FORETHOUGHT

The New Atlantic Century

by Hermann Simon and Max Otte

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opinion

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The economic relationship between the United States and Europe is about to enter its strongest period yet.

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Looking into the next century, where will the center of the world economy be? Although the recent financial crisis dimmed some of Asia's luster, many observers continue to believe that the strongest engine of growth will be found in the fast-developing Pacific Basin. They foresee Asia supplanting Europe as the primary economic partner of the United States, leading to a so-called Pacific century. But we believe the new century, like the one just ended, will be very much an Atlantic century, with North America and Europe strengthening their business ties and extending their economic leadership.

Just look at the data on cross-border mergers and acquisitions. The level of direct investment between the United States and Europe – the core members of what we call "Transatlantica" – is three times that between the United States and Asia. And although 1998 was admittedly a year of Asian weakness, it is still striking that not a single Asian acquirer was among the group of foreign companies making the 25 largest acquisitions of U.S. businesses that year. Europe alone accounted for 20 of those purchases.

It is true that U.S. trade with Asia's Pacific Rim exceeds U.S. trade with Europe. But those numbers don't include services, arguably the most dynamic sector of the economy. Trade in services such as banking and consulting also goes further than trade in products to bring the two continents together. It creates the commercial ties crucial to building the trust that makes global business work.

Indeed, despite their export successes, countries like Japan and China are still relatively isolated from other countries. If you combine imports and exports, Japan's foreign trade equals only 22% of its gross domestic product, while in most European countries that figure is over 50%. Even the United States, with its big internal market, reaches 24%.

What's more, the character of trade in Transatlantica countries is much more advanced than it is in either Japan or China. Even though Japan is slowly moving away from mercantilism, its trade is still heavily weighted toward imports of raw materials and exports of ready-made products. China follows an explicitly mercantilist policy. Transatlantica's countries are much further along in restructuring their trade portfolios around specialized industrial goods.

Mercantilism was well suited to capturing world markets when business conditions were stable and governments could try to promote entire industries within their own borders. But today the most advanced products – the ones that will fuel future economic growth – are coming from companies with international reach. Competition now means a struggle for the best global talent, access both to the world's business centers and to other dispersed regions of competence, and the international relocation of whole value chains and processes. In this transformation, national identities are minimized, and the power in corporations is increasingly distributed among many countries.

At present, the United States is certainly best positioned to capture the opportunities of this increasingly complex world market. More than any other big country, it has moved to a service economy based on the flow of ideas rather than the flow of materials. It has abundant venture capital and thriving entrepreneurship. As a result, the United States dominates high-tech industries such as computer software, biotechnology, and Internet applications.

By comparison, European companies are slower and more risk averse. Yet the continent is not as far behind as epithets like "Eurosclerosis" suggest. We are struck by the wave of optimism and entrepreneurial spirit that has been sweeping Europe in the past two years. Wherever we go, we see aggressive and innovative plans for the future. Funds for corporate restructuring, mostly coming from America, are acting as catalysts in the liberalization of the European economy. Venture capital is increasingly available, and, in tandem, a progressive shareholder culture is emerging. Companies are going public ever sooner to finance their growth, and those shares are going to informed private investors who are monitoring "their" companies closely.

In Asia, many would-be entrepreneurs still trust in the state, in large corporations, or in close family ties. That may have been appropriate when a few major industries dominated the economy and capturing market share within those industries was the main goal. In the age of innovative turbocapitalism, however, speed is of the essence, even at the cost of occasional failure. Large corporations and the state are disadvantaged in this game. And family ties, for all their flexibility, inevitably hinder the free flow of talent that advanced companies need to draw on.

New ideas move fastest when there's a common language and communication medium. On both these counts, Transatlantica has clear advantages. English is quickly becoming the lingua franca of the region, facilitating all sorts of dealings. Although Daimler-Benz is undoubtedly the dominant partner in its merger with Chrysler, it chose English as its corporate language. And it doesn't even seem odd that the largest publisher of English-language books in the world – Bertelsmann – has its headquarters in a small town in Germany. But in Asia, only the elites, for the most part, can speak English.

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The Internet, too, is drawing the United States and Europe closer together. About 90 million Americans and 80 million Europeans are now on-line, compared with only about 40 million Asians. The vast majority of Internet content is produced in Transatlantica, most of it in English. When Amazon.com looked overseas to expand, it chose Great Britain and Germany as the sites of its first foreign subsidiaries.

Of course, the last golden age of Euro-American integration ended in two devastating world wars. Even though the national rivalries underlying those wars now belong to history, three possible areas of contention could undermine the prosperity of Transatlantica. Europe could decide to go it alone militarily, terminating the NATO alliance and with it one of the foundations of intercontinental cooperation. The euro could threaten the dollar as the global reserve currency, prompting greater economic rivalry. And trade disputes between Europe and North America could intensify.

It does not appear, however, that any of those potential conflicts is liable to flare up soon and fundamentally damage the world's most productive economic relationship. Driven by a variety of market and cultural forces, the two continents are growing even closer, forging a partnership that is likely to guide the world in the new century.

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