift in flows of capital between industrialized and developing countries. In the past, flows of capital normally went from industrialized to developing countries. Now, much of it is moving in the opposite direction.

Emerging market reserves now dwarf those of the industrialized nations. Their reserves are more than 6 trillion dollars, up from $350 billion in 1990. Advanced economy reserves have risen from about $450 billion in 1990 to only around $2 trillion in 2009.

And although a number of developing countries have historically struggled with sovereign debt—for example in Mexico, Thailand, and Russia— this issue now seems to be more likely a problem for some industrialized nations. Debt as a percentage of GDP for these emerging economies is, on average, about half of what it is for the industrialized economies.

Aftermath of the Global Recession

We have just come through the worst financial crisis since the Great Depression. It has produced high levels of unemployment and devastated savings in the U.S. and many other countries. It also has generated considerable skepticism about the benefits of globalization, open trade policies, future trade liberalization and some types of foreign investment.

So one of the great economic as well as global security challenges is to demonstrate that the western system of capitalism and democracy is capable of returning to its previous resilience.

The U.S. must demonstrate that its political system is able to put our finances on solid footing, produce a robust economic energy policy, revitalize our infrastructure, and pursue a proactive trade policy. Failure to do so will not only hurt our economy, it will undermine our ability to convince emerging leaders on global economic issues.

Global Interconnections & Global Commons

As much of our daily lives become dependent on computers, the internet, electronic transmission of funds, and smart grids, the threat to them grows. Global connectivity makes us all more efficient—and all more vulnerable.
Cyber terrorism, cyber piracy, assaults on personal data and tapping into national security information are all dangerous 21st century threats to our economies, our technological leadership and our security.

New Areas of Competition

And we also see that there is now intense competition for capital, energy and key commodities—and there is likely to be more for arable land and water in the future. New rules and practices need to be established to avoid zero-sum competition in these areas.

We need to define new rules that enable competition to take place on a level playing field with broader opportunities for commerce in these areas, rather than a more constrained global market.

The U.S.-EU Economic Relationship Today

But none of these challenges is insurmountable. We know that the U.S.-European economic relationship remains and can continue to be the central driver of the world economy. From 2000 to 2009, over half of total U.S. foreign direct investment (FDI) was in Europe. The value of U.S. goods and services exports to the EU is over five times the value of our exports to China.

The European Union remains America's single largest investment, trade and financial partner – and a stalwart ally on many critical issues. Through groups such as the Trans Atlantic Economic Council (TEC), we seek to reduce regulatory and other barriers between us – so that we can together agree on common high standards and induce others to meet them.

We need to build on this strong transatlantic foundation as we continue to construct new international economic rules and architecture to meet today's challenges.

Given the importance of transatlantic trade and investment in supporting high-quality jobs in the United States and Europe, I cannot emphasize enough the need to make further efforts to remove the remaining barriers to our commerce. If we can cooperate more robustly on the economic front, we can help each other meet today's global economic and competitive challenges, in effect continuing the vision for U.S. and European cooperation into the 21st century.

Addressing These Challenges

As a first principle, addressing these global challenges is only possible if we take responsibility to marshal international economic cooperation. Our leadership in doing so is just as important to economic growth now as it was in the 1940s and 1950s.

The emergence of a new group of economic powerhouses – principally, but not only, the BRICs – demonstrates the need for new forums and partnerships. These countries should assume responsibilities for the global economic system commensurate with their growing role in it and the increasing benefits they derive from it.

They are important markets for our products as well as strong competitors. They also can provide large amounts of foreign investment funds – which can boost employment in America and Europe.

Let me also note that many of these countries have considerably upped their foreign assistance. And they increasingly have become important development partners. For example, the U.S. and Brazil work closely together to help poorer nations develop bio-fuels. The U.S. and India are planning joint programs to assist poorer nations to develop their agricultural sectors.

But we also have to avoid circumstances in which competition with these countries for markets, energy, capital, food, or water that is seen as a zero sum game.

Consistent with that principle, we also need to avoid circumstances in which countries engage in systematic efforts -- inconsistent with global rules and norms -- to enhance prospects for their domestic economics or national champions at the expense of others.

Such practices would cause enormous economic harm to the international economic system; in some cases it also could have serious political and security consequences.

That's why the U.S. is also expanding our cooperation with these nations in the G-20, the premier forum for global economic coordination. G-20 Leaders first met in Washington, DC in the fall of 2008.

During that Summit, and during subsequent meetings in London, Pittsburgh, and Toronto, Leaders charted a cooperative, multilateral response to the global economic and financial crisis, a response that likely prevented a more severe decline or perhaps even a second great depression.

President Obama will travel to Seoul in November to participate in the next G-20 Leaders Summit. While our key priorities remain progress on the G-20 Framework for Sustainable and Balanced Growth and reform of international financial institutions, we are also developing proposals related to anticorruption initiatives, energy cooperation, and development, including food security, financial inclusion, infrastructure, fiscal governance and tax policy.

And we eagerly look toward working with France as it chairs the G-20 and G-8 next year. France started the "G" process in 1975 in Rambouillet – and Jean-David Levitte and I were actually Sherpas at that meeting. I look forward to working with him, Christian Masset and other French officials to continue to cooperate in these fora and find practical ways to strengthen the global economy.

We see these as opportunities to work with such countries. We are doing so in other groups as well such as APEC and NAFTA. All are engaged in meeting common global challenges. While the U.S., France, and other European countries engage emerging powers, we must work even more robustly together in pursuit of our common core economic interests and values with respect to third countries in other fora such as the US-EU Summit and the TEC.

If we do not act in concert, some emerging economies by setting unilaterally rules and standards and conditions for sales to their governments, or preconditions requiring transfers of intellectual property, will exploit our differences to their own advantage. We owe it to ourselves and our citizens to maintain and expand our competitive edge in the global economy and strengthen the rules-based system.

For example, the innovative process, so key to economic growth, should be a collaborative, cross border process based on the principle we both share -- of protection of intellectual property.

We need to work together to promote these principles in countries that do not respect these values and maintain a constructive dialogue with them to avoid a situation where certain countries are selling goods in our markets with our IP obtained by less than legal or appropriate means, or by compulsory transfers.

When a constructive dialogue does not succeed, or when rules or norms are violated, we must also work together to assert our legal rights and economic interests.

Furthermore, this situation will not be conducive to further research and development in new areas in our countries. And the innovation process will on both sides of the Atlantic be compromised to our joint economic detriment.

Conclusion

It is critical that we promote and protect the basic principles of a market economy. These have proven their worth over time and were so painstakingly built in the post-war era.

At the same time we need to bring the new emerging economies into this system and help revitalize/retool the international architecture to meet all our needs for the 21st century.

We must also recognize that we are strengthening the global economic system not only to meet present needs, but also to meet the challenges that will inevitably arise in coming decades.

As such, the system must be durable, flexible, equitable and effective. Truman and Acheson built such structures in their era. We must bear in mind their example as we move forward.

There will always be those who critics. There will always be those who are skeptical of bold thinking. But it is our responsibility to convince our public – not through words but through actions – that the international economic policies we pursue offer genuine opportunities for our firms, our workers and our communities.

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