II

The New Setting

What Remains

Previous efforts to harness the potential of the North Atlantic economy have foundered for a variety of reasons. Nonetheless, the strategic case for an upgraded and updated transatlantic economic partnership is more compelling than ever.

Despite all the hype about rising powers and emerging markets, Europe — including countries inside and outside the EU — remains the most important and profitable commercial market in the world for the United States and the major geo-economic base for U.S. companies. Europe remains America's largest trading partner, greatest source of foreign investment, and largest source of onshored jobs. The $5.5 trillion transatlantic economy is the largest and wealthiest market in the world, accounting for over 35% of world GDP in terms of purchasing power. It is the fulcrum of the global economy, home to the largest skilled labor force in the world, and generates 15 million jobs on both sides of the Atlantic.[7] Europe and America remain each other's most important strategic partner, and are still a potent force globally — when they work in concert.

Every day roughly $4 billion in goods and services crosses the Atlantic, representing about one-third of total global trade in goods and more than 40% of world trade in services. Ties are particularly thick in foreign direct investment, portfolio investment, banking claims, trade and affiliate sales in goods and services, mutual investment in research and development (R&D), patent cooperation, technology flows and sales of knowledge-intensive and digitally-enabled services. Together the United States and Europe accounted for 64% of the outward stock and 56% of the inward stock of global foreign direct investment (FDI) in 2016. Moreover, each partner has built up the great majority of that stock in the other's economy. Mutual investment in the North Atlantic space is very large, dwarfs trade and has become essential to U.S. and European jobs and prosperity.

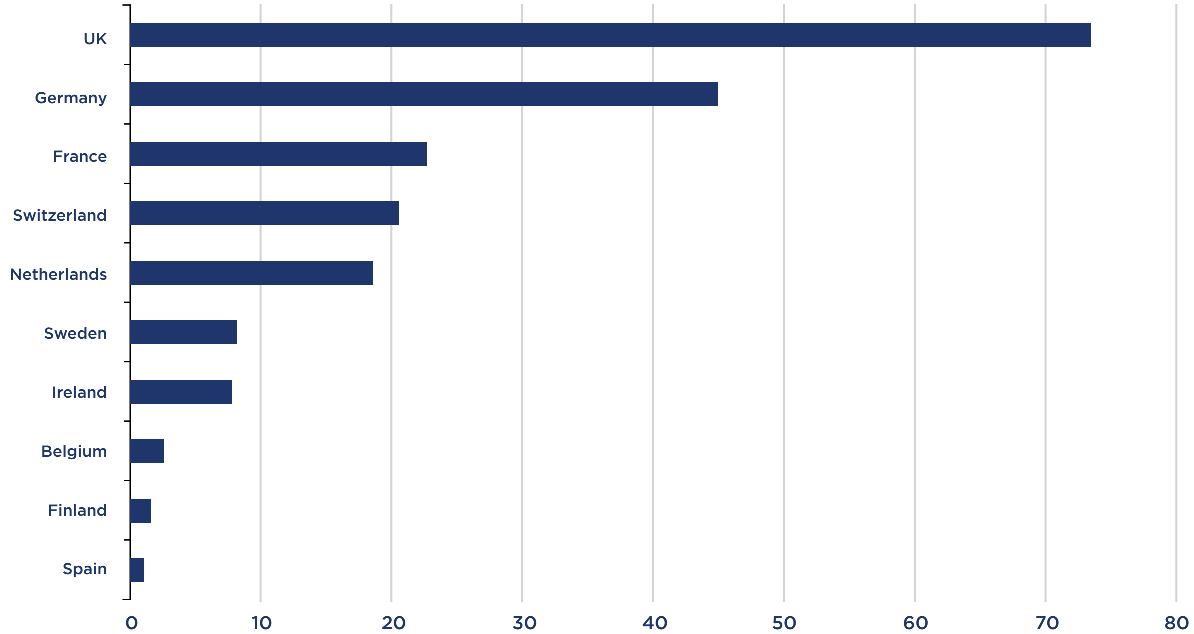
European companies are by far the major global investors in the future of the U.S. economy. In 2016 European firms accounted for nearly three-fourths of the $385 billion invested in the United States from abroad. Total assets of European companies operating in the United States of roughly $8.4 trillion in 2015 accounted for nearly two-thirds of total foreign assets in the United States. Total European stock in the United States of $2.2 trillion in 2015 was almost four times the level of comparable investment from Asia.

Europe's sizable presence reflects the strategy of European firms to produce and sell products and services from inside the world's largest and most dynamic market. In general, the presence of European affiliates in many states and communities across the United States has helped to improve America's job picture. The more European firms embed in local communities around the nation, the more they tend to generate jobs and income for U.S. workers, greater sales for local suppliers and businesses, extra revenues for local communities, and more capital investment and R&D expenditures for the United States.

Deep investment ties with Europe have also boosted U.S. trade, notably exports. A good share of U.S. manufacturing and services exports to the world are generated by European companies operating in the United States. Table 1 illustrates the export potential of European affiliates operating in the United States. In 2014, the last year of available data, European companies operating in the United States accounted for 54% of the $425 billion in U.S. exports that was shipped abroad by non-U.S. companies. The more European companies invest in American communities, the higher the number of jobs for U.S. workers and the greater U.S. exports.

In addition, the European Union, not China, is America's largest trading partner and market for U.S. exports. 45 of the 50 U.S. states exported more to Europe than to China in 2015. Goods exports from California to Europe were double those to China; New York exports to Europe were more than seven times those to China. Exports from Texas to Europe were almost three times larger than exports to China.

FIGURE 1: U.S. EXPORTS OF GOODS SHIPPED BY AFFILIATES OF EUROPEAN MULTINATIONAL CORPORATIONS (BILLIONS OF $)



Source: Bureau of Economic Analysis.
Data as of November 2015.

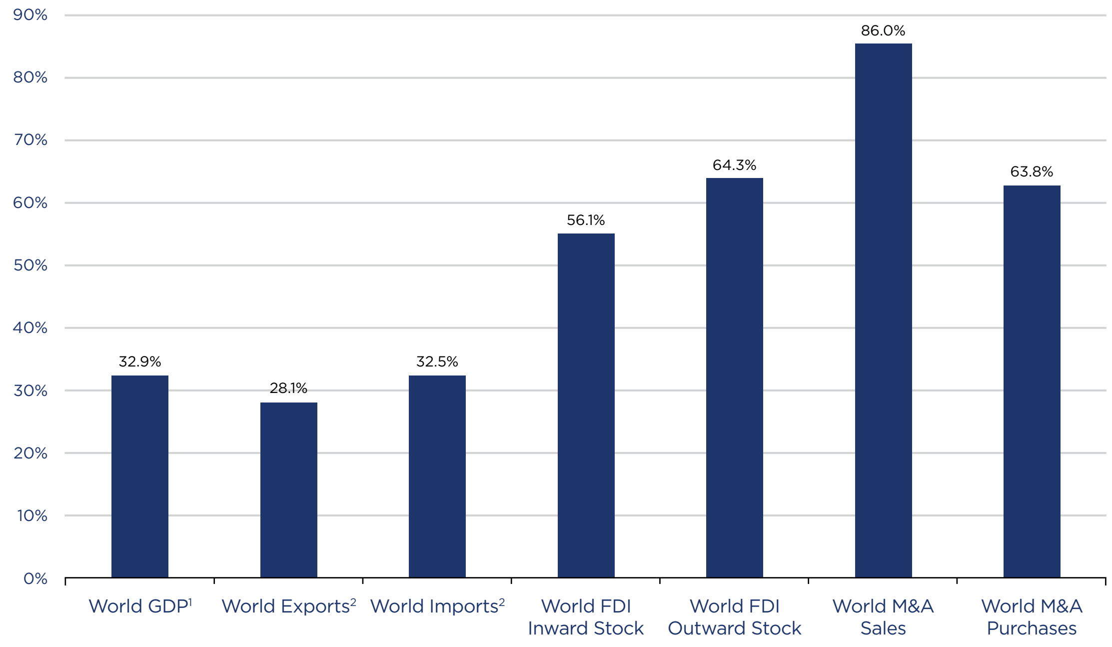
These figures, significant as they are, actually underestimate Europe's importance as an export destination for U.S. states because they do not include U.S. exports of services. Europe is by far the most important market in the world for U.S. services. This is an additional source of jobs and incomes for U.S. workers, since most U.S. jobs are tied to services. When one adds services exports to goods exports, the European market becomes even more important for individual U.S. states.

American companies, in turn, are by far the most important global investors in the future of the European economy. In 2016 Europe accounted for nearly 70%, whereas the entire Asia-Pacific region accounted for just 21%, of all foreign direct investments made by U.S. firms. The output of U.S. companies operating in Europe of $717 billion in 2015 was roughly double the output of U.S. companies operating throughout all of Asia ($363 billion). Sales of U.S. companies operating in Europe in 2014, the last year of available data, were almost double the sales of U.S. companies operating in the entire Asian region. America's asset base in Germany ($794 billion in 2015) was roughly one-third larger than its asset base in all of South America. America's asset base in Poland, the Czech Republic and Hungary (roughly $165 billion) was much larger than corporate America's assets in India ($131 billion). America's assets in Ireland ($1.4 trillion in 2014), and those in Switzerland ($835 billion), are each light years ahead of those in China ($392 billion).

U.S. companies operating in Europe generate a good share of European manufacturing and service exports to the world. Of the top twenty global export platforms for U.S. companies in the world, eleven are located in Europe, a trend that reflects the intense trade and investment linkages that bind the two sides of the North Atlantic.[8] U.S. companies operating in the UK exported more to the other members of the European Union than U.S. companies operating in China exported to the entire world. U.S. company affiliates export 4.6 times more to the world from Ireland than from China and about 3.7 times more than from Mexico, despite strong NAFTA linkages between the United States and Mexico.

Europe and the United States are also the major investor in each other's innovation economies. Bilateral U.S.-EU flows in R&D are the most intense between any two international partners. In 2015 U.S. affiliates invested $31 billion in research and development in Europe, representing 57% of total global R&D expenditures by U.S. foreign affiliates. R&D spending by European companies based in the United States totaled $41 billion, representing 72% of all total foreign R&D spending in United States.

TABLE 2: THE TRANSATLANTIC ECONOMY VS. THE WORLD - SHARE OF WORLD TOTAL



Sources: UN, IMF, figures for 2016.
1. Based on PPP estimates.
2. Excluding intra-EU, Norway, Switzerland and Iceland trade.

The Trump Administration is concerned about an imbalance between sluggish U.S. exports and rising U.S. imports. A closer look at transatlantic dynamics, however, shows a more balanced picture than is commonly portrayed by politicians and the media.

U.S. merchandise exports to the EU in 2017 hit a record high of $284 billion, more than double U.S. exports to China. The U.S. merchandise trade deficit with the EU, estimated at $145 billion, was down 7% from the peak deficit of 2015. U.S. exports to Germany were up almost 10%, those to Ireland up 9%, and those to France up 8%.

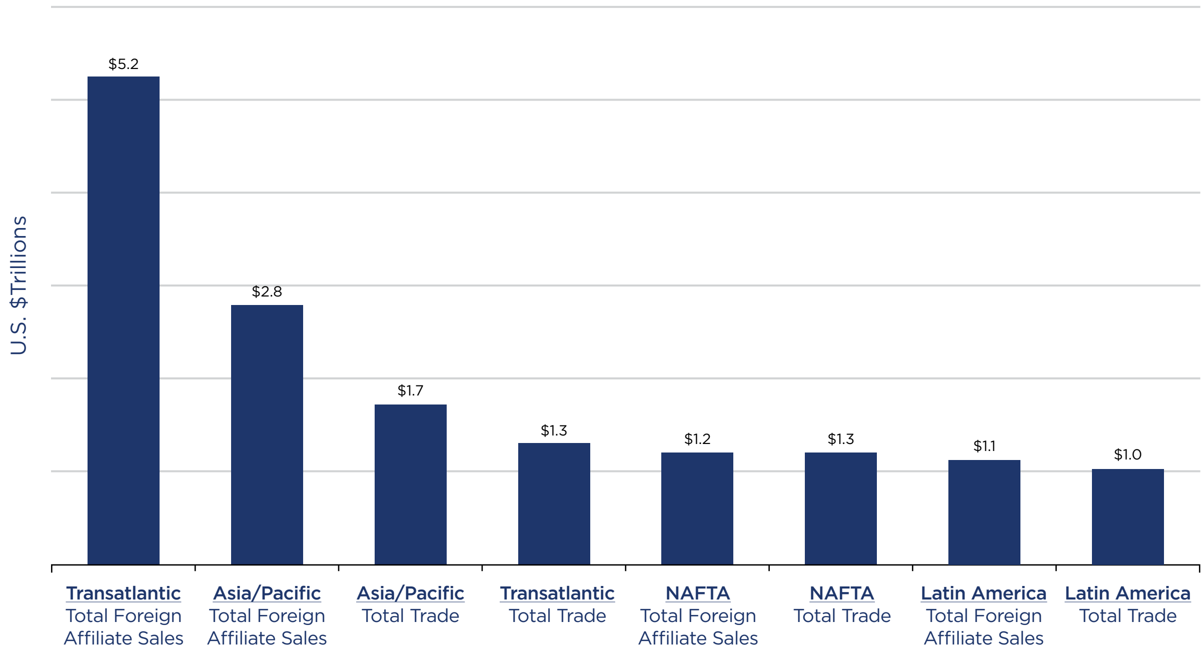
Moreover, a narrow focus on goods trade ignores the fact that the United States has trade surpluses with Germany and with the EU as a whole when it comes to overall services and to digitally-enabled services. The U.S. registered a $69 billion trade surplus in services and a $161.5 billion trade surplus in digitally-enabled services in 2015. Digitally-enabled services accounted for 61.6% of the overall U.S. trade surplus in services. The U.S. exported $180 billion in digitally-enabled services to Europe in 2015, and imported $109.1 billion, generating a trade surplus with Europe in this area of $71 billion.

Inordinate attention to goods trade also ignores the positive job and export effects generated by European investments and sales within the United States. The $2.4 trillion in sales made by European companies based in the United States in 2016, for instance, was more than triple U.S. imports from Europe. Those are home-grown U.S. sales that employ American workers, generate U.S. exports, and stimulate growth in the U.S. economy.

Taken together, these metrics underscore the importance of healthy transatlantic commerce to U.S. and European jobs, innovation and growth. In the end, the United States and Europe each owe a good part of their competitive position in manufacturing and services globally to deep transatlantic connections in manufacturing and services industries, which have been generated by dense links among trade, investment, and digital flows. The bottom line: the North Atlantic partnership is not only too big and too important to fail, it has considerable potential to grow. Unemployment levels are falling, economies are expanding, and consumer and business confidence is rising on both sides of the pond.

Nonetheless, neither side of the Atlantic can afford to be complacent. Each must address popular anxieties about economic change even as it repositions its economy for a

FIGURE 3: AMERICA'S MAJOR COMMERCIAL ARTERIES



Foreign Affiliate Sales: Estimates for 2016. Total Trade: Data for goods & services, 2016.
Source: Bureau of Economic Analysis.

world of more diffuse power, swift and often disruptive technological innovation, billions of new workers and consumers, and intensified global competition.

Dynamic Forces

As decision makers consider the future contours of North Atlantic economic relations, they would do well to take account of a number of factors that are redefining the nature of globalization and the position of North America and Europe in the global economy. The diffusion of global power and intensified global competition, together with the digital revolution and the changing nature of global production, are integrating the American and European economies even more tightly with many other parts of the world. But these integrative forces have generated challenges to prevailing global trade rules and sparked a domestic backlash on both sides of the Atlantic when it comes to weighing the relative gains and pains of globalization.

Diffusion of global power and intensified global competition

As emerging markets have risen, the share of global trade accounted for by the EU and the United States has fallen. China is set to overtake both soon to become the single most important trading power in the world. The United States remains by far the largest single bilateral export market for the EU, but its share in overall EU exports has fallen from about 27% to less than 20%, whereas that of China has almost doubled over the last few years. On the import side, the United States ranks now only third for the EU. The dominant role of Western countries in the multilateral financial institutions that have provided global capital appears to be receding as new financial institutions emerge, such as the China-backed Asian Infrastructure Investment Bank and the New Development Bank.

In addition, the Trump Administration's decision to withdraw from the Trans-Pacific Partnership has given new life to two Asia-Pacific initiatives moving forward without the United States. The first is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or CPTPP, a mega-regional trade pact that is the successor to the TPP and includes all TPP members except Washington. There is also the Regional Comprehensive Economic Partnership (RCEP), which if completed will be the largest trade deal in terms of both GDP and population since the 1994 Uruguay Round agreement, which established the World Trade Organization. A RCEP agreement would bring together three of the top four and four of the world's top eight economies – but not include either the United States or the European Union. It would be the first trade agreement outside of the WTO to bring together China and Japan, China and India and Japan and South Korea.[9]

In the longer run, the transatlantic economy is bound to decrease in relative size in the world economy. Extrapolations for 2050 suggest that China will be of an economic size equal to transatlantic GDP, and India, Brazil and other rising economies are becoming increasingly integrated into the global economy.

The addition of four billion people to the globalized economy, the rise of other powers, the growing role of state-owned enterprises, sovereign wealth funds and direct government support of domestic industries, together with recent Western economic turmoil, signal that the window of opportunity may be closing on the ability of the United States and Europe to maintain, let alone advance, key Free World norms — unless they act more effectively together.

The changing nature of production

Across the Atlantic and around the world, production networks have fragmented into value chains of regional and global reach that have changed transatlantic and global flows of trade and investment. Today, firms increasingly divide their operations across regions or around the world to take advantage of locations where particular tasks can be completed best, whether those tasks are research and design, production of components, assembly or marketing. These extended value chains render a country's exports essentially the product of many intermediate imports assembled in many other countries. Fully 70% of global trade today is related to such value chains.[10]

This growing process of international fragmentation is changing traditional understandings of the patterns and structure of international trade. Traditional measures do not show how supply is driven by the final customer or reveal where the creation of value-added occurs, in terms of wages and profits. They also underplay the role of services in overall trade.[11] The OECD and the WTO have now created tools that are transforming our understanding of trade flows by revealing what was hidden before. This "value-added" approach tracks the direct and indirect flows of value-added associated with international trade. It shows where value is actually created. Their findings lead to some surprising conclusions that reinforce our understanding of the dense binding forces of transatlantic integration.

Global value chains are revolutionizing trade in both goods and services, with important implications for the conduct and priorities of trade negotiators and for our understanding of the transatlantic economy.[12] U.S. and EU manufacturers alike have taken advantage of such complicated value-added production chains to remain competitive and to be able to export their goods and services globally. Under a value-added lens, U.S. commercial ties with Germany, France, the UK, Italy and many other European economies are larger and more lucrative than they appear to be when measured in more traditional – and largely outdated — ways.

This approach also illuminates the extent to which U.S. and European companies are engaged in a variety of dynamic value chains within the larger space of Europe beyond the EU, and in the wider NAFTA space beyond the United States.

Within Europe, not only have U.S. and EU manufacturers extended their value chains to take advantage of the enlargement of the EU Single Market to encompass new EU member states, they have extended those value chains to countries that are European but not members of the EU, such as Turkey, Switzerland, Norway – and soon, the United Kingdom. One result is that direct and indirect value-added exports by the EU to non-EU Europe exceed those to the United States.[13]

Non-EU Europe has also become more important to the UK; value-added shares of direct and indirect UK manufacturing exports to non-EU European countries have grown to rival those to the United States, each of which hover around 10%, even as the comparative share going to the EU-27 declined from 60% in 2005 to 50% in 2014. A similar trend can be observed when it comes to business services; the United States and non-EU Europe each accounted for slightly less than 20%, and the EU slightly less than 60%, of value-added shares of direct and indirect UK exports of business services.[14]

Value-added trade is also important in the context of NAFTA. North American and European companies have optimized value chains to take advantage of the entire NAFTA market. The United States is engaged in a variety of dynamic regional value chains with NAFTA partners Canada and Mexico, similar to those that EU member states conduct among themselves and with non-EU European countries Trade within NAFTA is extensive; U.S. direct and indirect value-added export linkages to its NAFTA partners exceeds by far its value-added export linkages to the EU.[15] A considerable portion of those exports is composed of intermediate goods and services that are processed in Canada or Mexico and re-exported to the United States. The final export destination may lie elsewhere, and Europe garners a higher share than previously understood.

In short, a value chain map underscores how important it is to view the North Atlantic economy as broader than the bilateral links between the United States and the European Union. Each has strong ties with non-EU Europe, and with NAFTA partners Canada and Mexico. As the UK leaves the EU and as other economic changes continue to unfold, Americans and Europeans alike have a vital stake in ensuring that each point in the transatlantic triangle – North America-EU, North America-non-EU/Europe, and EU-non-EU Europe — is strong and sturdy. Decision-makers would do well to take account of this broader frame when considering future trajectories for transatlantic economic ties.[16]

The value-added approach not only underscores the continuing importance of the transatlantic economy, it is an important consideration as the United States and the EU consider removing tariff barriers across the Atlantic. Since many of these barriers are relatively low, skeptics wonder about the benefits of going to "transatlantic zero." But given that many U.S. and EU exports in the end result from many different intermediate imports, and that related-party trade, or trade among affiliates of the same company, is so important in transatlantic commerce, even relatively low tariffs can have multiple knock-on effects all down the value chain. As the OECD notes, "Success in international markets today depends as much on the capacity to import world class inputs as on the capacity to export. Protection measures against imports of intermediate products increase costs of production and reduce a country's ability to compete in export markets: tariffs and other barriers on imports are a tax on exports."[17] Moreover, given the size of the transatlantic economy, even small changes can have big effects on jobs and growth.

The digital revolution

Digital information, services and products, and the ecosystems that supports them, have become the backbone of the modern global economy. They are transforming how we live, work, play, travel, interact, and do everything in between. They are changing how business is done, who is involved, and where economic benefits flow. According to McKinsey, these global data flows now contribute more to global growth than global trade in goods.[18]

Despite these incredible transformations, we're still in what Scott Cook of Intuit calls "the first minutes of the first day" of the digital revolution.[19] The Internet of Things, 5G technologies, big data analytics, quantum computing, energy storage, precision agriculture, aquaponics, artificial intelligence and other innovations will further accelerate digital growth around the world.

In some respects, the digital revolution could act as a counterforce to proliferating global value chains. In addition to boosting productivity by as much as 30% and reducing labor costs, advanced digital manufacturing systems let businesses alter their global production and delivery footprints by making it feasible to operate smaller, more flexible facilities closer to customers around the world instead of concentrating production in large plants in countries with low labor costs. Raoul Leering of ING predicts that 3D printing will lead to reshoring of production to developed countries and, hence, diminish imports. He posits, for instance, that the direction of flows in the most important 3D printing industries will lower U.S. trade deficits with Mexico and Germany (automotive) and China (machines, consumer products), all large contributors to the U.S. merchandise trade deficit.[20]

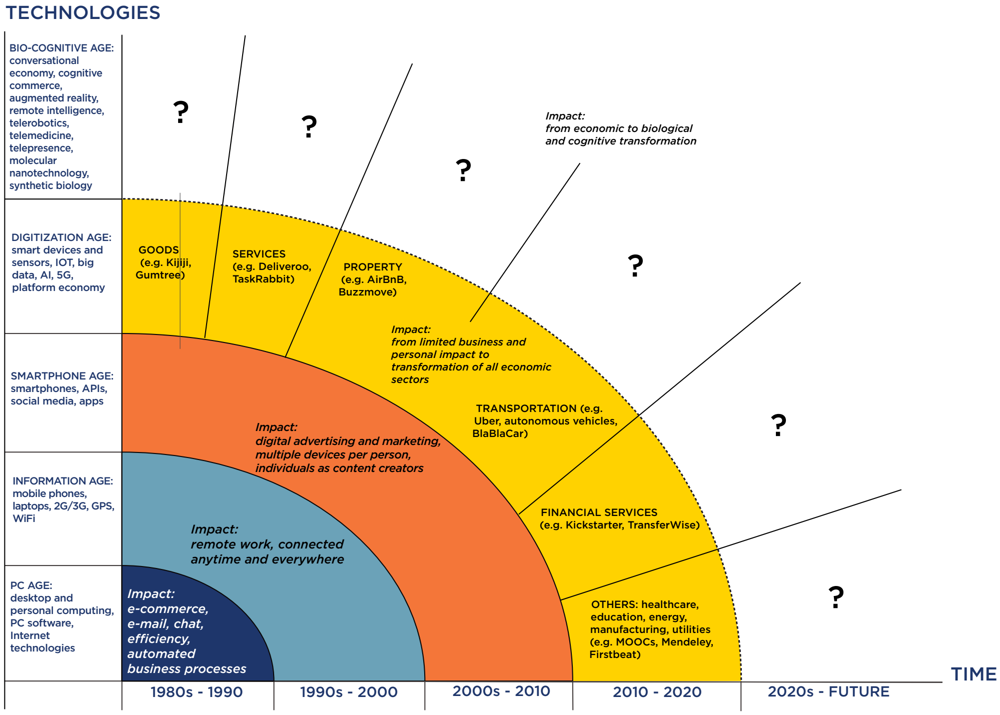
In other respects, however, the digital revolution is fueling the proliferation of global value chains, by giving companies access to global markets, and as tasks performed more cheaply a world away can be integrated via digital connections more effectively than tasks performed more expensively just down the street.

Moreover, there are many signs that our current "Digitization Age" will soon give way to a "Bio-Cognitive Age," yet another transformative period in which revolutionary advances in digitization, biology, nanotechnology, behavioral and cognitive sciences will combine to affect not only our economic and social lives, but life itself.[21] Alec Ross states it succinctly: "The last trillion-dollar industry was built on a code of 1s and 0s. The next will be built on our own genetic code."[22]

As we look to the expanding digital frontier, connectivity matters. In the Cold War, Tom Friedman recalls, the most frequently asked question was: "Whose side are you on?" Today, he says, the most frequently asked question is "To what extent are you connected to everyone?"[23] Parag Khanna drives home the point: "Today power derives from leverage exercised through connective reach. The paramount factor in determining the importance of a state is not its location or population but its connectedness — physically, economically, digitally — to flows of resources, capital, data, talent and other valuable assets."[24]

The good news for the transatlantic economy is that digital connections are "thickest" between the continents of Europe and North America. When it comes to the digital economy, the United States and Europe are each other's most important customers and each other's most important suppliers. Digitally-enabled services have become critical to the competitiveness of manufacturing and retail operations on each side of the Atlantic.

FIGURE 4: THE EXPANDING DIGITAL FRONTIER



Sources: GSMA Intelligence; McKinsey Global Institute; Author's own estimates.

The European Union is the #1 market in the world for U.S. exports of digital services and of digitally-enabled services, over half of which are used to create EU products for export. U.S. exports of digitally-enabled services to Europe were more than double U.S. exports to Latin America and almost double U.S. exports to the entire Asia-Pacific region in 2015.

Europe is also the main source of U.S. imports of digitally-enabled services, and similarly, over half of such imports are used to create U.S. products for export. EU digitally-enabled services exports to the United States alone are greater than all such EU exports to Asia and Oceania combined.

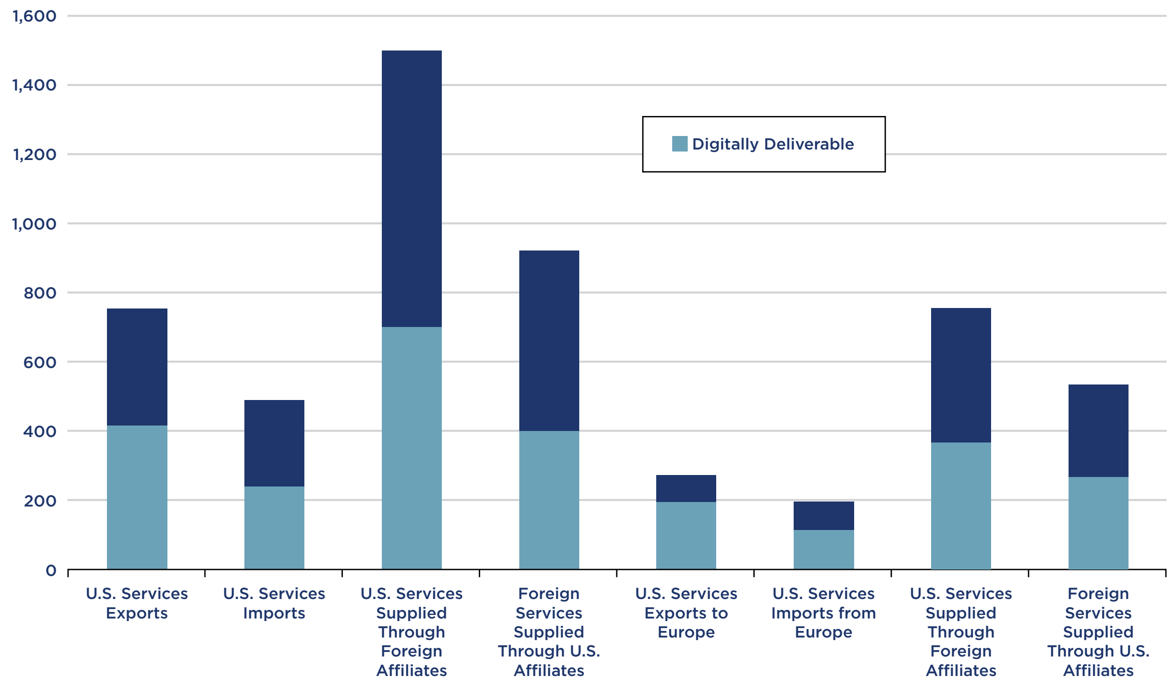
Moreover, digitally-enabled services supplied by U.S. companies operating in Europe in 2015 were 2.3 times greater than U.S. digitally-enabled exports to Europe, and digitally-enabled services supplied by European affiliates in the United States were 2.4 times greater than European digitally-enabled exports to the United States.[25]

UK-U.S. digital links are particularly tight. The UK is the #1 foreign e-market in the world for U.S. companies, accounting for almost a quarter of all U.S. e-commerce exports. 70% of all UK digital shoppers buying across borders purchased from U.S. companies.

The digital economy evokes images of electrons speeding through the ether, but the reality is that undersea cables bring the internet to life, transmitting 99% of all intercontinental telecommunication traffic — data, phone calls, texts, emails. Here again, the North Atlantic economy is central. Not only do North Atlantic cable connections already represent the densest and highest capacity cable routes, with the highest traffic, in the world, commercial and consumer demand is rapidly outpacing supply. Between 2011 and 2016, total available transatlantic capacity increased 240%. If all planned systems for just the next 2 years become operational, they will double existing total transatlantic capacity. If current transatlantic demand trends continue, Telegeography estimates a compound annual growth rate of 38% in capacity until 2025. Two new transatlantic cables will be needed every year between now and 2025 just to keep pace with that demand.

In short, digitization and digital links across the Atlantic are becoming critical to both U.S. and European economic health. The digital transformation is becoming the single most important means by which both sides of the Atlantic can reinforce their bonds and position themselves for a world of more diffuse power and intensified competition. The digital economy is both strengthening the transatlantic economy and transforming it. It is lowering marginal

FIGURE 5: U.S. DIGITALLY ENABLED SERVICES TRADE AND SERVICES SUPPLIED THROUGH AFFILIATES, 2015 (BILLIONS OF DOLLARS)



**Affiliate data are for 2014, the latest available year.*
Sources: U.S. Trust Market Strategy Team®; U.S. Bureau of Economic Analysis

production and distribution costs, reducing the cost of participating in cross-border trade, helping to match supply and demand in real time, sparking innovation, and offering customers more choices at lower prices. It is expanding the potential of many jobs and creating new jobs that were once unimaginable.

At the same time, the potential of the transatlantic digital economy is also held back by basic U.S.-EU differences on a range of issues, including privacy and personal data, rules regarding hate speech and fake news, and intellectual property protection. Digitization is confronting societies on each side of the Atlantic with a host of legal, economic, societal and normative questions. Perhaps the most significant – and common – challenge facing the U.S. and Europe in this regard is the potential impact of the digital economy on jobs and the nature of work, a challenge that is accentuated by widening skills gaps and concerns about growing income disparities.

A new setting for trade

The global trade regime is in considerable flux. Protectionism is growing, and the ability of multilateral institutions to establish and enforce shared rules is weakening. The WTO's Doha Round of multilateral trade liberalization is moribund and its dispute settlement system is in crisis. Preferential trade agreements are proliferating. They already govern over 50% of world trade and will continue to shape the nature of commercial connections across the Atlantic and around the world in coming decades.[26]

Both the United States and the European Union have been leaders in bilateral deal-making. The United States has signed bilateral trade deals with a host of countries ranging from South Korea to Colombia and Panama. The EU is implementing its CETA deal with Canada, reached political agreement with Japan on a bilateral deal, is negotiating a modernized free trade agreement with Mexico, has implemented other major deals, such as with South Korea, is looking to ratify deals with Vietnam and Singapore, and wants to strike new deals with Australia and New Zealand.

Until the advent of the Trump administration, each side of the Atlantic was also pressing forward with mega-regional deals. The Trade in Services Agreement (TISA), for instance, covers about 70% of global services trade and involves 50 countries — including all EU members and the United States, but not China (which has applied for membership). TPP was a high priority for the Obama administration. The EU has long sought a deal with

Mercosur, which in terms of trade volume would be four times bigger than its bilateral deal with Japan.[27] And the U.S. and EU had also turned to each other through the TTIP.

The mega-regional agenda is now in question as trade agreements have come under heavy criticism. On each side of the Atlantic, traditional left-right political schisms are giving way to new domestic splits between those wanting to open economies and societies further to the world, and those on both left and right who want to shield their economies and societies from what they perceive to be the excesses of globalization. In the United States, TPP became the symbol of disruptive globalization; in Europe it was TTIP.[28] In their own way, both TPP and TTIP became lightning rods for criticism as emblematic of how powerful market forces were eroding the democratic legitimacy of societies and sovereign authority of governments.

In the United States, Donald Trump came into office decrying the "bad deals" previous administrations had negotiated on trade. NAFTA and TPP were particular targets of the President's fury. U.S. participation in TPP was cancelled immediately. NAFTA is being re-negotiated, with uncertain prospects.

In Europe, there is a palpable apprehension about the benefits of trade, even though one third of the EU's income comes from trade with the rest of the world. For many Europeans, globalization has become linked to job losses, lower standards for safety, health and the environment, and an erosion of traditions and identities.[29]

No "business as usual"

The Trump presidency marks the biggest turning point in America's foreign economic policy since President Franklin Roosevelt signed the Reciprocal Trade Agreements Act of 1934, which renounced protectionism and set the United States on a course for deeper economic engagement with the world.[30] Since that time, the basic domestic bargain underpinning U.S. foreign economic policy has been that U.S. efforts to advance prosperity and stability abroad would help secure prosperity and stability at home. That bargain ended in the years following the Great Recession, as more and more American voters became frustrated with an economy that, in Edward Alden's words, "seems to work well for far too few."[31] While on paper the U.S. economy now seems to be enjoying respectable growth and low unemployment, the numbers disguise a deep and growing economic divide. Since the beginning of this century, the economic circumstances of most Americans have been stagnant or slipping. Median earnings have been flat, and have shown little growth for decades. Nearly half of all jobs created since the recession paid near-minimum wage. Economic mobility has faltered.

Most empirical evidence points to technological change, rather than trade, as the primary cause of job losses in the economy. A 2017 study concluded that 13% of U.S. job losses in manufacturing between 2000 and 2010 resulted from trade. Over 85% were caused by productivity growth stemming from automation and other technologies.[32] Moreover, the rise of China in the global economy, and its admission to the WTO in 2001, has directly contributed to job losses in the United States. A 2016 study found that the growth in imports from China between 1999 and 2011 cost the United States up to 2.4 million jobs. About 985,000 of those lost jobs were in manufacturing, accounting for some 17% of the 5.8 million manufacturing jobs lost during that period.[33] None of these figures take account of the churn in the economy, however, since trade and technologies also create jobs. In other words, trade is not without fault, but neither is it the main culprit, and the overall story is complex.

Nonetheless, the political impact of these changes has led former treasury secretary Lawrence Summers to state that "The consensus view now is that trade and globalization have meaningfully increased inequality in the United States by allowing more earning opportunities for those at the top and exposing ordinary workers to more competition, especially in manufacturing."[34]

In his successful election run, Trump channeled these economic anxieties into a larger critique of America's global position. Edward Alden summarizes the Trump perspective: "Americans were suffering because they were too generous to the rest of the world, taking in immigrants and defending allies, and because the country's political elite had negotiated a series of flawed international deals that had harmed the U.S. economy and ordinary American workers."[35] Nor was Trump alone in his critique. Economic anxiety also fueled the campaign of Vermont independent Bernie Sanders, who very nearly snatched the Democratic nomination away from the more orthodox Hillary Clinton.[36]

Europe, in turn, has been experiencing its own political shakeout. The European Union has been suffering through a decade-long crisis of confidence, generated by a series of shocks, ranging from the financial crisis and disruption within the eurozone to Russia's military interventions in neighboring countries, unprecedented migration flows and Brexit.

These crises have forced some unpleasant realities. The financial crisis and subsequent eurozone uncertainties generated considerable economic anxiety and discontent, strained intra-EU solidarity and eroded trust in European elites and EU institutions. The Brexit vote made it clear that European integration is neither inevitable nor irreversible. Russian aggression, migration inflows, and Trump's demands that Europeans pay a fairer share for their defense signaled that Europe may not be as peaceful and secure as many had thought. The EU's quarter-century goal of transforming its neighborhood has been replaced by a new goal: ensuring that the neighborhood does not transform the EU.[37]

European anxieties have already transformed the political landscape. Protest voices have eroded the position of mainstream parties across the board, even in countries such as Germany and Sweden. Social democratic voices have been muted by a surge of right-leaning parties and movements across the continent. Popular sentiment has turned against EU trade agreements, in part because of economic anxieties, but also in part because of lack of trust in the European Commission's ability to conduct such agreements.

On both sides of the Atlantic this popular revolt has taken diverse, overlapping forms: reassertion of local and national identities, demand for greater democratic control and accountability, rejection of centrist policies, and distrust of elites and experts. Those on the right have split between mainstream free-market conservatives who champion freer markets, and nationalists and nativist populists who believe such agreements are destroying sovereignty. Those on the left have split between those who believe high standard agreements could not only generate jobs at home but extend higher labor, environmental and consumer standards further around the word, and those who believe such agreements are destroying jobs and hard-fought standards at home.

These realities are certain to condition any future efforts to advance North Atlantic economic cooperation. They underscore that whatever initiatives may be proposed, they will need to show how they can be more effective in generating economic opportunity and confidence at home. This does not prevent some useful steps to better cooperation, but it means that decision-makers need to frame options differently today than ten or twenty years ago. It means that they will need to be more sensitive to approaches that appear to challenge sovereign legal, judicial or regulatory processes. One consequence of these changes is growing resistance, from both right and left, to the "deep integration" model of regulatory cooperation as it had been advanced through TTIP.

Lessons from Previous Efforts

Over the last two decades, various efforts have been made to unleash the fuller potential of the transatlantic economy in ways that could reposition the United States and Europe to address better the challenges and opportunities of a changing global economy. Each initiative showed promise, but ultimately each failed to achieve its goals. Before engaging in yet another initiative, U.S. and European decision makers would do well to reflect on lessons from the past.

The Clinton Administration's efforts to craft a big U.S.-EU trade agreement remained stillborn due to criticism by some that such a deal would be either "too big," meaning it could subvert multilateral trade negotiations under the WTO, or "too small," meaning that the EU and the United States enjoyed such low tariffs that they were essentially already engaged in free trade, so that the benefits of a deal would be marginal, and that precious time and energy would be better spent tackling high trade barriers imposed by others.[38]

During the George W. Bush Administration, the two parties created a Transatlantic Economic Council that presided over a series of low-profile workstreams intended to harvest the results of bilateral negotiations on specific sectoral issues, but absent any overarching goal. They found that it took considerable time and energy even to negotiate on seemingly small sectoral issues, and without a broader political goal, it was hard to strike bargains across sectors.

The Obama Administration harbored greater trade ambitions, focusing on the strategic potential of mega-regional negotiations such as the TPP and TTIP. But a number of important lessons can be drawn from this period of trade negotiations.

First, for the Obama team the TPP took precedence over TTIP. Yet TPP awakened anxieties that the United States would be exporting jobs to Asia and importing low-quality goods from Asia that did not meet U.S. labor, consumer, health and environmental standards. TTIP, on the other hand, held the promise of a high-standard transatlantic deal that could give a U.S. President needed leverage to negotiate higher standards with Asian counterparts. Obama wanted to finish TPP first and TTIP second. Reversing that sequence would have been not only better politics, it could have achieved better results.

Second, the complexities of TTIP created a deep gap between the aims of the partnership and what ordinary citizens believed it would produce. This gulf has created

a toxic public atmosphere, particularly in Europe, that requires a fundamentally new narrative and approach.[39]
Third, secretive negotiating strategies from Brussels and Washington awakened public anxieties and galvanized opposition by labor, environmental and consumer groups. Brussels changed course and began to make its positions and goals public, but much too late. Washington did little to change its traditional habits. Given heightened public concerns, such secretive approaches must be abandoned for an open and inclusive process and proactive strategy of public engagement.

Fourth, on the European side, EU member states followed the Commission's lead, but did little to explain the issues at hand, and showed little appetite to engage in vigorous pan-European campaigning in the face of highly organized pan-European opposition. Unresolved issues related to the relative authority of the Commission and member states when it came to some of the more intrusive issues, such as Investor-State Dispute Settlement (ISDS) or government procurement, created the image that TTIP was a Commission power grab, which sapped support among European societies.

Fifth, TTIP quickly became embroiled in traditional U.S.-EU disputes, which meant that the original focus on creating jobs and boosting growth was lost. Any future negotiation must be geared directly and prominently to lowering costs and increasing investment in ways that will generate greater economic growth and better jobs on each side of the Atlantic.

Sixth, TTIP conveyed the impression of a closed shop. There was no provision for other key European or North American partners to associate themselves with an eventual deal, even though extended value chains across EU and non-EU Europe, and across the NAFTA space, have become increasingly important to the bottom line of U.S. and European companies. Given the danger of fragmentation today, as well as the looming reality of Brexit, a new initiative should include, but go beyond, a narrow U.S.-EU focus to embrace partners and allies across the North Atlantic space.

Finally, given that tariffs on average are quite low across the Atlantic, more was likely to be gained economically through mutual recognition of essentially equivalent norms and regulatory coherence. But this rendered TTIP enormously complex and gave the impression that trade negotiators might be prepared to bargain away basic rules and standards that regulated, stabilized and legitimized markets in ways each society had devised through its own democratic procedures. Polls and protests in Germany, Austria and other EU countries revealed deep public skepticism about the pact. By May 2016 French President François Hollande had come out publicly against TTIP, charging the negotiations with "undermining the essential principles of our agriculture, our culture, of mutual access to public markets."[40] Confronted with this rising discontent, TTIP's "deep integration" agenda reached its political limits.

Moving Forward

These reflections offer some guidance and orientation going forward.

The facts tell us that the transatlantic economy remains central to the economic health of each side of the Atlantic, but that its full potential has yet to be realized. Key trends such as the changing nature of production, the galloping pace of the digital economy, and the rise of other competitors who may challenge basic principles underlying U.S. and European participation in the global economy all reinforce the need for strong transatlantic ties. Yet to be successful, future efforts to draw the United States and Europe closer together economically must take account of past missteps while addressing popular anxieties about the benefits of trade and globalization.

Faced with these fundamental global changes and centrifugal domestic forces, the transatlantic partnership simply must be more effective in generating economic opportunity and confidence at home while engaging rising powers in ways that strengthen and extend basic norms and principles guiding the international system.

Any transatlantic initiative should meet some basic tests. Will it generate jobs and growth? Does it respond to popular anxieties, or is it likely to exacerbate them? Does it assuage concerns about loss of sovereignty, ordoes it enhance them? Does it take account of the opportunities and challenges posed by the digital economy? Does it take account of the changing nature of Europe beyond the EU and of the growing importance of value chains across the entire North Atlantic space? Will it position each side of the Atlantic for a world of more diffuse power, swift technological changes, billions of new workers and consumers, and intensified global competition?

With these questions in mind, let's turn to possible paths forward for the North Atlantic economy.