Executive Brief

For decades the partnership between North America and Europe has been a steady anchor in a world of rapid change. Today, however, the transatlantic partnership itself has become unsettled and uncertain. Nowhere is this clearer than in the economic sphere.

Voters across the United States and many parts of Europe have grown skeptical of open markets. Concerns about stagnant wages, widening income inequality, and pockets of stubbornly high unemployment have combined with fears of automation, digitization and immigration to swell economic insecurities on each side of the Atlantic.

The election of Donald Trump as U.S. president and the decision by British citizens to leave the European Union have only added to transatlantic uncertainties.

This state of division and mutual inwardness threatens the prosperity and ultimately the position of North America and Europe in the global economy and the broader global security system.

Opportunities may still be within reach. While political drama has stolen the headlines, the transatlantic economy has been gathering steam. Gaps between the United States and Europe in economic growth, job creation and trade have all narrowed. And while Donald Trump has railed against what he calls "disastrous trade deals" in Asia and North America, his administration has been cautiously positive about economic negotiations with Europe. European officials have been equally tentative, yet open, to resuming negotiations with the United States, "when the time is right."

Four paths seem plausible.

Deep Freeze. It is tempting to keep transatlantic negotiations where they are now: in the deep freeze. The obstacles seem too high, and the incentives too low, for either side of the Atlantic to invest much political capital in any major transatlantic economic initiative. Yet unresolved trade, tax and privacy issues are more likely to fester than remain frozen. Washington and Brussels will be distracted and diminished by their trade squabbles as China rises. The WTO itself could be at risk. Economic anxieties and political prejudices will be exacerbated. The U.S.-EU Privacy Shield would be an early casualty, chilling transatlantic commerce. The result is likely to be a downward spiral of mutual recrimination. It would be more than drift; it would mean accelerating protectionism, U.S.-EU rivalry in third markets, and the triumph of lowest-common-denominator standards for the health, safety and welfare of Americans and Europeans alike. Standing still means losing ground. The Deep Freeze may be the path of least resistance, but it is the road to nowhere.

Cherry-Picking. The two sides could instead try to "cherry pick" quick wins on issues where agreement seems high and opposition seems low. For instance, they could commit to work jointly towards a "Transatlantic Zero" tariff deal. But this approach has no overarching goals, is likely to have only a minimal impact on jobs and growth, and is unlikely to dampen transatlantic disputes over privacy, tax and other topics. Past efforts got bogged done on how each side cleans chickens or approves appliances. Cherry-picking would do little to equip either side of the Atlantic for tougher global competition, and it fails to address Brexit and excludes other European and North American partners. It is better than the deep freeze, but not by much.

TTIP 2.0. Resume TTIP negotiations, but with modifications and improvements. TTIP 2.0 would not be just another free trade agreement, it would pioneer new ways the two major democratic actors in the global economy could address costly frictions generated via their deep commercial integration by aligning regulations, opening services, and setting benchmarks for high-quality global norms and rules. TTIP 2.0 remains the path offering the greatest potential economic impact for both economies, and could equip each side of the Atlantic with greater leverage with regard to global competition. But simply continuing TTIP runs headlong into significant differences in political priorities between the Trump administration and EU governments. Unless modified, it is likely to reinforce, rather than assuage, public anxieties about the effects of transatlantic regulatory harmonization and investor-state dispute provisions. It does not address Brexit or the importance of including other North Atlantic partners beyond the United States and the European Union. Politically, the TTIP path may have run out of road.

The North Atlantic Marketplace. Under this path, leaders would make job creation and economic growth the centerpiece of transatlantic cooperation by establishing the goal of creating 5 million jobs in a North Atlantic Marketplace by 2025, and charting roadmaps with benchmarks toward that end. The North Atlantic Marketplace would advance an activist agenda instead of falling prey to 'deep freeze' inertia. It would be high-profile politics, not low-profile "cherry picking." The goal would be to generate jobs and growth, not to negotiate yet another preferential "free trade agreement" or to harmonize domestic regulations. It would not be a warmed-over TTIP, in fact it would replace the TTIP framework with a more politically relevant series of bilateral Jobs And Growth Agreements (JAGAs), a discrete set of principles and tailored contractual undertakings, agreed by sovereign signatory parties, to advance strategies, together or in parallel, to promote jobs and growth. Finally, it would be multi-channel. It would include, but go beyond, the single bilateral frame of negotiations between the United States and the EU to encompass a series of bilateral agreements with the United Kingdom and other non-EU European allies and partners, as well as Canada and Mexico.

The North Atlantic Marketplace would offer a reset for the transatlantic relationship by allowing the United States, the EU, and their closest North Atlantic allies and partners to move on from TTIP by negotiating a more effective partnership focused squarely on creating jobs, boosting growth, and ensuring that North Atlantic countries remain rule-makers, rather than rule-takers, in the global economy. Bilateral JAGAs could give countries new possibilities to address issues where they are currently stuck. Europeans are likely to have greater faith in America's security commitments if they are anchored by strong trade and investment links. A strong multi-channel transatlantic initiative could also reassure Americans that post-Brexit UK, post-Brexit EU, and their Turkish allies are committed to look outward rather than inward. A U.S.-UK JAGA offers London and Washington a means to forge ahead with a positive economic agenda without having to wait for the UK to leave the EU or to negotiate a full-blown free trade agreement, which could take years. An upgraded and expanded EU-Turkey Customs Union, paired with U.S.-Turkish and UK-Turkish JAGAs, could set conditions for Turkey to join the North Atlantic commercial architecture, should it choose to do so.

Above all, the North Atlantic Marketplace would provide a new sense of purpose and direction for the transatlantic relationship at a time when transatlantic solidarity has been challenged. Yet given mutual inwardness and temptations for mutual recrimination and scapegoating, such a bold initiative may simply be too ambitious and complicated to see the light of day.

Each of these paths have their own pros and cons. The time to choose may not yet be at hand. But it is coming soon.

SUMMARY CHART:

THREE PATHS AND THE ROAD TO NOWHERE

THE DEEP FREEZE — THE ROAD TO NOWHERE

Characteristics

- Obstacles too high, incentives too low for any ambitious transatlantic effort

Potential Impact

- Unresolved issues fester, some blow up
- Contentious trade policies
- WTO confrontation
- Dedicated U.S. efforts to split the EU
- Collapse of Privacy Shield
- US/EU become rule-takers rather than rule-makers
- Greater digital competition
- Value chains disrupted
- Economic anxieties exacerbated
- U.S./EU failure to address Brexit or to advance a positive agenda with other European or North American partners

CHERRY PICKING — PATH 1

Characteristics

- Harvest whatever wins you can from comatose TTIP
- U.S.-EU "Transatlantic Zero" Tariff Agreement on Goods
- Case by case agreements on sectoral and regulatory cooperation

Potential Impact

- Momentum on goods trade; minimal impact on jobs
- Could dampen potential U.S.-EU antagonism
- Piecemeal progress on individual issues
- Can shift some regulatory attention to higher-risk countries
- Selective progress as global rule-makers
- Low profile: marginal impact without high-profile push
- Does little to reposition either the U.S. or EU for greater global competition
- Insufficient to mitigate privacy/tax/other disputes
- U.S./EU failure to address Brexit or advance a positive agenda with other European or North American partners

TTIP 2.0 — PATH 2

Characteristics

- Seek Transatlantic Zero on Goods; open services markets; public procurement; rules of origin
- Seek regulatory cooperation, sectoral agreements, alignment on technical barriers to trade and sanitary and phyto-sanitary measures
- Improve U.S. and EU position vis-à-vis third countries

Potential Impact

- Difficult to achieve with Trump and current European Commission
- Toxic public reaction, especially in much of Europe
- Greater public anxieties regarding trade
- ISDS a deal-breaker
- Little chance of progress re. labor/environment
- Does not address Brexit or wider European/NAFTA value chains

THE NORTH ATLANTIC MARKETPLACE — PATH 3

Characteristics

- Drop TTIP in favor of a focus on Jobs and Growth in the North Atlantic.
- Multi-channel initiative, not a 'single undertaking' limited to U.S.-EU
- Seek series of bilateral Jobs and Growth Agreements, not only U.S.-EU but also U.S.-UK, UK-EU, U.S.-non-EU Europe, EU/Canada/Mexico etc.

Five baskets:

1. Jobs and growth: workforce development; SMEs; innovation economy; digital economy.
2. Tackle trade barriers to these goals.
3. Split investment from trade; Exclude ISDS; affirm the primacy of domestic law.
4. Regulatory cooperation should focus on helping regulators become more efficient and effective at protecting their citizens in ways that are democratically legitimate and accountable, and not primarily about removing or reducing non-tariff barriers to trade. Take account of 'transatlantic' costs and benefits. But limit to goods and services traded between the two parties. Apply only to executive agencies, not legislative bodies.
5. Align policies toward third countries such as China.

Potential Impact

- Recognizes new dynamics of Europe/Brexit
- Seeks to build synergies among the evolving pillars of the North Atlantic space
- Directly addresses anxieties about jobs and growth
- Addresses popular critique of ISDS
- Offers a different and more sustainable rationale for regulatory harmonization
- Addresses concerns about lower third country standards; repositions North America and Europe as rule-makers
- Difficult to manage/different tracks
- Requires high level support, not limited to trade officials