JUDIT KOZENKOW

TRANSATLANTIC ECONOMY IN THE SHADOW OF ASIA

The study aims at explaining the importance of the transatlantic economy in the shadow of today's challenges, including slowing growth, financial problems and growing influence of the emerging markets, mostly Asia. It highlights the views of independent experts, policymakers, and governments on the transatlantic economy and analyzes the dynamics of trade and investment relations in the last decade. While investment ties are still dominant between the two sides of the Atlantic, trade has become second in rank after the relations with Asia for both entities. The transatlantic economy still remains the largest and wealthiest market in the world. The study concludes that signing a free trade agreement or a comprehensive economic cooperation can be undeniably beneficial for both the United States and Europe; can revive growth, and contribute to keep their global leadership position. A stronger transatlantic cooperation gives a great opportunity especially to Central Europe to maximize its competitive advantages over the Western European countries.

"It is a moment of opportunity – to use or to lose."
[Hamilton–Schwartz 2012:2]

INTRODUCTION

The International Monetary Fund in its October 2012 *World Economic Outlook* predicted global growth of 3.3 percent for 2012 and 3.6 percent for 2013, down from 3.5 percent last year and 3.9 percent this year when it made its earlier report in July. The IMF's warning of a global slowdown is based primarily on the high risk of decelerating growth in the United States and Europe due to policy uncertainties. Also in October 2012 the World Trade Organization projected that the global volume of trade in goods would expand only 2.5 percent in 2012, down from 5 percent in 2011 and nearly 14 percent growth in 2010. The WTO named Europe as the epicenter of the weakness spreading through the global economy.

Behind the slowdown domestic and international challenges of the advanced economies, basically the United States and Europe can be identified. Mounting deficit and debt, unemployment, the euro crisis, energy dependency, climate change, incidents in the Middle East and growing competition with Asian and other emerging countries increasingly affect the global economy, through trade and investment channels, causing turbulence and uncertainty in the world. Solution and relief are rightly expected from the transatlantic economy, the strong relationship of the United States and the European Union that accounts for nearly 30 percent of global merchandise trade, about 40 percent of world trade in services, and almost half of global GDP. Investment relations are even larger, with over

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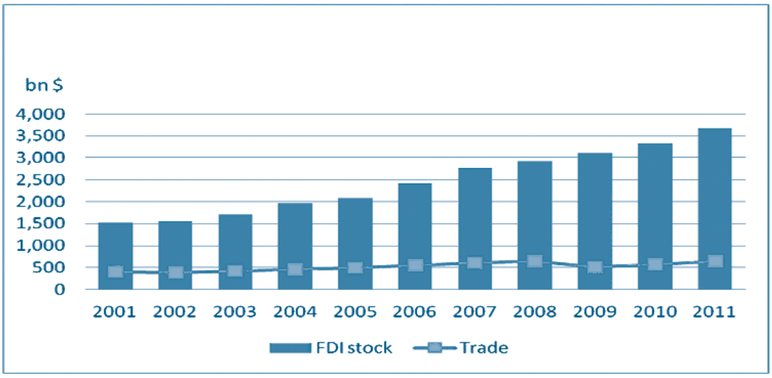
$3.5 trillion foreign direct investments in stock between the two economies. (See *Chart 1*.)



Data sources: WTO; BEA

Chart 1. Volume of transatlantic trade and investment

Export has been a strong driver of growth until recently and it has proved to be even more significant factor in the recovery from the 2007–2008 economic and financial crisis – especially in the U.S. where exports have accounted for almost half of growth during this recovery, compared with an average of 12 percent of growth in economic cycles over the past four decades [Reddy–Frangos 2012]. Learning from the mistakes of the 1930s' protectionism, economies should not turn inwards to recover from the crisis but increase trade and investments and restore exports as the main driving force of growth. Regions of the world have already recognized the potential gains of trade and economic agreements, including ASEAN's planned Regional Comprehensive Economic Partnership or the Asia-Pacific Economic Co-operation. Transatlantic policymakers and experts also started a dialogue on the possibility of a transatlantic free trade agreement.

This study aims at highlighting the views of scholars, experts and policymakers about the transatlantic economic relationship and its future. It also illustrates facts and figures about the present relationship. Moreover it describes the potential transatlantic free trade agreement with its benefits and challenges. It explains how it would affect Central Europe and how these countries could benefit from a stronger transatlantic economic cooperation.

The transatlantic relationship is certainly not limited to economic bonds but it is a strong political, defense, cultural and social cooperation between the United States and the European Union based on shared values and interests. However, this study focuses exclusively on the economic aspects of the transatlantic relationship.

1. VIEWS ON TRANSATLANTIC ECONOMIC RELATIONS

Policy centers, research institutes, think tanks, and non-governmental organizations are dedicated to provide professional analyses, prognoses, and explanations of different aspects of the transatlantic relationship. Among the most prominent papers focusing on the economic dimension *The Transatlantic Economy*, an annual study of the Center for Transatlantic Relations at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS), argues that despite continuing transatlantic economic turbulence the U.S. and Europe have remained each other's most important markets until 2012. "The transatlantic economy is the largest and wealthiest market in the world, accounting for over 50 percent of world GDP in terms of value and 41 percent in terms of purchasing power. Ties are particularly thick in foreign direct investment, portfolio investment, banking claims, trade and affiliate sales in goods and services, mutual R&D investment, patent cooperation, technology flows, and sales of knowledge-intensive services." [Hamilton–Quinlan 2012: v]

The Transatlantic Economy 2012 identifies eight key indices as deep integration forces shaping the transatlantic economy:

1. Gross Product of Foreign Affiliates: In 2010 aggregate output of U.S. affiliates reached $1.2 trillion, with Europe accounting for 52 percent of the total. The United Kingdom, Germany and France accounted for roughly half of total U.S. affiliate output in Europe. Output of European affiliates operating in the United States – British, German and French being the top three – reached over $400 billion in 2010.
2. Assets of Foreign Affiliates: American foreign assets (bank and non-bank) were valued over $11 trillion in Europe in 2010 (almost 60 percent of the global total) while European foreign assets were valued over $8 trillion in the U.S.
3. Affiliate Employment: In 2010 U.S. affiliates employed 38 percent of their workforce in Europe, the majority of them in the UK, Germany and France with a slow shift from manufacturing to services in the last decades. European firms employed two-thirds of all American workers on the payrolls of majority-owned foreign affiliates.
4. Research and Development of Foreign Affiliates: "Bilateral U.S.–EU flows in research, development and innovation are the most intense between any two international partners." [Hamilton–Quinlan 2012: 23] In 2009 (last available data) 63 percent of total global R&D expenditures were spent by U.S. foreign affiliates in Europe and 72 percent by Europeans in America.
5. Intra-Firm Trade of Foreign Affiliates: Tight linkages were responsible for a high share (60 percent) of intra-firm trade in U.S imports from the European Union but only 30 percent of U.S. exports to the EU represented intra-firm trade in 2010.
6. Foreign Affiliate Sales: American affiliates sales in Europe ($2.4 trillion in 2010) were 26 percent higher than European affiliates sales in the U.S. and this amount of U.S. sales in Europe were double comparable sales in the entire Asia/Pacific region.
7. Foreign Affiliate Profits: Europe continued to be the most profitable market in the world for U.S. affiliates with a record income of $213 billion in 2011 – over 50 percent of global U.S. affiliate earnings. European affiliate income also reached a record high of $120 billion.

8. Transatlantic Services Linkages: Services are the "sleeping giant of the transatlantic economy" as the EU is the largest trader in services among all world regions while the U.S. is the largest single country trader. By sectors, linkages have been constantly deepening in financial, communications, insurance, computer and information technology services. [Hamilton–Quinlan 2012]

The transatlantic economy continues to be in the forefront of globalization. Recent economic troubles have only underscored the deep integration of the transatlantic economy therefore the commercial ties between the U.S. and Europe are still stronger than between any other two continents.

The annual survey of the German Marshall Fund of the United States, the *Transatlantic Trends* reflects the public opinion on a host of transatlantic issues. One of the key findings of the 2012 survey is that Americans have a renewed focus on Europe, despite the announced pivot to Asia by President *Barack Obama* in 2009. "Two-in-three Americans and Europeans agreed that both sides shared enough values and interests to enable cooperation on international problems. They also mirrored each other in the belief that the other side was more important for their national interest than the countries of Asia – unlike last year, when the U.S. respondents had shown a preference for Asia for the first time." [GMF 2012: 1].

Although the continuing economic crisis on both sides of the Atlantic has not affected the stability of the transatlantic community's connections, perceptions of the general state of the relations slightly deteriorated in 2012 but remained similar on the two sides. Over 40 percent of Americans and Europeans felt that relations are good; another approximate 40 percent said that relations were mixed. Very few people described the relations as bad (5–7 percent) [GMF 2012]. Regarding China, the U.S. and Europe show similarity in the sense that around 50 percent of those polled held unfavorable views of China while around 40 percent said they had a favorable view of the country [GMF 2012].

The study of the European Council on Foreign Relations by *Jeremy Shapiro* and *Nick Witney* [2009] focuses on the transatlantic relationship through the lens of a strategically changing United States that is moving from a Cold War "global dominance" to a network of partnerships in a globalization-driven world economy. The scholars argue that the real threat to the transatlantic relationship comes not from the remaking of America's global strategy, but from European governments' failure to come to terms with how the world is changing and how the relationship must adapt to those changes. The study highlights that European attitudes towards the transatlantic relationship have evolved remarkably little since the fall of the Berlin Wall. Despite the expansion and evolution of the EU and, in particular, the development of its external identity, member states continue to think of the transatlantic relationship in terms of NATO for security issues, and of bilateral relations, in which a majority of European governments imagine they have a "special relationship" with Washington that gives them a particular national advantage. Fixing the problems and eliminating the illusions are not a matter of institutional innovation, but of altering Europe's fundamental approach. The authors conclude that European governments need to replace their habits of deference with a tougher but ultimately more productive approach. They emphasize the area of trade and economic policy as a good example of displayed European robustness.

The Transatlantic Task Force (2012) calls for a new transatlantic trade and investment agenda to promote economic growth, jobs, innovation, welfare and economic development. The report argues that deeper transatlantic economic integration is essential for recovery from the current economic crisis. "Transatlantic leadership can also provide momentum for further global trade liberalization, enabling both Europe and the United States to better tap into the economic dynamism of emerging markets, while supporting and strengthening the multilateral trading system embodied in the World Trade Organization." [ECIPE–GMF 2012: 5]. The Task Force suggests the creation of a barrier-free transatlantic market by eliminating all tariffs on goods traded across the Atlantic bilaterally on a preferential basis. Furthermore, beyond the traditional components of a preferential or free trade agreement (PTA or FTA) they add elements of strategic cooperation over a wider set of issues, including investment, PTA policy towards third countries, and efforts to improve liberalization and rules at the WTO. The report underlines that "a new transatlantic initiative designed to lead to a barrier-free transatlantic marketplace for trade and investment will require strong, high-level political commitment from the President of the United States, the U.S. Congress, the heads of states or governments in the EU member states, the European Parliament and the European Commission. Active involvement of private sector stakeholders and regulators is also imperative. Failure is not an option; the costs to the transatlantic relationship and to the global trading system of another disappointment would simply be too high." [ECIPE–GMF 2012: 19]

Highlighting the perspective of American and European scholars and experts would not give a complete picture without presenting the economic and foreign policies of the governments on both sides of the Atlantic regarding transatlantic relations. After the inauguration of President Barack Obama in 2009 he clearly pointed a so-called "pivot to Asia" for the American foreign policy. Senator *Jeanne Shaheen*, Chairman of the Subcommittee on European Affairs of the U.S. Senate, explained at a hearing at the end of 2009 that "much of global attention has turned to the rapidly developing economies like China, India, and Brazil. And it is easy to forget that, by far, America's largest, most vibrant, and perhaps its most critical economic relationship is actually with Europe. It would be a mistake to neglect this crucial partnership as we attempt to dig ourselves out of this economic downturn." [U.S. Senate CFR 2010: 2] Although the U.S. government had been aware that in order to remain relevant in a rapidly changing world the relationship can't be taken for granted and needs to be adapted and fostered to meet present-day realities no major steps were taken – not even tentatively – to boost the transatlantic economy during Obama's first term.

The EU–U.S. Summit in November 2011 established a High Level Working Group on Jobs and Growth to identify policies and measures to increase trade and investment and to support mutually beneficial job creation, economic growth and competitiveness. Their interim report concludes that these objectives can be achieved by signing a comprehensive transatlantic trade and investment agreement [EU–U.S. High Level Working Group 2012]. Stressing the fact that an ambitious trade agenda could lead in the medium term to an overall increase of 2 percent in growth and the creation of over 2 million jobs, the European Council reacted positively and expressed on the October 2012 summit that it looks forward to the final report of the Working Group and commits to working towards the goal of launching of negotiations on a comprehensive transatlantic trade and investment agreement in 2013. It will return in greater depth to EU–U.S. relations and to the contribution trade can make to the growth agenda in February 2013.

Any analysis on transatlantic relations can hardly avoid the discussion about alternatives. Some see it as competing, others as complimentary. The European Council called for an agreement to be reached on the negotiating directives for a free trade agreement with Japan and for the finalization of free trade negotiations with Canada and Singapore. It also called for opening or advancing trade agreements with the EU's neighboring partners. [European Council 2012] The United States recently concluded free trade agreements with several countries in Latin America and Asia as well as initiated the Trans-Pacific Partnership. Diversification and opening up of the markets to third countries help tackle the internal challenges and the effects of the slowing global economy. However, the transatlantic free trade agreement does certainly provide a complimentary approach and not a competing challenge to other partnerships.

Overall, independent experts from both sides of the Atlantic and the leaders of the two entities agree on the significance and potential of the transatlantic economy. All of them advocate a transatlantic free trade and investment agreement to boost the sluggish economies and create more jobs. In spite of the new or renewed ambitions toward Asia the establishment of the EU–U.S. High Level Working Group provides a real potential to identify and implement a free trade area in the transatlantic sphere.

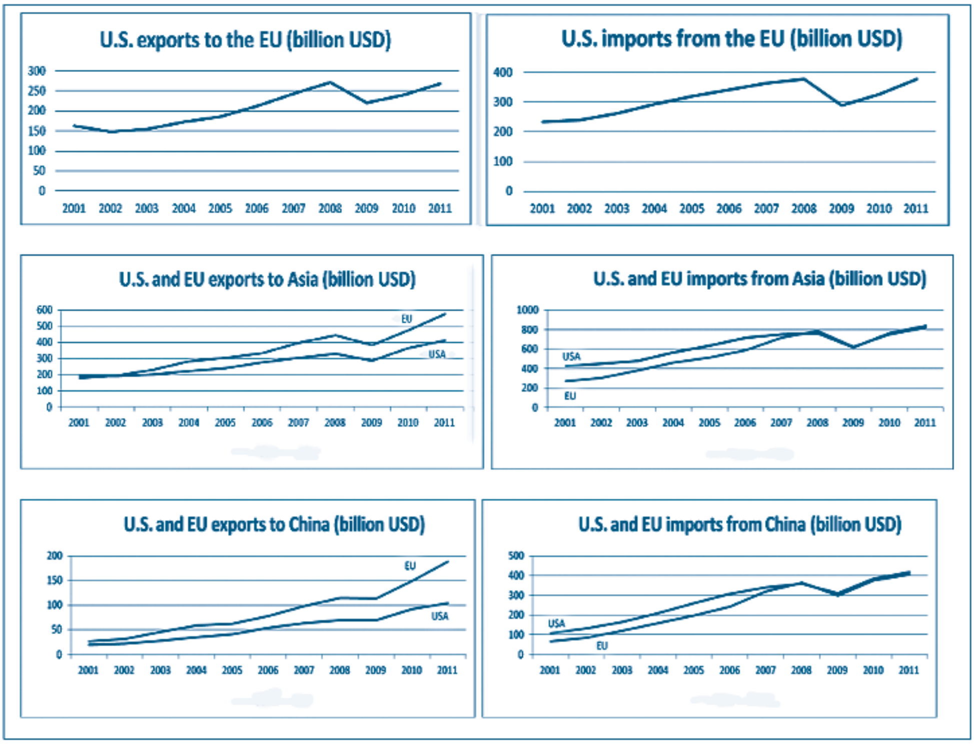
2. FACTS AND FIGURES

The challenges facing the transatlantic economy are not only internal – fiscal problems and the euro crisis – but external. The fast growing markets of Asia, Africa and Latin-America, prominently Asia with China compete with the transatlantic economy and gain increasing share of world trade and GDP. These emerging markets are competitors on the one hand but their growing demand for goods, services and natural resources make them potential partners on the other hand.

In ten years from 2001 to 2011 the share of world GDP (in PPP) declined from 23.2 to 19 percent for the U.S. and from 24.9 to 20.1 percent for the EU while the share of Asia increased from 19.2 to 28.9 percent. The American and European share of exports in world total shrank from 11.8 to 8.1 percent and from 39.8 to 33.1 percent for the same ten years while Asia's share grew from 27 to 32.7 percent. Parallel with the exports the American and European share of imports in world total decreased from 18.2 to 12.3 percent and from 39.3 to 33.9 percent while Asia expanded from 24 to 32.3 percent [IMF 2012].

Foreign direct investments (FDI) also changed in terms of volume although the picture remained imbalanced towards the transatlantic economy, mostly towards the EU. From 2001 to 2011 the EU's share of FDI inward stock in world total increased from 33.2 to 35.6 percent while the U.S. share decreased from 34.2 to

17.2 percent. Asia's share grew from 14.2 to 19.5 percent overtaking the U.S. As for outward stock of FDI the EU's share in world total declined slightly from 44.9 to 43.5 percent; the American share decreased from 30 to 21.3 percent while Asia increased its share from 7.7 to 12.2 percent [UNCTAD 2012]. Even though the United States and the European Union decreased their share in the world economy in terms of GDP, trade and FDI stock they together have remained dominant and relatively robust. Asia significantly increased its role in trade after the millennium.



Data source: WTO

Chart 2. US–EU trade

Highlighting the American situation and importance of the transatlantic dimension, Senator Shaheen stated in 2009 that "from 2000 to 2009 over half of the total of United States foreign direct investment was in Europe, while the stock of United States foreign direct investment in Brazil, Russia, India, and China, the so-called BRICs, combined in 2008 amounted to only 7 percent of total United States investment stock in the EU. So the proportion of our trade and the proportion of our foreign investment that is in the EU is enormous compared to all the rest of the world. And even when you add all the BRICs together, the numbers vis-a-vis Europe are considerably greater. As a further illustration, the existing stock of United States foreign direct investment in Ireland alone of $146 billion in 2008 was more than double the total United States investment stake in Russia, India, and China combined, which was $71 billion. In little Ireland, it is bigger than the stock of investment in all those countries." [US Senate CFR 2010: 5] The latter expressed trends remained exactly the same in the last 3 years. Transatlantic investment ties are further strengthened and remained significantly above the rest of the world: 50 percent of total U.S. FDI went to the EU and 62 percent of the total EU FDI went to the U.S. in 2011.

Concerning trade, the transatlantic economy – although it still keeps its dominance – shows the signs of a slowdown and an open-up to the Asian markets. As we can see in *Chart 2* all trade flows were hit hard by the economic and financial crisis in 2009 and it took two years to return to the pre-crisis levels or higher.

Data show a significant increase of European exports to and imports from Asia: the volume of trade tripled between the two continents while it only increased 1.5 times within the transatlantic sphere from 2001 to 2011. The U.S. doubled its exports to and imports from Asia. One-third of European export and one-fourth of American export to Asia landed in China in 2011 while half of the Asian import of both the EU and U.S. departed from China in 2011.

Overall, the role of Asia in trade flows increased significantly in the last 11 years and China stepped up as the main import partner of the U.S. and the EU. Asia, as a region represents a bigger share in trade for both the U.S. and the EU than the two Atlantic players for each other.

3. TRANSATLANTIC FREE TRADE AREA

Today's domestic problems and global challenges accompanied with sluggish growth rates call for immediate response to boost the economies; to create jobs, and to improve the prosperity of the people. As trade, especially export has been one of the main determinants or even the driving force of growth and free trade undoubtedly creates benefits for all the partners being a positive sum game, there is the potential to accelerate growth through opening up new markets for trade and investments or improve the relations with old partners – through reduction and elimination of trade and investment barriers; harmonization of rules and regulations. Moreover, most economic scholars warn the mistakes of the 1930s when protectionism was the reaction to the great crisis and stress the importance of avoiding an inward-looking trade and economic perspective during the current recovery.

Augmenting empirical cases from all around the world underpin the relevance of these theoretical statements: free trade agreements, custom unions, and economic partnerships have been under way among countries, regions or even continents. We have been also experiencing this progress in the specific transatlantic sphere. The revival of the transatlantic dialogue on trade and investments in November 2011 – after about 20 years without real progress in this field – holds out the promise of a transatlantic free trade agreement.

Mutual trade and investment flows have already been the strongest ties between the United States and the European Union. However the above demonstrated statistics project that trade has the potential to develop because exports and imports showed relative vulnerability during the crisis and also the comparison with the world's most dynamic region, Asia confirmed the secondary character of the transatlantic trade partnership. China has proved to be the main exporter of goods to both Atlantic entities in the last couple of years.

To retain their global leading positions, respond effectively to today's global challenges, and compete successfully with emerging markets – especially with China that has the potential to overtake the U.S. as the world largest economy within a decade – the United States and the European Union need to revive growth and strengthen their relationship in all possible aspects. The transatlantic economy needs to build on the already existing advantages of its economies of scale, further increase these advantages and develop new strengths. A transatlantic free trade area can provide the most relevant solution for reaching these objectives.

The 2011 EU–U.S. Summit – focusing mainly on reinvigorating growth, creating jobs, and ensuring the financial health and stability of the transatlantic economy – launched the EU–U.S. High Level Working Group on Jobs and Growth to discover and assess options for strengthening the EU–U.S. trade and investment relationship. The working group initially identified several potential areas for progress, including:

- "Elimination or reduction of conventional barriers to trade in goods, such as tariffs and tariff-rate quotas;
- Elimination, reduction, or prevention of barriers to trade in goods, services, and investment;
- Opportunities for enhancing the compatibility of regulations and standards;
- Elimination, reduction, or prevention of unnecessary 'behind the border' non-tariff barriers to trade in all categories;
- Enhanced cooperation for the development of rules and principles on global issues of common concern and also for the achievement of shared economic goals relating to third countries." [EU–U.S. High Level Working Group 2012:1]

While the final report of the Working Group is being published early 2013 with the details of the transatlantic free trade area, other studies have already emphasized the potential benefits and problematic issues of such an agreement. Despite the low level of current tariffs (3–7 percent on average), the huge size of commercial relationship means that the potential economic benefits would be great. Estimates suggest that a comprehensive deal covering manufacturing goods, agriculture, services, investment, government procurement and regulatory co-operation would be worth 2 to 3 percent in GDP gains to the EU and the US.

A study of the OECD (2005) quantifies the consequences of large reduction of the barriers still inhibiting trade, foreign direct investment and product market entry in the United States and the EU15. In Europe GDP per capita would be boosted by 2 to 3.5 percent. The gains would be particularly substantial in France, Germany and Italy. In the U.S. GDP per capita would increase by 1 to 3 percent which is also significant. The study also summarizes that spillovers outside the EU and the U.S. could be large: over 2 percent for Canada and Mexico, 1.5 percent or more for Turkey, Japan and Central Europe [Cotis 2005].

ECIPE [2010] specifically examines the potential gains from a transatlantic zero-tariff agreement on trade in goods and found that "the static effect on GDP from a transatlantic zero-tariff agreement is estimated to be 0.01 percent for the EU and 0.15 percent for the US. Dynamic gains – accounting for improved productivity and reduced trade facilitation costs – are estimated to be 0.32–0.47 percent for the EU (or \$46 to \$69billion) and 0.99–1.33 percent for the US (or \$135–\$181 billion). The estimated welfare gains – measured as national income effects – are more evenly distributed between the two economies. The static effect is \$3 billion for the EU and \$4.5 billion for the US. The dynamic welfare gains are estimated to be \$58–\$86 billion for the EU and \$59–\$82 billion for the US. The estimated change in EU exports to the US is 7 percent (or \$28 billion) in a static scenario and around 18 percent (or \$69 billion) in the dynamic scenario. The US is estimated to increase exports to the EU by 8 percent (or \$23 billion) in the static scenario and 17 percent (or \$53 billion) in the dynamic scenario." [ECIPE 2010:2].

However, the transatlantic free trade area must still overcome many barriers before it becomes a reality. Politics is the main barrier to be surmounted: there must be a clear political conviction and leadership on both sides of the Atlantic. Non-political difficulties also exist: large differences between the administrative and regulatory systems of America and Europe make the practical task of implementation challenging, even if the political will is there. In particular, regulatory barriers are actually used, as non-tariff barriers, in transatlantic exchanges. Therefore these are at the core of the current lack of integration of the transatlantic market. Tax rules, competition law, accounting rules, health and safety regulations, patent and intellectual property systems, approval of drugs and medicines are profoundly different in the U.S. and the EU [Hamilton–Schwartz 2012]. Sectorally, serious negotiations are expected on services and agriculture because both the United States and the EU can be characterized as service economies while the primer sector of both is heavily subsidized.

Overall, the benefits of a transatlantic free trade agreement or even a comprehensive economic cooperation could be indisputably substantial in terms of boosting innovation, creating jobs, improving competitiveness, and ensuring long-term growth and prosperity on both sides of the Atlantic.

4. STRENGTHS AND OPPORTUNITIES IN CENTRAL EUROPE

With a transatlantic free trade agreement on the horizon, let's take a closer look at the transatlantic relations of Central European region (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia).

Central Europe has become more and more important for the United States in the last decade after the countries' fulfilling integration to the European Union. American corporations have found it increasingly attractive to invest in the Central European region that joined the Single Market with relatively low wages, skilled labor force and underdeveloped markets. The output of U.S. foreign affiliates rose nearly ten-fold between 1999 and 2009, amounting from \$5 billion to \$46 billion. The share of affiliate output generated in Central Europe out of total affiliate output in the EU increased from 1.5 percent to 7.8 percent over the course of the past decade. Parallel to the rise in affiliate output, capital expenditures of U.S. affiliates more than tripled between 1999 and 2009, rising from $3 billion to $9.3 billion. Of total U.S. capital expenditures in Europe in 2009, Central Europe accounted for 14.4 percent, up from a 5.4 percent share a decade earlier. U.S. affiliate employment in Central Europe more than doubled in the last decade and expanded at an average annual pace of 8.7 percent versus a comparable 0.8 percent rate in Western Europe [Data source: BEA].

Three countries of Central Europe have been emerging as main destinations of U.S. investments, namely Poland, Czech Republic, and Hungary. These three countries accounted for 87 percent of U.S. FDI in Central Europe in 2010. Although the U.S. presence in terms of investments in Central Europe has been significantly increasing in the last decade this relationship has remained extremely unbalanced. Central European investments in America amounted for less than one percent of total inflow of FDI to the U.S. and also less than one percent of total inflow of European FDI to the U.S. Hungary and Poland accounted for the relatively highest share of FDI in the United States from the Central European region.

Transatlantic trade relations in Central Europe have been more balanced than the above described investment ties although with little significance in general. U.S. imports from Central Europe accounted for only 3 percent ($9.5 billion) of total imports from the EU in 2010. During the last decade U.S. imports from all countries increased sharply with a peak around the EU accession years (2003–2007), however, these levels were still not reached again in 2010. U.S. exports to the Central European countries were relatively small, totaling just $6 billion in 2010 (around 2.5 percent of American exports to the EU). American exports accounted for an average 2–5 percent of each country's extra-EU imports. Trade mainly consists of machinery and transport equipment, manufactured goods classified chiefly by material, miscellaneous manufactured articles, chemicals and related products. Three countries, Poland, the Czech Republic and Hungary accounted for the relatively highest share of exports to and imports from the United States by each of them around the $2 billion threshold to both directions in 2010.

The above mentioned trade and investment relations between the United States and the countries of Central Europe can be described as relatively low profile and inferior for both sides. Meanwhile these countries have several competitive advantages that would allow them to profit from a free trade area. Although it is necessary to differentiate among the countries, their strong economic recovery from the crisis and a relative exclusion from the problems of the euro have generally resulted in higher growth rates than in the Western European countries, therefore, projecting higher capital returns on investments, stronger demand for imports in these markets and more capital to invest in the United States. In addition to Central Europe's stronger economic performance these countries have more solid public financial situations with lower debt and deficit ratios than in Western Europe. Moreover, as America has been attracted to the region's relatively low wages and high-skilled workforce in the last decade these conditions still exist and make these countries significantly competitive. The already functioning trade and investment routes could also ease the intensification and broadening of the relations. Therefore, a transatlantic free trade agreement could be potentially beneficial for Central Europe by increasing the intensity of trade and investments, namely receiving more American attention and catching more opportunities towards America.

Studies showed that the overall benefits of the transatlantic free trade agreement are indisputable. Although broadening the marketplace may result in a few disadvantages in Central Europe (bigger competition, less investments from Western Europe) the arising opportunities are worth to concentrate on. On the investment side, U.S. investments could result in faster and more inflow of technology, know-how and capital, more investments in R&D and improvement of infrastructure. On the trade side, broader range of products and services could be exchanged with lower transaction costs.

CONCLUSIONS

Although the advanced economies are struggling with domestic problems and international challenges, the transatlantic economy continues to be the world's biggest and wealthiest market, accounting for approximately half of world GDP. Ties are remarkably strong in trade and investments and people on both sides of the Atlantic do prefer the transatlantic dimension over Asia. However, the growing competition from Asia proves to be relevant, and trade statistics have already illustrated the priority of Asian markets for both the U.S. and the EU. China became the main import partner of both in the last couple of years. Otherwise investments have remained dominant between America and Europe.

Global slowdown severely affects all countries around the world and forces them to find solutions to revive growth. As export has been the driving force during the recovery from the recent crisis, several countries around the world have been establishing regional free trade areas and economic cooperation to boost trade and therefore growth. Estimates highlight that with elimination or reduction of trade and investment barriers and harmonization of regulations between the European Union and the United States both entities can experience a potential 2 to 3 percent of GDP gains in the medium term. A transatlantic free trade area or even more a comprehensive economic cooperation – however it needs to overcome the political and regulatory challenges – can provide indisputable benefits on both sides of the Atlantic by boosting trade and innovation, creating jobs, improving competitiveness, and ensuring long-term growth and prosperity. As Central Europe's transatlantic ties are relatively low profile, the region could also benefit from a stronger economic cooperation by building on its competitive advantages and focusing on the forthcoming opportunities.

In sum, the transatlantic economy composes the core of the world economy and it is rightly expected from the United States and Europe to solve their internal problems soon and take the lead on reviving growth. Here is the great momentum to reinvent the transatlantic partnership by signing a free trade agreement or a comprehensive economic cooperation that can be undeniably beneficial on both sides of the Atlantic and therefore the key to maintain the leadership position in the world economy. However, politicians, especially in the European Union, must overcome their worries about (re-)elections and attitudes, and must not let the transatlantic sphere lose its global dominance.

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