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## **Transatlantic Economic Diplomacy<sup>1</sup>**

### **Introduction**

**T**he post-war United States-European Union<sup>2</sup> (US-EU) relationship took on an institutional framework and was committed to political, ideological, and security objectives (anticommunism, liberalism, multilateralism, collective self-defence) and thus to international stability.<sup>3</sup> Traditionally, the dominant agenda in *transatlantic* relations has been military security governed by the US and its nuclear preponderance. The “balance of threat” resulted in the primacy of the military sphere over the economic sphere.

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Since 1985 the US-EU agenda has changed fundamentally due to the disappearance of the Soviet-American security agenda, structural developments in the world economy, and the attempt on both sides to reexamine their respective roles in the international system with respect to the economic and security spheres. The US has largely ceased to behave as a political and economic hegemon vis-à-vis the EU on account of its own hegemonic decline, the rise in EU abilities and influence, and the changes in Europe and in the international system that have been taking place since the mid-1980s.

These changes are radical and structural rather than marginal or conjunctural (Smith and Woolcock 1993). The framework of US-EU economic relations is affected by the strengthening of the EU's economic power relative to that of the US and by a continued growth in economic interdependence without adequate policy convergence between the two parties. These problems raise questions about the respective roles of the EU and US in the world economy, and about how to deal with the linkages between domestic structures and the demands of ever more integrated economies.

Contemporary transatlantic relations are characterized by many adjectives: "post-hegemonic", "complex interdependent" (Featherstone and Ginsberg 1996) "multilateral" and "highly institutionalized" (Nye and Keohane 1993: 106). They include all multilateral links across different spheres: military (NATO, OSCE), economic (OECD, G7), trade (GATT/World Trade Organization) and monetary (International Monetary Fund, World Bank) involving the countries and institutions of the US and EU (representing the dual level of political activity at the level of national governments and EU institutions). This "institutional overcrowding" (Smith and Woolcock 1993: 96), created by overlapping and competing institutions, induces inter-institutional tensions, which are intermixed with divergent national or sectional interests on both sides.

Featherstone and Ginsberg (1996) claim that one of the key problems in US-EU relations is the question of how to manage complex interdependence in a post-hegemonic world. While the *security imperative* and US hegemony during the Cold War helped to appease commercial disputes in transatlantic relations, the end of the Cold War has been marked by the feeling of both partners that they can afford to hold divergent views of international security, pursue their own foreign policy agendas, focus on other nations and regions, or reduce foreign commitments and redirect attention and resources towards domestic needs and priorities.

In this article I will argue, first, that while particular aspects of post-Cold War transatlantic relations can be viewed from the realist perspective, "the totality of their interactions"<sup>4</sup> (Featherstone and Ginsberg 1996) is better ex-

plained by the theories of neoliberal institutionalism and interdependence theories which put stress on the institutionalized nature of the transatlantic cooperation. Second, the transatlantic institutional cooperative framework established after the World War II may well survive after the US hegemony. The Western order has become a stable and expansive political order because the rules and institutions have become more firmly embedded in the political structures of society and they consequently reduce the returns to power.

My argument proceeds as follows. In the first part, I will provide a theoretical basis for the analysis of the post-Cold War transatlantic cooperation by scrutinizing neoliberal institutionalist<sup>5</sup> and realist theories. In the second part, I will apply these theoretical concepts in my empirical analysis of post-Cold War transatlantic economic relationship. I will reveal the major challenges and new problematic issues and tensions of this relationship in the new contractual post-Cold War environment.

In examining the relevance of neoliberal institutionalism and interdependence theories<sup>6</sup> for the post-Cold War transatlantic relations, I have used their main assumptions as the theoretical and conceptual framework for my analysis: first, the post-Cold War international system can be viewed as multipolar and post-hegemonic, second, there is the increasing political interpenetration of economic and security domains, and third, expanded foreign policy agendas (embracing trade, foreign direct investment, environmental issues, etc.) have become subject to domestic pressures.

## **1. Interdependence and Institutionalization**

As the Cold War began to ease in the 1960s and 1970s and the international system moved from a bipolar to a multipolar configuration, the nature of national power and influence has changed: we can speak about the “*diffusion of power*” (Keohane 1993: 43-59). Power has become more complex and difficult to exercise and involves ambiguity of the concept of security and increasing interdependence. Moreover, US hegemony in Europe significantly lessened and was accompanied by the rise of the EU as an independent actor, enhanced by the developments such as the completion of the customs union in 1968, establishment of European Political Cooperation in 1970, European Monetary System (EMS) in 1979, its foreign policy actions in Eastern Europe, European Monetary Union (EMU), and others.

Traditional realists assumed that international relations is a “Hobbesian” struggle for power (Peterson and Ward 1995: 133). National security was viewed in a narrow sense as military security. Realism as a doctrine origina-

ted in the perplexing years of the 1930s and was a dominant theory at the height of the Cold War. However, the key assumptions of realism seemed less plausible after the Cuban Missile Crisis of 1962, associated with the danger of a possible nuclear war, and leading to the process of *détente* when relations between the superpowers became considerably less tense. These changes are accurately characterized by Chris Brown (1997:41): "International diplomatic-strategic relations are of central importance when the stakes really are matters of life and death, but as the possibility of the Cold War turning into a Hot War declined, so the significance of international social, and especially, economic relations increased." The importance of nonmilitary issues has been enhanced by increasing interdependence.

Interdependence theory has paid attention to these significant features in the contemporary international system when speaks about growing importance of the global "commons" and the increasing "interconnectedness" between states (Keohane 1993: 76). Unparalleled interconnectedness<sup>7</sup> was, according to Holsti (1991), the result of the dramatic growth of "means of transportation, communication and exchange of goods, money, and ideas". The research agenda of interdependence theorists attempted to undermine the realist assumptions: first, that states are unitary and the dominant actors, second, that force is a usable and effective policy instrument, and third that there is a hierarchy of issues in world politics, headed by questions of military security.

The new concept of *complex interdependence*<sup>8</sup> embraces three principal elements: First, there are "multiple channels" that connect societies including interstate (between governmental elites and foreign offices), transgovernmental (among non-governmental actors) and transnational (international organizations) relations. Second, "the absence of hierarchy among issues" means that military issues are not always predominant and therefore that differences between domestic and foreign policy are obfuscated. Third, in the world of complex interdependence, force becomes irrelevant or insignificant political instrument and inappropriate way of achieving more important economic and ecological objectives. Moreover, the use of military force is costly and uncertain in the era of nuclear weapons.

Problems arising from different issue-areas demonstrating different forms of mutual dependence and increased sensitivities are balanced by the possibility for actors to apply strengths in one area to compensate for deficiencies in another. Therefore, "the increasing need for coordination of policy, created by interdependence, should have led to more cooperation" (Keohane 1984: 9). With the rise of interdependence the opportunity costs of the poli-

cy of non-coordination increase compared with “the costs of sacrificing autonomy” arising from “binding agreements” (Keohane 1990: 742).

In his book *After Hegemony* (1984) Robert Keohane claims that “intergovernmental cooperation” emerges when “the policies actually followed by one government are regarded by its partners as facilitating realization of their own objectives, as the result of a process of policy coordination” (Ibid: 51-52). Therefore, cooperation develops on the basis of “complementary interests, and ... institutions, broadly defined,<sup>9</sup> affect patterns of [that] cooperation” and “facilitate self-interested cooperation by reducing uncertainty, thus stabilizing expectations” (Ibid: 9). Inasmuch as “states follow the rules and standards of international institutions, they signal their willingness to continue patterns of cooperation and therefore reinforce expectations of stability” (Keohane 1993: 52).

Increasing interdependence, accompanied by the increase in “issue density” and the successful performance of existing institutions (with clear rules and standards of behaviour) will lead to a growth in the number of international institutions and to the expansion of the agendas of functioning institutions. Besides interdependence, there are other factors influencing the demand for institutions, such as changes in domestic political institutions and coalitions and in the “contractual environment”, created by externalities, insecurity, informational asymmetries. (Keohane 1990: 744-745).

Keohane’s work is most closely associated with neoliberal “school of thought” (Axelrod, Lipson, Martin, Oye and others), which represents the mainstream approach to international institutions, focusing on common interests. On the other hand, (neo)realists (Waltz, Mearsheimer, Krasner, Snyder and others) focus on power relations among states in the international system, and therefore their theories are “power-based”.

According to Griffiths, (1997: 282-308) both, (neo)realists and neoliberal institutionalists (as the main challengers of neorealists) would expect the institutionalization to reflect the interests of the dominant powers. (Neo)realists see the institutional cooperation as a means for maximizing state power. They prefer large memberships enabling the formation of “tactical” alliances, non-durable commitments and clearly and narrowly defined interests for better assessing gains and losses. Neoliberals’ accounts of international institutions is following. First, institutions shape the perceptions, shared norms and values. Griffiths claims that these were in Western discourse predominantly American, as the creation of regional multilateral institutions in Western Europe is the result of American influence and power. Second, states prefer institutions with few adherents to facilitate verification of compliance

and sanctioning of cheaters. Moreover, states favour durable commitments to anticipate a "diffuse reciprocity" and a high "issue density" – a broad range of common political, security and economic interests – which enable the reaching of compromises in institutional bargaining.

The difference between (neo)realist and neoliberal approaches to cooperation lies in their different interpretations of the basic meaning of international anarchy, Grieco (1988: 485-507) explains. For neoliberal institutionalists, the anarchy is "the lack of common government in world politics". As a result, no agency can enforce rules and promises, which results in the problem of "cheating".<sup>10</sup> For the realists, the anarchy means the absence of the "overarching authority to prevent others from using violence, or the threat of violence, to destroy or enslave them". This creates the ambiance of the danger of war, where the principal interest of states is survival. For that reason, the fundamental goal of states is relative gains and not absolute gains, as neoliberalists claim. For (neo)realists, the distribution of power resources among actors affects the prospects for the emergence, durability and nature of effective regimes in an issue-area. These considerations of relative power create obstacles for international cooperation.

Nevertheless, both (neo)realists and neoliberals, belonging to the same group of rationalist theories, share common assumptions in their analyses of institutionalization. First, rational choice theory takes preferences, powers, and fundamental interests of states (rational atomistic actors) as exogenously given. Second, they apply a static approach to the study of international relations and positivist methodology.

However, Keohane (1990:738-739) admits that there does not exist experimental research method to measure the impact of international institutions on state capabilities and the cooperation may reflect some "third set of forces", such as complementary interests and distributions of power. The rules of persisting institutions may reflect the beliefs of dominant states at the time of their establishment and understanding "variation in rules across issue-areas" may be facilitated by examining them retrospectively (Ibid: 1990: 762).

In addition, cooperation does not mean the non-existence of conflict. On the contrary, it demonstrates "partially successful efforts to overcome conflict, real or potential". (Keohane, 1984: 53-54). Taking in consideration the conflicting interests and power capabilities of parties, Keohane (1990: 740) stresses the role of "coercion" in solving or reconciling the collective action problems in the process of "institutional bargaining" through institutional channels. On the other hand, Young draws attention to the critical importance of "leadership"<sup>11</sup> in the formation of international regimes or other insti-

tutional arrangements in international society. Ruggie (1992: 596) adds that most major postwar multilateral arrangements were ruled by small groups of states (the “k-groups” or “multilateralist groupings”) helping to smooth collective action problems. They were not hegemonic and thus were legitimate nor did they function on the basis of egalitarian decision-making procedures.

## **2. 1. Economic diplomacy: trade and monetary interdependence**

In the post-Cold War realm the linkage between economic (trade and monetary) and security relations is complicated by the persisting lack of symmetry. In international security the US retains a clear leadership role, at least as long as Europe has only a weak common foreign policy and no defence identity. The EU remains more powerful as “a process than as an actor” (Ibid: 64-65).

In economic terms, the EU and US are profoundly interdependent. Both depend on access to the other’s market.<sup>12</sup> US trade dependence is already on par with that of the EU as a whole, and domestic constituencies may become as sensitive to monetary policy decisions taken elsewhere as they are now to trade policy. It is unclear how these US constituencies and industrial lobbies will respond to such increased dependence on other countries’ macroeconomic policy. Will they seek to protect the US economy, or call for greater cooperation with Europe?<sup>13</sup>

The mutual dependence between the US and the EU in economic field acts as a constraint on the policies pursued by each partner and give rise to numerous bilateral disputes, especially sector-specific disputes (eg. steel industry, aircraft, telecommunications,), disputes over tariffs, standards, intellectual property and over agricultural export subsidies.<sup>14</sup>

Trade disputes were on the top of transatlantic agenda in the 1970s because the US were less willing to accept the negative effects of EU policies on their exports, its trade deficit and export markets were conceived as national (economic) security concerns and finally, the spectre of the Soviet threat to Western Europe diminished and thus exposed commercial disputes.

During the period of the Nixon administration the gold standard and fixed exchange rates were abolished (1973) as response to US internal (growing budget and trade deficits) and external pressures. This led to the formal dissolution of the Bretton Woods system and to the retreat of the US from hegemonic role. Macroeconomic and monetary policy coordination broke down and was accompanied by the trade imbalances.

While the post-hegemonic transatlantic cooperation in commercial policy (trade, investment) is characterized by free market co-operation through institutionalized trade structures (GATT/WTO), in monetary and exchange rate policy the cooperation has been irregular and non-rule based. International monetary coordination has been undertaken *ad hoc* through the G7,<sup>15</sup> structurally confirming the ending of US hegemony in macropolitical economics. In both trade and monetary affairs the EU has become important and, together with other countries, such as Japan, now shares in the shaping of “the rules of the game”. European efforts to limit the exchange rate fluctuations, whether in the shape of the currency snake, the EMS or EMU were also, in part, in response to the US monetary policy of *benign neglect*.

### **The Euro and the United States**

The EMU and the creation of euro is the biggest change in the international monetary system since the disolution of the Bretton Woods system of fixed exchange rates in 1971. Successful EMU offers the prospect for euro in the role of major reserve currency.

The big advantage of dollar’s role as international reserve and exchange currency lies in the fact that many imports, like oil, are priced in dollars and many of the US trading partners tie their currencies to dollar. Therefore, in the periods of the domestic economic decline, the Federal Reserve System can easier run monetary policy without worrying about inflationary consequences of the exchange rate fluctuations of the US dollar and can use dollar’s comparative advantage in currency devaluation. The successful EMU would constrain the ability of the USA to find “cheap money” to cover its huge deficits. From Bretton Woods to the present, it has been quite easy for the US to find the money abroad to cover its deficits (external and domestic).<sup>16</sup> The US, the world’s richest country became controversially the biggest borrower of the world’s free capital: today, its foreign debt reaches \$ 2 trillion (Bergsten 1999: 26). This was allowed because the dollar was the most important international reserve currency.

The single European currency might reduce the role of the US dollar as the international exchange and reserve currency, further curtail the autonomy of US monetary policy and increase market pressures on the more efficient management of US fiscal and monetary policies, not allowing the US to use the “dollar weapon” (Featherstone 1993: 276) to elicit support from its partners.

Bergsten (1997) argues that the euro is likely to challenge dollar in its role of the international currency, as it fulfils most of the criteria necessary to



qualify a currency for international status. These are: the size of the underlying economy and its global trade; the economy's independence from external constraints; avoidance of exchange controls; the breadth, depth and liquidity of its capital markets; and the strength and stability of the economy and its external position. The Eurozone constitutes a large and relatively closed economic entity of the size comparable with the US in terms of their respective GDP (and the zone will grow considerably when all fifteen EU member countries will join). It thus offers a good economic basis for its currency and for the economics of scale and scope. The EU has larger trade flows and monetary reserves than the US, and a balanced international position. The euro can further improve the external financial position of the EU as the important world creditor. The only remaining criterion is the ability of Europe to establish a single capital and financial market, which will be capable to challenge the supremacy of the US market. Therefore, the extent and timing of the shift from dollars to euros depends largely on the fulfilment of this criterion.<sup>17</sup>

Following this logic, EMU can either intensify international monetary coordination and increase stability of the world economic system, or lead to the consolidation of "monetary blocs". Calleo (1999: 13) claims that a successful euro, which pressures the US to balance its trade deficit, has a potential to become another contentious transatlantic issue, so long as, "US trade strategy is to run its large deficits with Asia and hope to make them up at Europe's expense". As consequence, the US can react defensively to its loss of monetary hegemony by creating a formal "dollar zone" in the same way as the United Kingdom did in 1930s. Europeans, participating in a single currency area might, for their part, as the US did in the past, choose to focus on domestic policy objectives and neglect calls for policy adjustments to facilitate transatlantic and international economic coordination.

The optimistic scenario, on the other hand, envisages a new era of emerging "symmetry" (Featherstone 1993: 155 and 161-162). According to some scholars (Bergsten 1997 and 1999), the euro brings the prospect of a new "bipolar international economic order" (with Japanese yen in the role of a "junior partner" with 10-15 per cent market share) that could substitute America's monetary hegemony since World War II. Others (Bénassy, Italianer, Pisani-Ferry 1993) speak about a "tripolar regime", characterized by the shared responsibility between the US, EU and Japan in constructing of the international financial order.

EMU has the potential to affect the EU's role in the international monetary system and the US-EU monetary interdependence. EMU is likely to improve the EU's economic performance<sup>18</sup>, to strengthen the EU's identity in the

international economy and to make the relationship among the major international currencies more balanced and equal. The Bretton Woods system, the International Monetary Fund (IMF) and the Group of Seven (G7) as fora for international monetary management were not satisfactory because the US was a dominant force and the EU lacked the unity to speak with one voice on monetary issues. Moreover, there has been neither bilateral nor a satisfactory multilateral framework for the management of international exchange rate fluctuations.

EMU is a highly political project and it has a potential to launch the development of a political union.<sup>19</sup> It stipulates a single monetary policy, a European central bank and the EU which speaks with one voice in international monetary diplomacy. The new symmetry in monetary relations could enhance the broader international monetary stability and impeach “benign neglect” monetary strategies.

However, the possibilities of frictions still exist if the independent EU monetary policy produces adverse effects on the US. American reactions to the European single currency have been cyclical: the periods of inattention were followed by the claims that it could succeed, and then by warning of danger when success was probable (Wallace and Zielonka 1998: 67).

In order to prevent the negative impacts of the euro on the US dollar and the international monetary system some authors suggest a strengthened US-EU coordination in monetary affairs. For example, Bergsten (1999: 28-29, 32-33) claims for some kind of agreement between the US and the EU on a “dollar-euro range” (10-15 per cent), which would reflect their respective domestic economic fundamentals and limit dollar-euro fluctuations. Next step will be to design new mechanism to protect the agreed range, in the form of clear official statements, direct intervention in markets, and monetary policy coordination. These measures would help to stabilize private capital flows by imposing the tolerable limits of exchange rate fluctuations and reduce contagion and the destabilization of capital flows in cases of the speculative attacks on either currency. The stabilization of the euro-dollar exchange rate would be beneficiary for other countries too, especially for the countries which peg their currency to euro or dollar, because it would diminish the risk of prolonged misalignments.

### **Systemic differences: trade blocs?**

The existence of “systemic differences” (Smith and Woolcock 1993: 33-66) between the EU and the US regarding the dominant model of the market

economy, together with differences in the decision-making processes in the US and the EU, result in different approaches of both partners to problems arising from increasing economic interdependence. These differences reflect “the empirical structures” and performance of both economies, but they also reflect ideological distinctiveness. The European “social market economy” model consists of extensive social policies, such as unemployment benefits, national health care and social security systems, which result in higher public expenditures on social programmes and thus in a higher proportion of taxes on GDP.<sup>20</sup> Despite the heterogeneity of the EU which means that there is no single model of capitalism and that the European model embraces quite different “Anglo-Saxon” and “Rheinland” models, and a specific Italian model (with its public enterprise and closed capital market), there are policies to promote economic cohesion (i.e. redistribution of resources among EU member states), the social dimension of European integration (an EU-wide agreement on the level of social provisions), and a social dialogue between labour and employers at an EU level. On the other side, the US “free market model” sees the social programmes as a cost burden on competitiveness and long-term economic growth and stresses the forces of the private sector.

These differences entail the competition between the two models influencing economic relations between both countries. American proponents of free markets and welfare cuts criticize Europe’s costly welfare systems, extensive social regulation, and sluggish labor mobility. Strong unions and strong “social safety nets” both make wages downwardly inelastic. However, a robust safety net also brings tangible benefits in higher life expectancy, lower infant mortality, narrower gap between rich and poor, creation of jobs for communities, and noticeably lower crime rates than in the US (Wallace and Zielonka 1998: 70).

The EU’s disposition to accommodate systemic differences through “mutual recognition” offers better prospects for international economic interdependence than the traditional “harmonization-based” US approach (Smith and Woolcock 1993: 65). The US has, on the other hand, the advantage in articulating and launching policy initiatives because there is a single powerful executive body. However, policy coordination in the US involves complicated inter-agency coordination issues among the numerous departments of government active in the field of international economic policy. The difficulties are further complicated by the fact that individual states play an increasingly important role in trade and investment matters. Despite still extensive powers concentrated in hands of national governments, the European Commission is subject to far less legislative scrutiny or industrial lobbying than the US Trade Representative.

In the hegemonic post-1945 trading system, the US provided the leadership required to maintain a multilateral order. It is questionable whether in the post-hegemonic system the EU can fill the vacuum, given the lack of agreement on EU competence on some of the new commercial issues, such as trade and investment, the environment, or some aspects of services. The vacuum may be filled by regional agreements and structures (NAFTA, Enterprise for the Americas Initiative, and the wider Europe) in which US and EU each still retain, or are establishing, hegemonic roles. Regional agreements could then become the source of strategic commercial competition, rather than means to promote greater multilateral liberalization.

In both cases much of the pressure for regional arrangements has come from smaller neighbouring countries seeking guarantees against a protectionist policies of either the US or EU. By extension of its membership and competence the EU is internalizing parts of the multilateral process. The Europe Agreements between the EU and the Central and Eastern European countries *de facto* mean exporting the “European model”, i.e. the *acquis communautaire*, as these countries use EU legislation in establishing their institutional structure of market economies. As in the case of the Single European Act and EMU, the enlargement of the EU will result in an increasing role of the EU in the international economy.

On the other side, NAFTA<sup>21</sup> is very different from the EU, which has a common commercial policy, distinct supranational legal order and aspirations of monetary and political union. In terms of the world economy, it therefore may be more relevant to consider the USA itself “the bloc” as it independently fulfils all of the criteria of a bloc:<sup>22</sup> the USA, despite some relative decline, is still a major force in the world economy, domestic interests (although individual US states may have divergent interests) overrule those of US’s trading partners, and the US has a distinct view of the *fair trade* rules in international economic relations (Smith and Woolcock 1993: 46-47).

An interesting justification of regionalism provides Steve Weber (2000). According to Weber, “new regionalism” does not aim at the creation of “separate clubs”. Instead, because “the world’s major powers are engaged, their ideological and economic influence is pushing regionalism to continue the transition from being inward looking and protectionist toward being outwardly directed, export-driven, and focused on attracting investment and technology”. He demonstrates this new *phenomenon* on the case on the EU, which by expanding to the East will internalize the classical “North-South” dichotomy into its cultural, political and economic structures. For Weber, NAFTA has similar economic characteristics, but it does not have political dimension.

Neo-mercantilism (the equivalent of realism in the political sphere) posits that the economic self-interests of governments lead to the “trade wars” (Featherstone and Ginsberg 1996: 242). Institutionalists agree that interdependence, economic integration and competition in the world political economy give rise to conflicts. Nevertheless, the growing economic interdependence provides a disincentive against trade wars as it promotes a convergence of interests. The explanation for trade clashes must take into consideration the fact that decisions of governments are affected by a complex policy process involving various actors operating inside and outside their administrative structures (producer groups, sectional interests). In the atmosphere of complex interdependence, the political action of governments in the economic sphere has created international regimes. Stronger regimes promote stability in the international economy as they act as a kind of international management (eg. G7). The Uruguay Round of GATT trade regime (1987) is an example of how governments push for stronger regimes to tackle disturbances and to avoid the growth of economic regionalism in the world economic system.<sup>23</sup>

Despite these tendencies towards “regionalism” in mutual relationship, there were some efforts to create a concrete common agenda, achievable and beneficial to both partners and also contributing to stability and openness in the world economy in the form of the Transatlantic Declaration of 1990, a New Transatlantic Agenda of 1995 with its “transatlantic marketplace” and a recent Transatlantic Economic Partnership’s Action Plan of May 1998, identifying a series of elements for an initiative to intensify and extend multilateral and bilateral cooperation and common actions in the field of trade and investment.

There were envisaged some possible scenarios for the future transatlantic economic relationship. According to Woolcock (1996: 169-183), the most probable will be the so-called “drift scenario”<sup>24</sup> This scenario, while assuming the importance of the mutual economic relationship, envisages its decline due to increased growth in US intra-regional trade and investment (and closer economic ties with the dynamic Asian economies) on one hand, and similar growth in intra-European trade, on the other.

## **Conclusions**

In a simplified version the Cold-War US-EU relations can be viewed as a “static contract” or “bargain”: the US security commitment to Europe in return for European acceptance of US global leadership (Steinberg 1993: 105). The rise of European economic power, erosion of the US hegemonic role and dramatic changes after the fall of the Berlin Wall require a qualitative change

in US-EU relations. The transatlantic relationship thus requires reconsideration not only of the *terms* of the relationship, but of its very *justification*.

The solution for US-EU cooperation and post-Cold War stability in the conditions of multipolarity and hypernationalism is that existing regimes and international organizations need to be restructured in order to be effective, which requires "entrepreneurial leadership"<sup>25</sup>. The importance of institutions in the post-Cold War era has increased. They provide a "point of common reference for leaders trying to struggle with turmoil and uncertainty" and "the rules of institutions constrain the bargaining strategies of states and therefore make their actions more predictable" (Keohane and Nye 1993: 3, 15). Institutions help governments to deal with fragmentation of relations caused by interdependence, they act as "shock-absorbers" of the outcomes of change and have an important role in the adaptation to the changed political and economic conditions.

Neoliberal institutionalists claim while US-EU interdependent relationship creates interests in deepening cooperation, it involves also the risks of system frictions as a result of the mutual sensitivities of partners, caused by their interdependence. However, (Keohane quoted in Featherstone and Ginsberg 1996: 16, 29) there are three main reasons why international cooperation can take place in the contemporary post-hegemonic international order: first, the hegemonic leadership is unlikely to be re-established by the US or any other state; second, world politics is not a constant state of war; and third, states do have complementary interests. In the environment, which lacks the Soviet threat and produces new challenges and tensions, the partners continue to share important and far-reaching common economic, political and security interests and goals. The transatlantic economic relationship is equipped with well-established institutions and channels for dealing with systemic differences, such as the WTO and different financial institutions.

The US-EU coalition can provide "joint leadership" (Peterson and Ward 1995: 131-156, Keohane 1993: 43-59), because it represents the most favorable basis for a creation of "a stable winning coalition" in the new multidimensional security framework (in comparison with other potential winning alliances, as for example, Asia-Pacific Economic Cooperation). The US-EU axis symbolizes exceptionally high concentrations of wealth, policy resources and positional advantages within the existing multilateral framework to promote broader multilateral cooperative arrangements.

However, critics, in the light of US-EU initiatives such as "economic space" or "free trade area", point out that joint management might be undesirable because it can undermine the development of the WTO and can give the impression of a newly divided world between poor and rich countries. The-

refore, in evaluating the US-EU initiatives, it is necessary to answer the following questions. Does transatlantic economic cooperation support a wider multilateral global order by providing a "pathfinder role" in liberalisation and by establishing international rules? Or, does it undermine multilateralism by dominating multilateral negotiations and "coalition-building" (Woolcock 1996: 168) and thus by presenting "northern standards" as *faites accomplis* to other countries? To avoid the development of a "dangerous vacuum", Smith and Woolcock (1993: 110) recommend the agreement on "common agenda" and "common approach" to support the reform of the post-war institutions that affect international trade and economics (GATT/WTO, NATO, IMF) and provide the institutional structure of US-EU economic relations. ■

### **Notes:**

1. For a complex analysis of empirical development and contending theoretical explanations of the post-Cold War economic, political and security US-EU relations, see Grittersova, J.: *The Redefinition of the Transatlantic Partnership*, Occasional Paper, Slovak Foreign Policy Association, forthcoming.
2. The term European Union (EU) reflects currently accepted terminology for the post-Maastricht actor known previously as the European Community (EC), and it is used *ibis* to refer to integration's terminology before 1993.
3. Featherstone and Ginsberg (1996) identify three historical periods in the US-EU relations: hegemonic (1945-circa 1965), hegemonic decline (1966-circa 1985), and post-hegemony (circa 1986 and after). This periodization is to a certain extent used also in this text. See Featherstone, Kevin and Ginsberg, Roy, H.: (1996) *The United States and the European Union in the 1990s: Partners in Transition* (London: Macmillan Press).
4. These interactions comprise traditional bilateral intergovernmental links, institutions of the EU and international regimes which go beyond the US-EU relationship.
5. An interesting critique of Keobane's neoliberal institutionalism, known as the "Harvard School of Liberal International Theory", offers David Long. According to him, this theoretical school is "an emasculated liberalism, sorn of its normative concerns with the liberty and well-being of individuals" where "ethical values" central to liberalism, disappeared. Therefore, the theory is "fundamentally misguided". Long, David (1995:489-505): "The Harvard School of Liberal International Theory: A case for Closure", *Millennium: Journal of International Studies* 24 ( 3).
6. The interdependence theories and neo-liberal institutionalist theories are parts of the same theoretical perspective called pluralism. Both theories are results of the historical evolution and diversification of pluralism, however, the principal unifying feature is their assertion that realism cannot provide an adequate account of contemporary international relations (even if neo-liberalism shares some neo-realist assumptions).
7. Keobane and Nye draw attention to the difference between "interdependence" and "interconnectedness". They point out that while first is characterized by reciprocal costly effects of transactions, the latter do not involve significant costly effects. Keobane Robert O., and Nye, Joseph S.: (1977): *Power and Independence*, Boston: Little, Brown.

8. *The concept of "complex interdependence" was introduced by Keohane and Nye (1977: 23-27).*
9. *Keohane Robert O.: (1990: 732) "Multilateralism: an agenda for research", International Journal XLV (Autumn), defines institutions as "persistent and connected sets of rules, formal and informal, that prescribe behavioural roles, constrain activity, and shape expectations".*
10. *Mearsbmeier defines "cheating" as a "breach of promise". Defection is a synonym for cheating in the institutionalist literature. Mearsbeimer, John (1994/95): "The False Promise of International Institutions", International Security 19(3).*
11. *Peterson claim that the difference between "hegemony" and "leadership" is imperceptible. Hegemony entails the "guaranteed power to win". Leadership involves "the effective deployment of positive or negative inducements" in the absence of this guarantee to win for their suppliers. Peterson, John (1994): "Europe and America in the Clinton Era", Journal of Common Market Studies 32(1).*
12. *The US accounts for 20 per cent of total EU imports and exports. EU accounts for 18 per cent of US imports and 20 per cent of exports. 50 per cent of all EU investment comes from the US and 59 per cent of US foreign investment comes from Europe. The relationship is advanced and not traditional and one-sided because 35 per cent of overall trade is made of exchange services and 25 per cent of high-tech products. Source: European Commission, colloquium on "Transatlantic Economic Diplomacy" at London School of Economics, London, November 1998.*
13. *Wiener and Hiester envisage three possible directions of US economic policy: first, "isolationism", or the prioritization of domestic affairs, second, so-called "regional supremacy" resulting in creation of zones of influence or trade blocks, and third, turning of US attentiveness away from Europe to the Pacific region (eg. Japan, China). However, Peterson (1994: 411-427) reveals that Clinton's initiative in 1993 for an "Asia-Pacific Economic Community" disclosed the limitation of a Pacific Rim alliance as a cohesive political or expanded economic grouping. Wiener, Jarrod and Hiester, Dan (1996: 9): "The Transatlantic Partnership in the 1990s", in Jarrod Wiener (ed.) The Transatlantic Relationship (London: Macmillan Press).*
14. *Featherstone notes that Common Agricultural Policy of the EU integrates single market support to ensure "food security" with protection against cheap imports and subsidies for exports. It means more difficult access of American farmers to the EU market and the application of non-American values: market intervention and protection to produce not only economic profits but also social benefits. By contrast, American agricultural policy is based on different principles and is designed to support farmers to meet production costs through price supports, storage and export enhancement programmes. Featherstone, Kevin (1993:274): "The EC and the US: managing interdependence", in Juliet Lodge (ed.) The European Community and the Challenge of the Future (London: Pinter Publishers).*
15. *G7 as the acronym for the Group of Seven (USA, Germany, Japan, France, UK, Canada and Italy) was established in 1975 as an informal regime of finance ministers and central bank governors from major industrial countries to discuss major issue areas in world politics. Evans, Grabam and Newnham, Jeffrey (1998:213-214): Dictionary of International Relations (Penguin Books). The management of monetary affairs in the new post-hegemonic order represents the 1985 Plaza Accord and the 1987 Louvre Accord. (Featherstone 1993: p. 275).*



16. David Calleo explains that US external and fiscal deficits were caused by heavy "geopolitical burden" linked to a "benevolent hegemony" of the US. It means that the US has provided of common defence for the Europeans and Japanese, who were unwilling, or incapable, to provide for their own defence. Calleo, David P.: (1999:12) "The Strategic Implications of the Euro", *Survival* 41(1).
17. Bergsten envisages the total shift from dollars to euros between US\$ 500 billion and US\$ 1 trillion. Bergsten, Fred C.: (1999) "America and Europe: Clash of the Titans?" *Foreign Affairs* 78(2).
18. Declaration on Stability and Sustainable Growth adopted by the ECOFIN Council in May 1998 asserts that the move to the single currency enhances further the conditions for "strong, sustained and non-inflationary growth conducive to more jobs and rising living standards". Monetary and fiscal rules in EMU will probably have a favourable effect on growth and employment through the creation of a stable macro-economic framework, resulting in lower interest rates with positive effects on investment and consumption and through price stability which will give rise to "employment-compatible" wage policies. Sound budgetary policies can facilitate the needed restructuring of government spending towards more productive uses and lowering of taxes and social security contributions, while making the taxation system more "employment friendly" (Economic Paper No. 124, 1997). However, Duisenberg stresses that the EMU is "neither the cause nor the solution for the still unacceptably high level of unemployment in Europe". The unemployment is particularly painful problem of EU. The problem of high unemployment is serious also due to fact that it could weaken the position of the ECB and lead to pressures for the adoption of a looser monetary policy. The situation further aggravates the loss of exchange rate flexibility and the constraints on the flexibility of national fiscal policies by the Stability and Growth Pact. This can result in higher inflation and could be destructive for the stability of the EU. Therefore, appropriate reform of fiscal, welfare and labour market arrangements within EU to introduce greater flexibility in European economies are indispensable. Nevertheless, EMU can act as "a catalyst" for structural change. There are some evidence, that this is true already. Italy and Spain have partially deregulated their labour markets and in all European economies (even in France) the privatisation of state-owned industries, enhancing competitiveness of European industries, has been continuing progressively.
19. Padoa-Schioppa reveals that the creation of a monetary union is a political decision of the greatest importance because it "touches fundamental questions of sovereignty and modifies the economic constitution of member countries." Therefore, "new order" needs to be created by "an act of political will" which provides for a pertinent relationship between "the technical and political levels of responsibility". He stresses that the present EU can be considered to be political union not only because of the political character of the affairs falling under its jurisdiction. Its institutional structure has many more analogies with a "national" constitutional system than with "international fora for consultation and co-operation". Treaty on European Union has made the existing Community closer to a federal construction by increasing a number of decisions taken by a supranational authority. However, the competences of the member states are defined on the basis of the principle of subsidiarity and according to the principles of "liberal democracy", which evokes the claim that the Union is presently developing toward "a Community of states and not a federation" (Minkkinen and Patomaki 1997).

20. *In the EU the proportion of taxes on GDP is about 35 per cent compared with 22 per cent in the US. Smith, Michael and Woolcock, Stephen (1993:41): The United States and the European Community in a Transformed World (London: Pinter Publishers).*
21. *The North American Free Trade Agreement is a free trade area among the USA, Canada and Mexico, established in August 1992. Its aims are to abolish all tariffs on products and to authorize free movements of services and investment capital. Evans, Graham and Newnham, Jeffrey (1998): Dictionary of International Relations (Penguin Books).*
22. *Smith and Woolcock cite three characteristics of what forms a "bloc": first, it must have economic potency, second, the interests of the constituent states of the area predominate over those outside the area, and third, it must have a "discrete" identity. (Smith and Woolcock 1993: 46-47).*
23. *The Uruguay round was the most ambitious in the GATT's history because it tried to develop "rules-based, mandatory regimes for resolving trade disputes across a far wider range of sectors than had ever been subject to international rules before". The EU's primary objective was to stop the US unilateralism in trade policy and therefore it pushed for agreements to subject far more sectors ( services, public procurement, intellectual property rights and public subsidies to domestic industries) to stricter GATT rules. For the US, the importance of the negotiations lied in the fact that their results could either reinforce the EU's commitment to liberalization or to encourage "Fortress Europe" in the context of the Single Market project. It should be stressed that no settlement to the Uruguay Round was possible without "a complex package deal" between the EU and US which contained many compromises across a wide range of issues. The successor of GATT- the World Trade Organization - offered extended trade rules and stronger and more efficient dispute settlement procedures. Peterson, John 1996: 112-114): Europe and America: The prospects for Partnership (London: Routledge).*
24. *Woolcock envisages three possible scenarios: continuation of status quo, drift scenario and deepening of economic links. He refuses the scenarios of trade wars and a "transatlantic economic community" as highly improbable. Woolcock, Stephen (1996:169-183): "EU-US Commercial Relations and the Debate on a Transatlantic Free Trade Area", in Jarrod Wiener (ed.) The Transatlantic Relationship (London: Macmillan Press).*
25. *The entrepreneurial role can be assigned primarily to hegemonic powers but also to small group of states on the basis of Waltz's "concentration of capability". Keobane, Robert O.: (1990:741) "Multilateralism: an agenda for research", International Journal XLV (Autumn). For Young the "entrepreneurial leaders" use negotiating skills to frame the issues at stake in ways that foster bargaining. They operate as agenda setters, popularizers, inventors and brokers. Young, Oran R.: (1991:293-298, 307) "Political leadership and regime formation: on the development of institutions in international society", International Organization 45(3).*

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### **Resumé:**

#### **Jana Grittersová: Transatlantická ekonomická diplomacia**

Tradične bola prioritnou oblasťou v transatlantických vzťahoch vojenská bezpečnosť, ktorej dominovali Spojené štáty americké a ich významný nukleárny potenciál. Od osemdesiatych rokov dochádza k radikálnej zme-

ne v transatlantickom partnerstve v dôsledku zániku sovietsko-americkej bezpečnostnej agendy, štrukturálnych zmien vo svetovej ekonomike, snáh na oboch stranách o prehodnotenie ich vzájomného postavenia a úloh v medzinárodnom systéme s ohľadom na ekonomickú a bezpečnostnú sféru. Súčasnú transatlantickú vzájomnosť sa uskutočňujú v prostredí prehlbujúcej sa vzájomnej ekonomickej prepojenosti a posilňovania ekonomickej úlohy Európskej únie (EÚ). Sú charakterizované mnohými prívlastkami „po hegemonii“, „interdependentné“, „multilaterálne“ a „inštitucionalizované“. Transatlantické vzťahy zahŕňajú multilaterálne dohody medzi inštitúciami Spojených štátov a EÚ v oblasti vojenskej (NATO, OBSE), ekonomickej (OECD, G7), obchodnej (GATT/WTO) a menovej (MMF, Svetová banka). Featherstone a Ginsberg tvrdia, že jedným z kľúčových problémov v transatlantickom vzťahu je, či a aká spolupráca je možná v prostredí úplnej vzájomnej závislosti a absencie hegemonického štátu. Zatiaľ čo *bezpečnostný imperatív* a americká hegemonia v období studenej vojny pomohla zmierňovať vzájomné obchodné spory, koniec studenej vojny prináša rozdielne pohľady partnerov na medzinárodnú bezpečnosť, zahraničnú ekonomickú politiku, a zahraničné záväzky.

Autorka štúdie tvrdí, že zatiaľ čo na čiastkové aspekty transatlantického vzťahu sa môže nazerať z pozície realistických teórií medzinárodných vzťahov, jeho komplexnosť možno najlepšie pochopiť aplikovaním teórií interdependencie a neoliberalného inštitucionalizmu. Vychádzajúc z tohto tvrdenia, autorka zastáva názor, že transatlantický inštitucionálny rámec pre vzájomnú spoluprácu, ktorý bol vytvorený po druhej svetovej vojne, môže „prežiť“ a rozvíjať sa aj po zániku americkej hegemonie.

Podľa tradičných realistov medzinárodné vzťahy predstavovali boj o moc. Národná bezpečnosť bola videná v úzkom slova zmysle ako vojenská bezpečnosť. Realizmus ako doktrína má svoje počiatky v tridsiatych rokoch a bol dominantnou teóriou na vrchole studenej vojny. Stal sa však menej presvedčivým od obdobia tzv. uvoľnenia alebo „*détente*“. Túto zmenu výstižne charakterizoval Chris Brown tvrdiac, že medzinárodné diplomaticko-strategické vzťahy mali centrálny význam, keď naozaj išlo o život a smrť, keď sa však pravdepodobnosť vojenského konfliktu znížila, sociálne a najmä ekonomicke vzťahy nadobudli na dôležitosť, najmä v súvislosti s prehlbujúcou sa ekonomickou interdependenciou.

Interdependencia vytvára potrebu zvýšenej koordinácie politík, ktorá by mala viesť k väčšej medzinárodnej spolupráci. Keohane tvrdí, že medzinárodná spolupráca sa rozvíja na základe komplementárnych záujmov štátov a je uľahčovaná vytvorenými medzinárodnými inštitúciami s jasnými pravid-

lami a štandardmi správania, ktoré znižujú neistotu a stabilizujú očakávania štátov. Robert Keohane je predstaviteľom školy neoliberalného inštitucionalizmu, ktorá je hlavným teoretickým prúdom pri analyzovaní medzinárodných inštitúcií, a kladie dôraz na spoločné záujmy štátov pri vysvetľovaní medzinárodnej spolupráce. Podľa tejto teórie formujú medzinárodné inštitúcie politické vnímanie a hodnotový rámec členských štátov a podnecujú vytváranie spoločných noriem a pravidiel spolupráce. Na druhej strane sa (neo)realistické teórie zameriavajú na mocenské vzťahy medzi štátmi v medzinárodnom systéme a medzinárodnú spoluprácu považujú za prostriedok maximalizácie moci štátu.

Medzinárodné ekonomické prostredie po skončení studenej vojny sa vyznačuje asymetrickým vzťahom medzi ekonomickou a bezpečnostnou sférou vzájomnej spolupráce. V oblasti medzinárodnej bezpečnosti majú Spojené štáty stále dominantnú úlohu, aj v dôsledku nepresvedčivej zahraničnej a bezpečnostnej politiky EÚ. Vzájomná závislosť medzi Spojenými štátmi a EÚ v ekonomickej oblasti je zdrojom početných bilaterálnych sporov, najmä sektorovo špecifických sporov, sporov ohľadom taríf, štandardov, intelektuálneho vlastníctva a exportných subvencií poľnohospodárstvu a pod. V tejto súvislosti sa vytvárajú silné tendencie v smere regionalistických združení a zoskupení (napr. NAFTA alebo rozšírená EÚ), v rámci ktorých môžu Spojené štáty alebo EÚ udržať alebo vybudovať svoje hegemónické postavenie. Regionálne dohody by však mohli byť zdrojom strategickú obchodnej konkurencie, a nie prostriedku rozsiahlejšej multilaterálnej liberalizácie. Aj napriek existencii týchto prejavov regionalistických tendencií vo vzájomnom transatlantickom vzťahu je potrebné zaznamenať značné úsilie oboch partnerov o uzatváranie vzájomných dohôd, ktoré by boli realistické a prínosné pre oboch partnerov a prispeli by rovnakou mierou k stabilite a otvorenosti svetovej ekonomiky.

Tento optimistický empirický vývoj v transatlantickom partnerstve potvrdzuje opodstatnenosť teórií neoliberalného inštitucionalizmu, ktoré zdôrazňujú dôležitosť medzinárodných inštitúcií pre medzinárodnú a transatlantickú spoluprácu po skončení studenej vojny a dokazujú, že transatlantická ekonomická spolupráca v období po skončení americkej hegemónie v ekonomickej oblasti je možná, a dokonca sa prehĺbila, pretože je založená na presne definovanom a pevne zakotvenom inštitucionálnom rámci pre usporiadanie systémových rozdielov a vzájomných frikcií a sporov. Koalícia EÚ a Spojených štátov spĺňa všetky predpoklady pre zohrávanie vedúcej úlohy v existujúcom multilaterálnom rámci pre medzinárodnú spoluprácu s cieľom jeho rozšírenia a prehĺbenia.