U.S. – E.U. ECONOMIC RELATIONS IN THE CONTEXT OF ECONOMIC GLOBALIZATION

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Abstract: *Traditionally, U.S. and E.U. are the major economic forces in the world. Today, in the context of economic globalization, relations between the U.S. and E.U. continue to guide the world. Yet the economic crisis and the rise of third world countries are affecting their global share***.**

Key words: globalization, world power, trade flows, multinationals, investment funds
JEL Classification: F15, F02, F50

1. INTRODUCTION

Since the emergence of the first forms of social organization there have been countries that imposed as leading actors to the international scene. As power centers, these countries have shaped and influenced the various sectors of the international system (the political-territorial, geopolitical, (geo) economic, military, cultural etc.).

Blouet (2001, p. 7 in Dobrescu, 2003) stated that: Each power unit was designed as a policy unit of five components, which can be seen as: geographic, ethnic, economic, social and legal. Moreover, global powers have maintained and increased their status by economical, political, military or ideological domination.

International trade, direct and indirect investments in other countries, as well as production for external markets, has increased the interconnection of economies worldwide. Today, however, unlike in the past, internationally, the state contribution is different, which gives international economy a polarized nature.

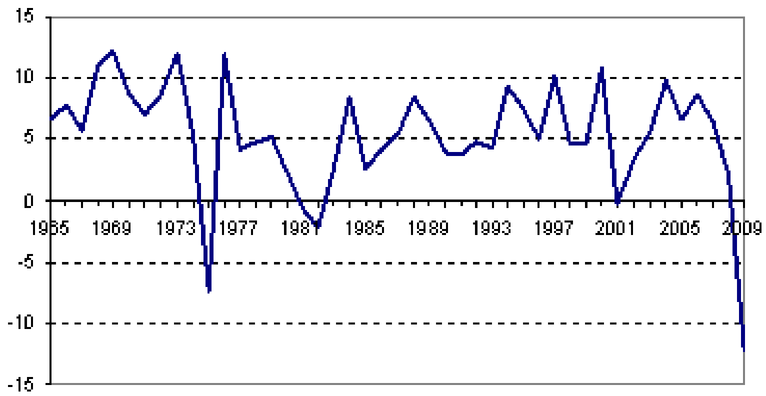
In fact the world has evolved over time from a single-pole character, characterized by the dominance of a single great power (in the seventeenth century Holland, Britain in the eighteenth and nineteenth centuries, France at the end of the nineteenth century, Germany at beginning of the twentieth century), to a multi-pole one (the world dominated by the 2 nuclear poles, U.S. and Soviet Union).

Current international economic relations are conducted in a triangular system, known in the literature as the economic triad, which includes U.S., European Union and Japan. Two of the three (US and EU) are also forming the largest bilateral trading partnership in the world.

2. COMMERCIAL FLOWS

International trade is the oldest and most important component of economic relations between countries. World economy was based on trade between nations. Although connections between countries are numerous, exceeding the category of economic, trade flows are the most important connection through its value, geographical extent and structural variety of transactions. Increasing exports and imports attests the process of globalization in its commercial dimension (Işan, 2004, p. 220).

Chart 1 - The volume of world merchandise exports 1965-2009 (Annual percentage change)



Source: WTO: 2010 Press Releases

The economic crisis has affected the volume of world merchandise exports, as can be seen in the chart above; the trading volume fall was the biggest in 40 years.

Table 1 - GDP and trade in goods in 2006-2009 (Annual percentage change at constant prices)

	GDP				Exports				Imports			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
EU	2,8	2,8	0,7	-4,2	10,5	4,0	-0,1	-14,8	5,5	4,1	-0,8	-14,5
US	3,0	2,1	0,4	-2,4	7,5	6,7	5,8	-13,9	7,0	1,1	-3,7	-16,5

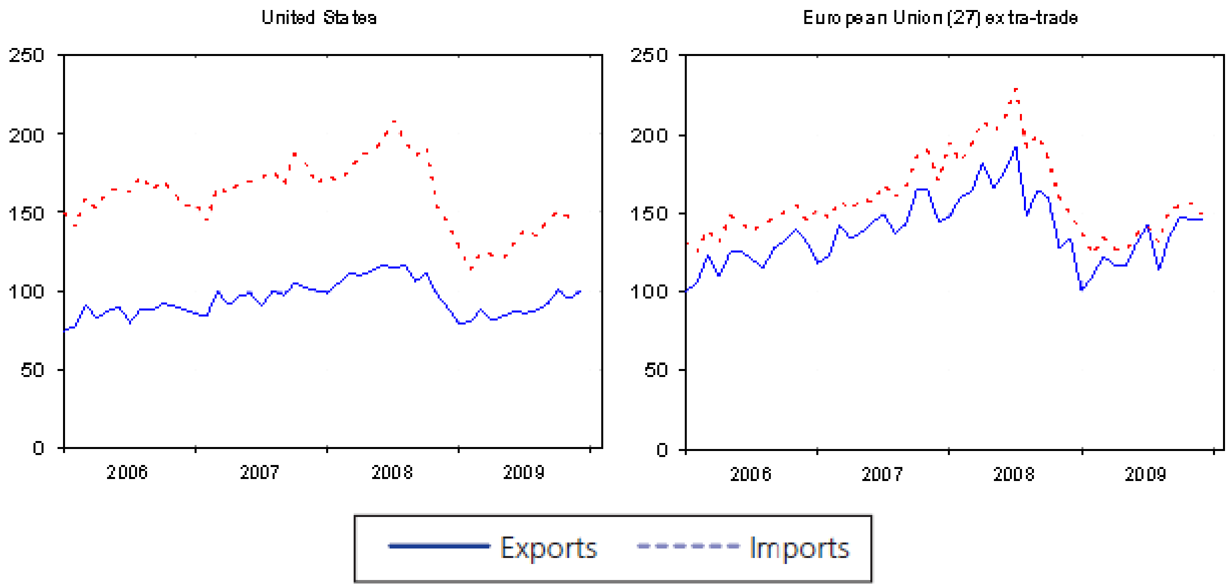
Source: World Trade Report 2010 şi WTO: 2010 Press Releases

From the table above it can be noted that, since 2008, the effect of the crisis has slowed growth in the two great powers (the GDP of both countries has grown less than in 2007 and 2006).

Also, both countries saw their export rates affected: in the U.S. the value of exports has slowed its growth compared to 2007 and in the European Union the growth was much lower than in 2007 or 2006. The decrease was also felt to imports.

Major effects of the crisis were felt in 2009, when the GDP decreased by 2.4%, while the one of EU with 4.2%. Effects were more pronounced in the rates of exports, falling by 14.8% in the EU and 13.9% in the United States of America. Decrease in imports was in 2009, 14.5% for EU and 16.5% for the United States of America.

Chart 2 - EU and U.S. exports and imports of goods January 2006 - February 2009 ($ billion)



Following the crisis, both countries have seen a decrease in goods trade deficit. The largest decrease was registered by the deficit of EU.

Table - 2 World trade in goods in 2009 ($ billions and %)

	Exports					Imports				
	Value	Annual percentage change				Value	Annual percentage change			
	2009	2005-09	2007	2008	2009	2009	2005-09	2007	2008	2009
The World	12 147	4	16	15	-23	12 385	4	15	16	-24
US	1 057	4	12	12	-18	1 604	-2	5	7	-26
EU	4 567	3	16	11	-23	4 714	3	16	12	-25

Source: WTO: 2010 Press Releases

World trade in goods has seen increases in both U.S. and EU by 2008. In 2009, world trade of commodities, of the U.S. and EU declined sharply. With one exception all the reductions were more than 20%.

Table 3 - Value of EU Imports

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU imports (€ billion)	743.30	992.70	979.14	936.97	935.25	1027.54	1179.85	1351.74	1434.0	1565.0
Imports from US	165.86	206.28	203.30	182.62	158.12	159.37	163.80	175.5	181.6	186.9
Imports from U.S. (%)	22.3	20.8	20.8	19.5	16.9	15.5	13.9	13.0	12.7	11,9
Rate of imports from US (%)	-	- 1.5	0	- 1.3	- 2.6	- 1.4	- 1.6	- 0.9	- 0.3	-0,8

Source: World Trade Report 2007 & WTO: 2010 Press Releases

In the table are shown the import values of EU for the years 1999-2008. In terms of value, total EU imports have risen upward, from 1999 to 2008 imports increased from € 743.30 billion to € 1425.95 billion. This growth is explained mainly by increasing the number of member states in the Union.

EU imports from United States have not followed the general trend of the total, but have seen a downward trend. The share of imports felt from 1.5% in 2000 and 2001 to 0.3% and 0.8% in 2007 and 2008.

Table 4 - Annual trade trends in EU (Imports - € million value and variation %)

	2005		2006		2007		2008		Jan - Jul 2009	
	Value	05/04	Value	06/05	Value	07/06	Value	08/07	Value	09/08
EU	1179,569	14,8	1352,787	14,7	1434,010	6,0	1565,034	9,1	690,533	-25,3
US	163,511	2,6	175,547	7,4	181,594	3,4	186,887	2,9	97,560	-12,1

Source: WTO: 2010 Press Releases

Regarding commercial trends we remark, from the above table, that, after a consecutive period of four years in which there have been registered increases in value and percentage of imports, in the first half of 2009 they have seen a sharp decrease. Compared with the first half of 2008, EU imports in 2009 decreased by 25.3% and the U. S. 12.1%.

Table 5 - Value of EU exports

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU exports (€ billion)	683.08	849.74	884.71	891.90	869.24	952.93	1053.20	1160.10	1241.50	1306,5
Exports to US	187.00	238.20	245.59	247.93	227.28	235.50	252.85	269.10	261.50	250.0
The share of exports to U.S. (%)	27.4	28.0	27.8	27.8	26.1	24.7	24.0	23.2	21.1	19.1
Rate of exports to the U.S. (%)		+0.6	-0.2	-0.2	-1.7	-1.4	-0.7	-0.8	-2.1	-2

Source: World Trade Report 2007 şi WTO: 2010 Press Releases

EU's total exports have risen between the 1999 and 2008. Thus, from the value of 683.08 billion euro registered in 1999 the exports reached about € 1.3065 trillion in 2008.

The share of EU exports to the U.S., in total exports, in the mentioned period, has increased in the first phase, but was followed by a decrease for the remaining years. Thus in 1999 the rate of exports increased by 0.6% of exports. Since 2000 exports have declined every year from 0.2% in 2001, until 2007 when they registered the most dramatic decrease, 2.1% compared to the year before. The decline decreased in 2008 versus 2007, but was still a significant 2%.

Table 6 - Trends in EU annual trade (Exports) (€ million, value and variation %)

	2005		2006		2007		2008		Jan - Jul 2009	
	Value	05/04	Value	06/05	Value	07/06	Value	08/07	Value	09/08
EU	1052,720	10,5	1160,101	10,2	1241,498	7,0	1306,549	5,2	622,543	-19,4
US	252,683	7,3	269,144	6,5	261,484	-2,8	249,959	-4,4	120,088	-19,5

Source: WTO: 2010 Press Releases

Regarding commercial trends we remark, from the above table, that for the European Union, after a consecutive period of four years in which growth occurred (the percentage and the value of export) in the first half of 2009 they experienced a sharp decrease of 19.4%.

If we compare the exports from 2009 with the first half of 2008 we remark that the EU exports decreased by 19.4% and the ones of US with 19.5%.

Table 7 - EU trade balance in relation to U.S.

Year	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009 Jan – Jul**
€ billions	21.14	31.92	42.30	65.31	69.16	76.13	89.05	93.77	80.34	63.07	22.53

Source: *World Trade Report 2007* and own calculations

In the EU relations with the U. S. trade balance has a surplus, exports to these being higher than imports. However the increase was from € 21.14 billion in 1999 to 93.77 in 2006. After 2006 trade surplus saw a downward trend. Thus in 2007 the trade balance recorded a surplus of only € 80.34 billion and in 2008 just € 63.07 billion.

For 2009 not all the data are yet available, but in the first half of the year, the surplus was of only € 22.53 billion.

3. TRADE IN SERVICES

Services were considered, a long time, as an area with low productivity, even a brake on economic development. But now, according to most experts, they have an important role in economic growth and quality of life.

International trade in services is represented by the activities of export / import services, namely sales / purchases in excess of the actual customs borders. Sale and purchase of services over the borders entails the travel of the capital, of the labor force and of the producers.

Generally trade in services consists of: services embedded in goods (movies, books); services complementary to trade in goods (transport, handling, insurance and reinsurance, banking, advertising); services which substitute trade assets (franchise, lease, repair and maintenance);

services sold independently of trade in goods (human insurance and other non-freight insurance, accounting services, legal services, medical services, etc.).

For example, in respect of export of transport services on the first place in the world there is the European Union, accounting for 45.70% of the world (in 2009), followed by U.S. with 14.19%

Regarding the imports of transport services, EU holds the first position with a rate of 42.66% of total, U.S. having only 10.62% of the total.

Table 8 - World trade services in 2009 ($ Billions and %)

	Exports					Imports				
	Value	Annual percentage change				Value	Annual percentage change			
	2009	2005-09	2007	2008	2009	2009	2005-09	2007	2008	2009
The world	3 310	7	20	12	-13	3 115	7	19	13	-12
US	470	7	16	10	-9	331	4	8	8	-9
EU	1 513	7	21	11	-14	1 329	6	19	11	-13

Source: WTO: 2010 Press Releases

Crisis affected the trade in services. Thus, in 2009, there were significant decreases compared with 2008 overall (13% to 12% for exports and imports) in the U.S. (9% for exports and imports as much) and in the European Union (14% to 13% for exports and imports). Note that until the crisis, the growth of exports of transport services was quick; by 2008 the EU accounted an 88% growth compared with 2003.

4. MULTINATIONALS

Looking to the EU - US relationship, in terms of big transnational companies, we remark that, in 2009, the top income recorded is the one of the well known US conglomerate General Electric.

Table 9 - The world's largest multinational companies in 2009

RANK	COMPANY	COUNTRY	INDUSTRY	SALES ($BIL)	PROFITS ($BIL)	ASSETS ($BIL)	MARKET VALUE ($BIL)
1	General Electric	United States	Conglomerates	182.52	17.41	797.77	89.87
2	Royal Dutch Shell	Netherlands	Oil & Gas Operations	458.36	26.28	278.44	135.10
3	Toyota Motor	Japan	Consumer Durables	263.42	17.21	324.98	102.35
4	ExxonMobil	United States	Oil & Gas Operations	425.70	45.22	228.05	335.54
5	BP	United Kingdom	Oil & Gas Operations	361.14	21.16	228.24	119.70
6	HSBC Holdings	United Kingdom	Banking	142.05	5.73	2,520.45	85.04
7	AT&T	United States	Telecommunications Services	124.03	12.87	265.25	140.08
8	Wal-Mart Stores	United States	Retailing	405.61	13.40	163.43	193.15
9	Banco Santander	Spain	Banking	96.23	13.25	1,318.86	49.75
9	Chevron	United States	Oil & Gas Operations	255.11	23.93	161.17	121.70
11	Total	France	Oil & Gas Operations	223.15	14.74	164.66	112.90
12	ICBC	China	Banking	53.60	11.16	1,188.08	170.83
13	Gazprom	Russia	Oil & Gas Operations	97.29	26.78	276.81	74.55
14	PetroChina	China	Oil & Gas Operations	114.32	19.94	145.14	270.56
15	Volkswagen Group	Germany	Consumer Durables	158.40	6.52	244.05	75.18
16	JPMorgan Chase	United States	Banking	101.49	3.70	2,175.05	85.87
17	GDF Suez	France	Utilities	115.59	9.05	232.71	70.46
18	ENI	Italy	Oil & Gas Operations	158.32	12.91	139.80	80.68
19	Berkshire Hathaway	United States	Diversified Financials	107.79	4.99	267.40	122.11
20	Vodafone	United Kingdom	Telecommunications Services	70.39	13.30	252.08	93.66

Source: Special Report: The Global 2000, 2009.

In the first 20 multinational companies we have 8 companies in the oil industry, car manufacturers, one retailer, and companies in banking, utilities, telecommunications and conglomerates.

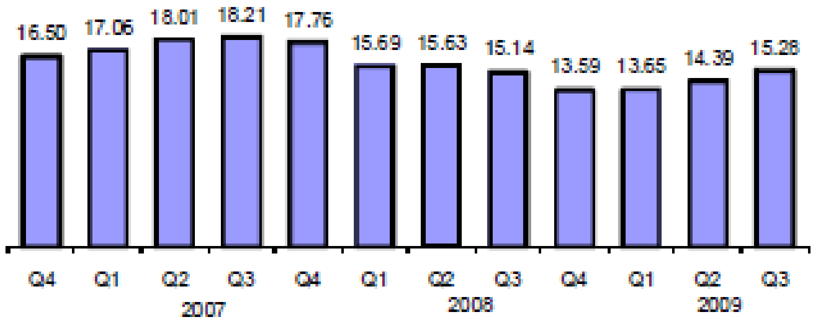
From the first 20 companies, seven are US companies (5 of them in the top 10) and 9 from EU (Including only four in top 10). Considering that the US have five companies in top 10 we can say that US still dominates the world in this regard, exceeding the European Union and Japan.

Since the 90s, in the US, transnational companies had more than one third of the industrial output, more than half the country's foreign trade and, in addition, approximately 80% of licenses for new technologies in the capitalist world (Michel, 1994, p. 158).

5. INVESTMENT FUNDS

An important indicator of US - EU economic relations, in the context of globalization, is the state of investment funds.

Chart 3 - Investment fund assets worldwide (trillion €)

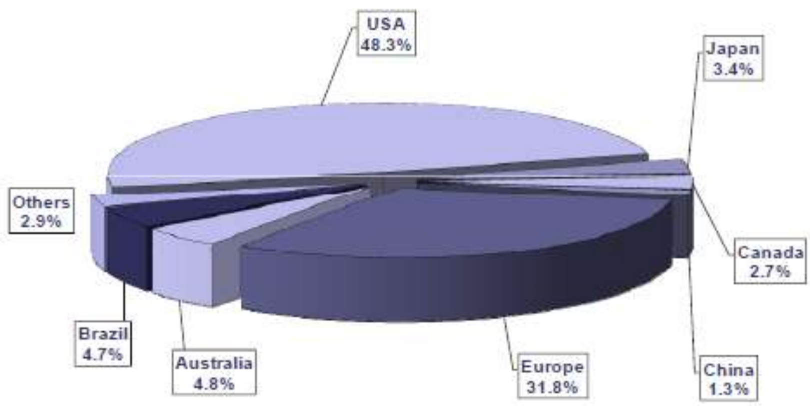


Source: Worldwide Investment Fund Assets and Flows. Trends in the third Quarter 2009

Global investment funds had, in the past three and half years, a fluctuating trend.

By Q3 2007 the general trend was of increasing value. From the Q4 it was recorded a decrease from $ 18.21 trillion to $ 13.59 trillion in Q4 2008. In 2009 there was a moderate increase, reaching $ 15.28 trillion in Q3.

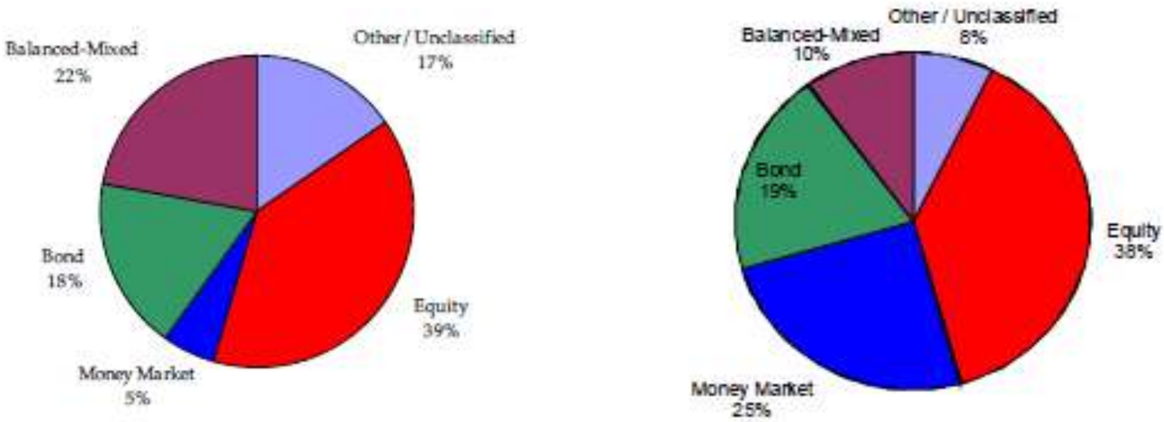
Chart 4 - Worldwide investment fund assets, market share at the end of Q2 2009



Source: Worldwide Investment Fund Assets and Flows. Trends in the third Quarter 2009

According to European Fund and Asset Management Association (EFAMA) at the end of Q2 2009, investment funds of US and Europe totaled 80.1% of all global funds (a decrease of 0.7% compared with 2008).

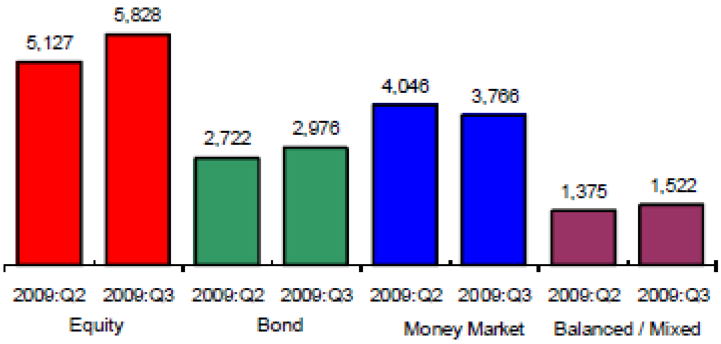
Chart 5 - Types of equity funds in Q2 and Q3 2009



Source: Worldwide Investment Fund Assets and Flows. Trends in the third Quarter 2009

At the end of the Q3, total assets of investment funds were divided as follows: fund shares accounted for 38% of total (down 1% from Q2), bond funds had 19% (increase of 1% from Q2), and the money represented 25% (up 20% from the end of June), diversified funds were 10% of total (12% down). Funds that do not fall into any of these categories were at the end of June, amounting to 8% (9% down).

Chart 6 - Assets of equity funds, bonds, currency and diversified worldwide (billion €)

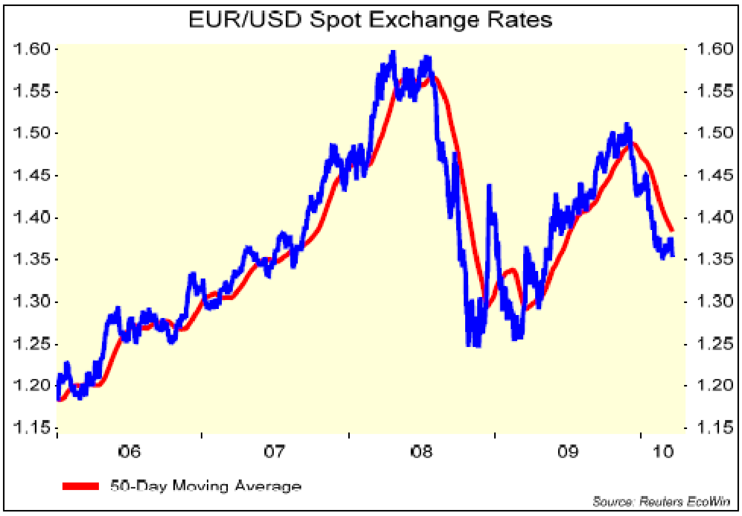


Source*:* Worldwide Investment Fund Assets and Flows. Trends in the third Quarter 2009

Regarding the state of the main types of investment funds, in terms of value, we see that, in the third quarter of 2009, there was a slight increase in three of four categories. Equity funds rose by 0.701 billion euro, the bond with 0.254 billion euro, the currency fell by 0.28 billion euro, while diversified increased with 0.147 billion euro.

In the context of the global crisis, the US and EU investment funds were those whose activity was most severely affected, and the heavyweights of US investment (Kohlberg Kravis Roberts, Carlyle Group, Goldman Sachs and Morgan Stanley) have sought to counteract the effects of crisis by allocating 250 billion dollars for investment in US infrastructure (International Herald Tribune, 2008) and outside them.

Chart 7 - Trend of euro-dollar and dollar-euro in recent years



Source: Global FX 22 March 2010

Table no. 10 Exchange rate EUR / USD

	2009 Q4	2010 Q1F	2010 Q2F	2010 Q3F	2010 Q4F
EUR/USD	1.4321	1.35	1.40	1.40	1.45

Source: Global FX 22 March 2010

In the chart above we can see that, despite fluctuations in recent four years (with the strongest trends of appreciation of the euro and dollar depreciation), the exchange rate reached at the end of 2008 similar levels to those of early 2006. Then it rose in 2009 to over 1.5, and for 2010 is forecasted to fall to 1.4.

Table 11 - Forecast of key economic indicators

	U.S.			Euro Zone		
%	2008	2009	2010F	2008	2009	2010F
Real GDP	0.4	-2.4	2.5	0.6	-4.0	1.0
Inflation rate	3.9	-0.4	2.5	3.3	0.3	1.5
Unemployment	5.8	9.3	9.8	7.6	9.4	9.8
Short-term interest rate	0-0.25	0-0.25	0-0.25	2.50	1.00	1.00
10-year bond yield	2.21	3.84	4.20	2.95	3.39	3.80

Source: Global FX 22 March 2010

Regarding the prospects of U.S. and the EU major economic indicators, after declines recorded in 2009 GDP for 2010 is forecasted a growth. We also expect increases in bond yields for the U.S. and the EU. Other indicators that are predicted to increase are the rates of inflation and unemployment.

6. CONCLUSIONS

Traditionally, EU and US were the main actors of the international scene, but the development of third world states, the opening of new markets (e.g. China) and the economic crisis has made the share of superpower EU and US as a total to decrease.

Thus, even if the two powers still have a major importance in the world economy, their share in total is lower. But despite a decline in the share, if we refer to the value, relations between the EU and US are and will remain the engine of the world economy. Moreover, in 2010, is expected a slight rebound in the economy in both countries.

The fact that the US and EU are the largest players in the world makes the relations between the two countries essential for the process of globalization.

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