The TTIP

The Transatlantic Trade and Investment Partnership between the European Union and the United States

Joaquín Roy and Roberto Domínguez
(editors)

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UNIVERSITY OF MIAMI
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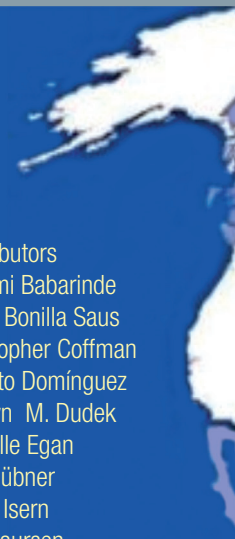
The Transatlantic Trade and Investment Partnership (TTIP) is the agreement currently under consideration between the European Union and the United States. It has the objective of removing trade barriers, tariffs and other restrictions on economic exchange between the two formidable blocs. The plan is nothing new. In effect, it can be traced back to the beginning of the EU and its relations with the US. It has been the subject of discussions and research on both sides of the Atlantic.

Today, the EU-US economic relationship accounts for more than 30 percent of global trade in goods and 40 percent of global trade in services. The two actors are each other's main trading partners for goods and services, and together they control the largest bilateral trade relationship in the world. The overall transatlantic workforce is estimated to be 15 million workers—about half in the US and half in the EU—who owe their jobs directly or indirectly to companies across the Atlantic. The two economies also provide each other with the most important source for foreign direct investment. In fact, the US invests three times more in Europe than in all of Asia combined.

This volume studies the plan of the TTIP in depth and points out the impact on other regions of the world. It also discusses similar alliances made by the two partners.



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Preface

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Antonio de Lecea
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The EU-US economic relations before TTIP

The economic relationship between the EU and the US is the largest in the world. We are the world's largest importers, making up just under a third of the total. In 2010, bilateral trade in goods alone was worth $546 billion.

Our two economies also provide each other with our most important sources of foreign direct investment. Close to a quarter of all EU-US trade consists of transactions within firms based on their investments on either side of the Atlantic. In fact, U.S. investment in Europe is more than three times more than in all of Asia combined.

Trade and investment brings also jobs. The overall transatlantic workforce is estimated at 15 million workers—about half in the US and half in the EU—who owe their jobs directly or indirectly to companies from the other side of the Atlantic.

This impressive degree of integration is the result of a high level of openness on both sides. But there are still some serious obstacles that hinder trade and investment between the two blocks.

Some of these obstacles are classical market access issues. Average tariffs for EU-US trade are indeed low, on average a 4 per cent on imports, but in sectors like motor vehicles or processed foods they are 8 per cent or higher. Moreover, EU firms cannot bid for public contracts funded by a number of states in the US.

And tariffs are not the only barriers to trade. Differences in technical regulations, standards and certifications are estimated to add between 10 and 20 per cent to the current cost to business and consumers. For example (i) The EU and the US have formally different safety requirements in relation to auto parts like lights, door-locks, brakes, steering, seats, seat-belts and electric windows. Yet both systems deliver similarly high levels of protection. (ii) Both sides have engaged in reforming financial markets regulations to improve financial stability in accordance with the G20 agreements. Yet some diverging implementing rules of these agreements distort financial flows or add unnecessary costs to them. (iii) Exports of energy and raw materials from the US to the EU are bound by restrictive rules.

What do we expect after TTIP?

First, TTIP is intended to cut industrial and agricultural tariffs, and to open services and public procurement markets.

Second, we expect that regulators coordinate better when they design regulation for new products or update regulation of existing products. We aim at getting rid of double inspections at our pharmaceutical or medical devices plants. We aim at simplifying the procedures for approving food products and avoid duplication of inspections in areas where our product safety rules are equivalent. And we aim at making sure that we implement agreed international rules on finance in a compatible way.

Third, TTIP provides a laboratory for future global disciplines. Last year's Bali agreement has brought new momentum back to the WTO. But even if we manage to meet all of Doha's goals, gaps in the multilateral rulebook will still remain.

The role of TTIP is therefore to pioneer global rule-making solutions that can later be applied more widely– especially as they will already be operating in 40% of the world economy.

On these issues the truth is that the EU, the US and Latin America share much more than where we differ. TTIP strengthens the position of our shared values on the global stage.

What can Latin America expect from it?

TTIP will bring benefits beyond the EU and the US. A study commissioned by the European Commission estimates that the agreement could increase GDP in our trading partners by almost 100 billion euros.

An overall increase in GDP and in income for households in the EU and the US will result in higher demand, not only for goods and services produced in the EU and the US but also for raw materials, components and other inputs from elsewhere in the world. Given that the EU and the US together make up 46% of the world economy and that our economies are some of the most open, this will have a noticeable impact on demand for exports from other countries around the world.

More convergence between EU and US standards, regulations and conformity assessment systems should make life easier for exporters in the rest of the world. In some cases they may be able to cut down on the number of their production lines. In other they may incur lower administrative costs because the EU and US authorities agree to recognize the results of each other's inspection teams.

We experienced that with the creation of the European Union’s Single Market. A unified set of European rules benefitted not only EU firms but also American and Japanese exporters. The same can happen – though likely to a lesser extent – if EU and US rules are made more compatible.

How much each country will benefit depends on several factors, namely the complementarity of their exports pattern, the degree of economic integration and of regulatory convergence with the EU and the US.

As regards integration, our relationship is already very close in many fields. Crucial ties exist both at the bi-regional level and between the EU and the individual LAC countries. The EU is the second trade partner for the region. EU-LA trade in goods more than doubled over the last decade, reaching €202 billion. The Union remains the leading foreign investor in LAC, accounting for €385 billion (43% of the region's total) of foreign direct investment stock in 2010. EU FDI in Latin America and the Caribbean is higher than that in Russia, China and India combined. And FDI has also started to flow from Latin America and the Caribbean towards Europe reinforcing the trend towards more symmetrical economic exchanges.

The trade and investment agreements that we have concluded between the EU and the sub-regions and countries of Latin America and the Caribbean are a big step towards reaping the still untapped potential. The dialogues and cooperation mechanisms of these agreements can help regulatory authorities to build up close relationships of trust with their counterparts in the United States and the European Union, and conclude regulatory cooperation arrangements that will magnify the benefits from TTIP.

To sum up,

Latin America and the Caribbean have much to gain from an ambitious and ground-breaking Transatlantic Trade and Investment Partnership. How much will depend on how close these partner countries wish to integrate their economies with those of the EU and the US and work with them towards high global rules standards.

Introduction

The European Union and the United States: an Odd or a Happy Couple?

Joaquín Roy

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A short speculative history

Although most observers would agree that comments made in the news become irrelevant in the course of history, one made by Governor Romney during his candidacy for President is still relevant in this compilation. Romney accused his competitor, President Obama, of trying "to convert the United States into a European state". This claim still serves to point out the need for a much deeper understanding of both entities; it also takes for granted the importance of a close alliance between the two in order for them to make considerable development in the future.

However, this alleged link is riddled with confusion and stereotypes. This relationship is considered a normal fact forged by mutual historical legacies. Hence the frequent occurrence of awkward transactions and misunderstandings, dismissed with the expectation that any damage will be corrected by the terms of their special relationship. If conflicts are detected, both parties are said to be condemned to agree. If a lack of knowledge is perceived, it will be modified by accessible means. Mechanisms for an understanding and cooperation are within reach. Therefore, an effective relationship is not utopian. However, there are areas in which much work is needed to strengthen the alliance and correct its shortcomings. There is a need, not only for agreements in economic and political issues, but also for a deeper understanding of the essence of both entities.

The Twentieth Century has been dominated by a series of events, competing ideologies and historical milestones in inter-state relations. Among the most important are two World Wars, the rise and fall of extreme ideologies that left a tragic mark, and a trans-continental relationship that intimately fused the war contestants. This ongoing relationship has been maintained in spite of some politically incongruent views between both continents. However, what seems to be "normal" presents profiles and angles with variable dimensions that require an adjustment in the analysis, even more in the current times, in the fading away of what was called the "American century".

Both parties in this apparent marriage of convenience propelled by their dependency for one another's partnership are different in their essential DNA. They contrast in their structure, but similar in fashion, not exempt from all sorts

of difficulties. In spite of all this, the alleged solid relationship between Europe and the United States is considered exempted of serious discrepancies. Both partners seem to respond to similar values, interests and objectives. However, they have a different personality.

There is a need to distinguish two expressions that are wrongly considered as synonymous. "Europe" responds to a geographical or cultural identification, while the "European Union" is, at the moment, a juridical entity, which enjoys full personality as international subject since the Treaty of Lisbon. Before that, according to the orthodoxy of international law, the "EU" did not exist. Only the European Community, more exactly the European Economic Community (EEC), was able to operate in the world scene through the Commission in the areas assigned to its structure. But the EU could not be a "nation" of cultural or ethnic fashion without the requirement of will to belong, according to the profiles of nationalism forged by lineage and blood of individuals ("nationals"). The EU (and its predecessors) is an entity composed of sovereign States that are bound together by will. They were not forced by conquest, war or political pressure. The EU would then be more similar to a "civic" or "liberal" nation.

At the other side of the pond, an entity with an ambiguous name (the United States of America) has a defined profile and precise international personality, an active subject of international law. This explains why the American mind believes that the United States is actually an idea, based in a sentiment of exceptionality, the most successful "civic" nation in history. But the ambiguity of the label "United States" reveals ambivalence and confusion to speakers of other languages. For example, in Spanish it is a widespread custom to refer to "los Estados Unidos", in plural, taking a verb in plural. However, in recent years, the style books of major newspapers have recommended the use of the singular "Estados Unidos", an apparently plural grammatical subject used with verbs in singular ("Estados Unidos es un gran país"). The firm conviction of the solidity of this political entity is proven by the simple fact that in English, grammatically the country name that is plural), is accompanied systematically by verbs in singular, such as "the United States is a rich country". This peculiarity, according to traditional sources, was not always this way. Before the Civil War, American English said "the United States are very powerful".

Nevertheless, spot-on comments and rigorous studies identify "the United States" as a defined territory, with a federal structure, composed of States (heirs of British colonies that won independence by will in 1776), people that acquire citizenship of "the United States" directly (not as in a confederation as in the EU), with common institutions, elections by universal suffrage, and the trappings of international recognition. In contrast, doubts arise on the personality of "Europe". Its existence is questioned, its geographical limits are labelled as ambiguous (especially in the East), and its shared values and interests are scrutinized. While Americans apparently know who they are, Europeans seem content with knowing who they are not. Europe, at least, is not Africa or Asia, even though some citizens of these two continents may share sentiments for European values.

From the preceding arguments one can conclude, in contrast with the belief that both entities (the United States and the European Union) respond to a different personality, they have similar goals to belong, a "wish to join". One is an "American" (meaning an individual of the United States), juridically and sentimentally, by an individual decision. Even though recently arrived persons may not internally adopt all and each one of the ingredients of the U.S. "faith", they cannot be denied the right to exercise it according to personal convenience, provided it is done within the law. The European Union, composed not by individuals but by States, has also similar foundations born out from a will to join. The citizens of these countries acquire also this condition voluntarily, although in an indirect fashion by the decision taken by their corresponding States of which they are citizens. They cannot, juridically, accede to have the European (more accurately, European Union) citizenship in the same fashion as U.S. citizens received theirs. Citizens of Europe do not need to go through a previous filter of meeting the citizenship requirements, as necessary for any given state. European (read "EU") citizenship is in reality a hybrid condition, best illustrated by the burgundy covers of EU member states issued passports.

But in both cases, American and European, a wish to join makes possible the recommitment to a political entity to which one believes to belong. In Europe this quality is taken for granted by the unstoppable force of history. In the European setting one finds the significant case that in France, in the aftermath of the Revolution, it was the State that made the Nation. In the case of the EU, this entity was formed to give legal sense and political personality to "Europe", a cultural entity, whose destiny and survival were put in question by the quasi suicidal of World War II.

However, the EU plays some roles of a State (via its common policies). While "Europe" then can be considered as a "cultural" nation, that has a common sovereignty shared in diverse degrees, the EU would be the "State", a structure formed by institutions and laws that provide economic consistency to the "nation". In the future, these two lines ("Europe" and the "EU") may merge, as in a standard "Nation-State". In contrast, or as in a later stage, "the United States" enjoys both dimensions: nation and state, an example of classic "nation-state".

For Europe and the EU, the United States is a unitary actor, equipped with sovereign decisions at the federal level; for the United States, the EU is equalized with "Europe". At the same time, "Europe" is for Washington a badly connected series of States with which one has to deal in crucial issues. It may even be convenient to carry out this task individually with some States, avoiding the complicated maze of the EU, or even questioning it in a rather problematic fashion. Let's remember that when Henry Kissinger allegedly asked for "the telephone of Europe", he meant of the number to call the EU. Nonetheless, still today, after the establishment of the position of High Representative of the Common Foreign and Security Policy (CFSP), when sensitive security topics are addressed, Washington prefers to set them in the context of NATO or in a bilateral deal with a given country. Regrettable, "Europe" and the "EU" hardly exist for

that strategic and geopolitical mind of the United States. While this shortcoming in Trans-Atlantic relations is not solved, problems of understanding will remain.[1]

What then should be the priority of any president of the United States? First, Washington should decide what kind of European Union is the best interest for the United States. A general gift list issued by numerous U.S. think-tanks and observers concur that what is urgently needed is an EU (and Europe) complete (an even closer union). It should be "free" of all the old evils that led to intolerance and racism. Finally, the EU/Europe should be not only in peace, domestically, but exerting its influence in its immediate vicinity and later in the rest of the world. For this second stage scenario Europe needs to play a model role along the United States. The U.S. leadership needs to be convinced that a policy of "divide and conquer" should be avoided at all cost. To believe that what is bad for Europe and the EU, in a zero sum game, is good for America is not practical, if not counter productive and suicidal. But Europe has to respond and decide to close the gap, beginning with rewiring the lines of the telephones, set the economic house in order, and project an effective face to the rest of the world.

Issues, disagreements, recommendations

As privileged partners, mutually respecting and trusting each other, Washington and the EU have had and still have disagreements and misgivings not only on economic and environmental details (agricultural subsidies, food processing, banana trade regimes), but also on sensitive fundamental issues. In this terrain, general and concrete dimensions are interlaced. National security and the defense of human rights in the world, arms embargo on China, subsidies for Boeing and Airbus, defense budgets, and procurement contracts for weapons systems, are some of the sources for conflicts. As a consequence of the so-called "war on terror", some European countries became involved in the illegal transfer of detainees and the imprisonment of alleged authors or accomplices of crimes. This has created internal controversies in some affected countries, whose governments have been pressured by the internal opposition for caving in to the expectations and demands of Washington. The two terms of George W. Bush were plagued by such disagreements.

In the case of principles that are considered indisputable in Europe, but that in the US are considered conditioned by state legislation and rules of the Supreme Court, there is a frontal clash on the death penalty. Among the collateral consequences, a major problem is posed by the prohibition of deportation of alleged criminals to the US, running the risk of application of the capital punishment. Another point of contention is the rejection of the United States to recognize the jurisdiction of the International Criminal Court. Washington is afraid that US soldiers could become targets of trials for political reasons.

As a consequence of the restrictions to enter US territory after the 2001 attacks, the US has indicated at times its intention to demand visas for all (or se-

[1] For an expanded bi-regional set of recommendations, see Hamilton 2010.

lected) EU citizens. Although Brussels have indicated an intention for retaliation, the decision has never materialized. Despite the fact that the US and European countries share the common goal to reach an agreement on the Palestine territories, they believe in taking two different approaches. In practice, Europe is more complacent than Washington on the Palestinian actions, while the Americans justify the Israeli actions to the extreme of a systematic veto in the Security Council. While Washington justified the option of a "preventive" attack on Iran under the suspicion of use of nuclear weapons, the Europeans preferred diplomatic negotiation. The war in Iraq marked the height of disagreement between the European governments and Washington (with the exception of the British and assorted EU members). The latest source of confrontation was the discovery of spying systems performed by the United States, with no discrimination of allies and foes.

The general theme of transatlantic relations, topic of an extensive literature for over half a century, is the frequent subject of recommendations offered by single authors and distinguished scholars, commissions, think tanks, ad-hoc meetings, and seminar and conference proceedings. Sometimes, groups are composed exclusively by academic figures, and others by government agents. Although results of a consensus are often inconclusive, the documents are most effective when drafted by a team composed of scholars, retired officials and different observers.[2]

An example of this endeavor of searching for a transatlantic relations literature is still valid in the setting of this volume and it is the subject of reflection. A compilation by an impressive team of think tanks gathered by the Center of Transatlantic Relations of Johns Hopkins University (SAIS) still sheds considerable light to the debate.[3] European and American participants examined the danger that what already called the Transatlantic Partnership was vanishing. However, the legacy of that effort still survives in a world where the borders of the national and the international are blurred.

The reality is that, when there is a disagreement, both actors cannot accomplish in isolation the goals that were set. There is no world-wide coalition that functions satisfactorily. Europe and the US cannot solve problems that go beyond their borders. But in association with other agents, success can be reached. Together, Americans and Europeans need to position their economies, keep a free and open Europe, face conflicts effectively, oppose the proliferation of nuclear weapons, and preserve the fragile planet environment. However, there is a lack of concurrence in the nature of the challenges, the capacity of the institutions, and the tools available. There is a need for a solid cooperation between the United States and Europe, in order to convert the simple relationship into a strategic link.

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[2]As examples published in recent years, see Wahlers, Serfaty, Anderson and Dorman.
[3]See again Hamilton 2010.

In order to accomplish this success, a set of recommendations are made. For example, there should be a commitment of transatlantic solidarity in the areas of justice, freedom and security (the old third "pillar" of the EU). There is an urgent need to reinforce the economic governance, once the old one has disappeared and the new one is in a precarious state due to the weakening of the European economies and the surge of the new economic emergent powers (BRICs).

There is also a need for a partnership for sustainable energy resources and the alternatives. In sum, there is a need for the creation of true a transatlantic market free from legal and tariff obstacles, an aim of the trade interests in the US to operate in Europe. At last, there is a need for a "Europe complete, free and in peace". Together, Europe and the US will be able to face, in the most effective way, the war conflicts that periodically explode, and reinforce efforts to stop the production of weapons of mass destruction. The two great powers with a true capacity for development assistance should work together to better coordinate the effectiveness of humanitarian aid.

Among the conclusions of this discourse, are some warnings worth special attention. Most notably, their disposition for weak relations will produce obstacles for reaching a solid relationship. As a consequence, this will provoke threats from other emerging powers. To avoid the error of other preceding experiments, instead of creating new forums and mechanisms, the existing ones should be reinforced (NATO, for example). In a more concrete way, inter-parliamentary relations should be more institutionalized. Both parties should try to avoid extra-territorial implications with their corresponding legislations that would produce unnecessary conflicts.

In spite of the good will that already exists, attention should be paid to obstacles placed by populism and ideological radicalism that have appeared in Europe and the United States. These new 'actors' will try to counteract what is perceived as disloyal competition. Incomplete information usually propels citizens to elect leaders who have branded themselves as nationalists.

On a deeper level, this report recognizes the rupture of the EU-US relationship would come from two origins, each one more dangerous and worrisome. The first one will be an increase of the dependency of both partners on the energy from abroad; a damage that would create conflict among them for the control or access to the zones of production. The second, linked to the first, derives from the military unbalance between the two partners, and the ideological base for this disequilibrium. While Europe has insisted in a progressive disarmament, the United States still has the most powerfully armed force of the planet. Even when reviewing the military resources of France and the United Kingdom, two European states that still boast independent defense autonomy, neither can be compared to the branches of the United States military.

In view of all that, many analysts have proposed the thesis that in the last decade, the lack of agreement between the United States and Europe did not originate from temporary motivations. On the contrary, they respond to deeper symptoms that reflect innate differences in personality. In synthesis, in a metaphorical fashion, Europeans would come from Venus, while Americans would be the de-

scendents of Mars (Kagan 2003). While Europe would be inclined to build a perpetual peace through negotiation and diplomacy, the United States would see a hobbessian world where only the message of force would ~~be the~~ guarantee ~~for~~ stability and survival. What is still subject to discourse is which of these two attitudes has better possibilities to solve the serious problems the world faces.[4] Consequently, much depends of the necessary cooperation between the two visions.

The offer of this volume

This collection of studies explores the expectations of an ambitious new deal between the United States and the European Union, packaged under the overall title of the Transatlantic Trade and Investment Partnership, to be known in short by the catchy acronym of TTIP. It is still too soon to know if this operation will actually be reduced to a simple "tip" for the impressive economic alliance that has existed between the two giants. The enigmatic question will rest on the potential to form something radically different that would reach the vicinity of a certain degree of "integration", beyond the basic free trade fabric that is customary of the different schemes in which the US has installed its mark. For the time being, is it hard to see what kind of modifications would go beyond a NAFTA profile or the deceased Free Trade Area of the Americas (FTAA). Regardless, what is true is that the path towards a modest "closer union" in an "Atlantic style" will be populated by a combination of free political will and obstacles posed by economic and political realities.

As the chapters of the volume show, some areas are better candidates than others to become stones in the path to agreements. In an opening, **Antonio de Lecea**, reflecting the views of the European Union establishments, sets the tone of the environment in which the TTIP will be developed. Then the papers of the first part show a panorama of general issues. The background of the planned partnership is treated by **Michelle Egan**, asking a central question regarding the specificity of the project: is it really news? **Javier Bonilla Saus** and **Pedro Isern** enter the area of history and philosophy of economic cooperation by labeling the project a case of the supranational order that obliges the West to build relationships with an/the "Other(s)"; this would require that they redefine themselves based on the 'mirror image' that it will receive from it. **George Zestos** and **Christopher Coffman** ask what are the "special angles" of the project and offer data of a real transatlantic economic integration, in which increased trade (economic integration) takes place with or without a trade agreement such as the TTIP. **Joseph A. McKinney** points out a selection of the basic specific challenges presented to the overall project, recommending the complete elimination of tariffs, while settling for less than perfect results in other areas.

[4] As an example of analytical speculation considering different scenarios, see Hamilton 2011.

In the section dedicated to very special issues, **Roberto Domínguez** introduces the realm of an industry that is very close to the daily tasks of the citizens of both continents: the automobile, in which nationality has ceased to exist. **Carolyn M. Dudek** tackles the sensitive area of genetically modified foods, which certainly will affect the negotiations for mutual trade, due to the fact of conflicting views between Europeans and Americans. Finally, **María Lorca**, addresses the relationship between the two powerful entities in the world of currencies, asking for the establishment of an 'Euro Index'.

In the concrete scenario of the Western Hemisphere, **Kurt Hübner** considers the evolution and establishment of the free trade agreement between the EU and Canada that affects the fabric of the Atlantic Economy. **Finn Laursen** deals with the fact that the EU-US pact will certainly have a relationship with other FTAs that have been established or will be established in the Americas. In more concrete terms, **Gustavo Vega** dissects the case of NAFTA, while **Félix Peña s**tudies the implication of the European-US strategy from a point of view well set in the south of the continent. Finally**, Carlos Malamud** analyzes the consequences of the North-Atlantic deal for the development of Mercosur and its peculiar relations with the EU, with special attention given to the long delayed agreement between the two blocs.

The wider world occupies the last part of the volume with a study by **Federico Steinberg** in which he speculates that the trade negotiations between the EU and the US are motivated more by geopolitical than by economic considerations; he then explores why it would be difficult to reach a meaningful agreement. Jointly, the classic "empires" strike back. **Tamas Novak** deals with implications of TTIP for the integration experiments in Central and Eastern Europe, asking how can the TTIP contribute to firmer integration of Central European EU member states into the global economic networks and what will be the implications for the rest of CEE. **Katja Weber** takes a look to Asia, claiming that TTIP will probably have little effect on the region but within a decade or two Southeast Asian countries will experience a hard time competing unless a multilateral trade system is established. Finally, **Olufemi Babarinde** offers an analysis of the implications of the proposed TTIP for Africa, concentrating on EU-Africa and US relationships within the context of existing agreements between the TTIP partners and Africa.

For the celebration of the seminar in which these studies were presented and discussed, we would like to thank the attendance and introductory words given by **Leonidas Bachas (**Dean of the College of Arts and Sciences at the University of Miami), **Joseph Ganitsky (**Director, CIBER, School of Business) and Provost **Thomas LeBlanc**. **Kevin McGurgan (**British Consul General) and **Adolfo Barattolo (**Consul General of Italy) delivered diplomatic remarks. The opening address was offered by **Antonio de Lecea,** as Minister, Principal Advisor, Delegation of the European Union in the United States. **Rebecca Friedman (**Co-Director, EU Center, Florida International University), **Ambler Moss (**professor at the University of Miami), and **Manuel Cienfuegos** (Visiting Scholar from the Universitat Pompeu Fabra, Barcelona) acted as chairs of sessions. Aca-

demic and editing assistance was provided by **Dina Moulioukova**, **Diana Soller, Nilda García**, **Cody Colleran** and **Danielle Peters** (Research Assistants, University of Miami).

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I. Background and Setting

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Is TTIP Really that Different?

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Abstract

The TTIP has been lauded as the most important trade negotiation underway in Europe and United States. With the stagnation of the Doha Round and emergence of Asian regionalism, the US and EU have sought cross-regional bilateral free trade agreements as a means to promote export growth and disseminate new trade and investment rules for global governance. Though TTIP has garnered a lot of attention in terms of expected benefits, and has been much lauded by policymakers and pundits, it is arguably part of a larger global trend towards cross-regional free trade agreements. This paper examines TTIP in the context of US trade policy as the prospects for reaching a comprehensive deal are riddled with difficulties over sensitive sectors, as well as domestic political timetables with Congressional mid-term elections in 2014, and the US Trade Representative undertaking of trade negotiations without securing Trade Promotion Authority (TPA) to secure the ease of Congressional ratification. The paper concludes by considering the accompanying effects of a transatlantic agreement upon third countries.

Introduction

In the past twenty years, the global economy has experienced a major transformation in terms of the proliferation of free trade agreements (FTAs). Although these free trade agreements have led to concerns about the overall impact on the World Trade system, due to their preferential market access commitments between select participants, the number of agreements has steadily risen to more than 300 in 2011 (WTO 2011). While the intrinsic value of such agreements was initially raised in part due to their limited scope and coverage, which included numerous exemptions, low utilization of trade preferences, and problems surrounding rules of origin, over time, these agreements have become more comprehensive in their coverage of agricultural products, service trade sectors and encompassing issues beyond the WTO framework such as competition, intellectual property and investment practices.

The TTIP is considered to potentially be the most important and ambitious free trade negotiation currently underway in the US and EU. The US and EU launched the Transatlantic Trade and Investment Partnership (TTIP) amid much optimism that this would be a driver for jobs and economic growth. On the trade front, this is one of two major initiatives undertaken by the Obama Administration. Like the Trans-Pacific Partnership, which is designed to tap into the dynamism of East Asia and ensure a similar set of high quality rules on trade and investment due to the stagnation of the Doha Round, the Transatlantic Trade and Investment Partnership is viewed as a central element in promoting growth through export promotion with a limited budgetary impact (Solis 2013). On the European side, the EU has attached the utmost importance to trade negotiations with the US, their major trading partner, amid concerns about the strategic shift towards Asia stemming from recent US foreign and trade policy initiatives. In fact, the synergy effects of both TPP and TTIP could be substantial in improving market access and trade facilitation, as the US and EU are concurrently involved in comprehensive trade negotiations with advanced industrial economies.

Much of the analysis of TTIP has generally focused on the intrinsic benefits of such a FTA for the US and EU, analyzing the trade negotiations in relative isolation from the impact on non-members in terms of negative externalities. While media and policy attention so far has focused on the overall welfare benefits, any transatlantic trade agreement needs to be seen in a broader context of trade liberalization efforts. FTAs have emerged as a cornerstone of US trade policy as a means of competitive liberalization (Aggarwal 2010). The active FTA policy of the US and Western Hemisphere in the late 1980s and early 1990s, subsequently emulated by Europe after a moratorium on FTAs, and then taken up as a trade policy instrument by East Asia in the late 1990s, has created a veritable network of preferential trade agreements.

Given the lack of progress in the Doha Round during the 2000s, trade agreements have focused on negotiating modalities in public procurement, foreign direct investment, service liberalization, market access and trade facilitation rules. Yet the prospects for reaching a comprehensive deal are riddled with difficulties over sensitive sectors, as well as domestic political timetables with Congressional mid-term elections in 2014, and the US Trade Representative undertaking of trade negotiations without securing Trade Promotion Authority (TPA) to secure the ease of Congressional ratification. A trade agreement between the United States and Europe has proven elusive in the past, as their different regulatory policies have been the target of on-going trade disputes, resulting in the US and EU being the most prolific initiators of complaints in the WTO (Young Forthcoming). However, with no major trade escalations and the settlement of some prominent disputes, the political impetus to pursue negotiations is now tied to changing geopolitical and economic conditions. The competitive dynamics of China's spearheading of a larger alternative Asian-Pacific trade agreement, the Regional Comprehensive Economic Partnership (RCEP), the need for sustainable growth to exit the euro crisis, and the negotiation of regional trade agreements as alternative mechanisms for producing deeper liberalization and rule-making

leadership has led the US and EU to embrace what some have called "a gold standard" trade agreement as a means of disseminating new trade and investment rules for global governance. Of course launching an agreement is not the same as concluding one. Recent as well as on-going trade agreements have demonstrated the tremendous political effort need to ensure ratification given domestic politics and bipartisan differences on trade issues.

This paper is structured into four sections. Part one provides a short empirical overview of US and EU FTAs to place TTIP in a broader context. Part two focuses briefly on the possible contentious issues in the negotiations. Part three analyzes the domestic trade challenges in US that can impact the progress and ratification of TTIP. Part four briefly considers the implications for neighboring countries in light of the conference volume.

II. The growth and rationale for FTA

In July 2013, the US and EU launched the first round of trade negotiations under TTIP. TTIP is part of a general trend towards preferential trade negotiations among advanced industrialized states. There are scores of FTA that have emerged over the past two decades that were often North-South agreements between a developing and developed nations that were based on asymmetrical bargaining. Today, what have emerged are mega trade agreements (Solis, 2013). These are deep integration initiatives that cover regulatory and non-tariff barriers. A large share of world GDP is covered by these trade groupings: TPP 12 (38%), RCEP (30%) Japan-EU FTA (34%) US-EU FTA (46%). The trade negotiations between the US and EU are part of a fundamental transformation in trade agreements towards addressing non-tariff barriers rather than simply tariffs in goods. Many of these FTAs were often associated with regionalism, aimed at fostering interstate cooperation in trade and finance. States are also developing cross-regional trade initiatives to diversify economic relations, expand exports to new markets and generate pressure for domestic structural reforms. Table 1 provides a listing of US and EU FTA under negotiation or completed.

A brief review of FTAs indicates that coverage has become more comprehensive over time in terms of agricultural products, the inclusion of services trade, and the so-called Singapore issues beyond the WTO framework. While some FTA agreements are driven by commercial considerations, others are shaped by foreign policy objectives. For the US, NAFTA provided the template for subsequent free trade agreements whereas the EU has different kind of trade agreements, ranging from those associated with development and millennium goals based on former colonial ties with the African, Caribbean and Pacific states, to stability and association (SAA) pacts that generate potential membership and accession negotiations which provide technical and financial assistance to meet the European rules and standards for market access in Balkans, to the free trade agreement with EFTA states that provide for single market rules transferred to the neighboring states without the obligations of membership.

While free trade agreements in the Western Hemisphere proceeded apace, as the US followed by Mexico and Chile, sought to foster competitive liberalization through preferential market access commitments, geopolitical interests are also important to explain US engagement in negotiating FTA in Asia to prevent the dominance of China and to promote their own rules and legalization of practices through exercising market power (Damro 2011). Under this rationale, states seek to maximize economic gains and reduce negative externalities.

US FTA	Type CRA/RTA	EU FTA
US Bahrain	CRTA	EU –South Africa CRTA
US Australia	CRTA	EU-Korea CRTA
US Chile	CRTA	EU-Chile CRTA
US-Mexico-Canada (NAFTA)	RTA	EU-Mexico CRTA
US-Columbia	CRTA	EU-Canada (CETA) CRTA
US-Israel	CRTA	EU-Singapore CRTA
US-Jordan	CRTA	
US-Korea	CRTA	EU-Turkey (customs union) RTA
US-Panama	CRTA	EEA (EU-EFTA) RTA
US-Morocco	CRTA	EU-Malaysia In progress
US Peru	CRTA	EU-Thailand In progress
US-CAFTA-DR	CRTA	EU-India In progress
US-EU (TTIP)	CRTA In progress	TTIP CRTA In progress
TPP	CRTA In progress	EU-Japan CRTA In progress

- CRTA Cross-regional trade agreement[1]
- RTA Regional trade agreement

In considering explanations for the rationale for FTA, the competitive incentives for fostering trade liberalization often point to differing explanations, including mutual economic benefits, promoting domestic structural reforms or addressing security vulnerabilities (Mattli 1999). Since any possible cooperative outcome may have distributional implications and generate negative externalities including the loss of market access or investment diversion, states can seek

[1] For key work on cross-regionalism, see S. Katada and M Solis (2008)

to join an on-going negotiation as in the case of Japan joining the TPP or promote a counter-effort as in the case of the EU which embarked on a trade agreement with Mexico due to concerns about the effects of trade diversion under NAFTA. In other cases, the thrust of their efforts has been to emulate trade strategies envisaged or underway in the US, so that the EU has followed US efforts in opening negotiations with Korea, Singapore, Peru and Columbia. Here Baldwin's domino theory is applicable as trade and investment diversion from an initial FTA can foster a chain reaction of subsequent agreements to avoid competitive market losses (Baldwin 1993). This is relevant too for the growth of South-South initiatives between Latin America and Asia as regional integration efforts in Europe and Western Hemisphere pushed Asia to become more aggressive in regional trade agreements based on a distinctive market driven regional production and network model.

Not all regional trade agreements are identical. Among more than two hundred preferential trade agreements in force in 2012, only eight-nine have coverage of services. The US has of course used the NAFTA template in its negotiations which covers services, intellectual property and investment-well beyond the scope of WTO commitments. Of course negotiating and concluding free trade initiatives does not mean that they will achieve all their goals. For many, NAFTA is still a work-in-progress (Pastor 2013). NAFTA shifted to security considerations in the wake of 9/11 through the Security and Prosperity Partnership. Concern about immigration and drug-related violence in Mexico has focused on border controls not to facilitate the movement of goods but to prevent the movement of people. None of the countries invested in transportation and infrastructure investment to promote trade facilitation. Neither has there been much to show for a decade of efforts at regulatory cooperation (Egan Forthcoming). Cabotage rules still restrict foreign trucks, planes, trains, ships from carrying shipments between cities within a foreign country, creating additional business costs. Coupled with duplicative regulations, rules of origin requirements and differences in standards, the three economies have been unable to successfully tackle a number of impediments that will be on the agenda for TTIP. In fact, the three states have reverted to dual bilateralism rather than working together to promote and deepen North American integration (Pastor 2013). TTIP might benefit from looking at the experience of NAFTA and the expectations surrounding TPP where the inclusion of cross-cutting issues and the treatment of sensitive sectors and market access commitments provide a strong indication of how the US trade interests will play out in TTIP. TTIP is therefore not a departure from Obama's longstanding trade agenda. The announcement comes on the heels of the North and Central American Free Trade Agreements (NAFTA and CAFTA, respectively) with Mexico and the small Central American countries, as well as continuing negotiations over a Trans-Pacific Partnership (TPP).

TTIP has garnered a lot of press attention since its launch in July 2013. Most of the CGE modeling of tariff and non-tariff reductions highlights significant welfare benefits. Most of the national income gains are attributed to lowering of NTM in good rather than tariffs which are generally low (See Table 2).

ECORYS estimated that reducing NTM by 50% would increase GDP by 0.7% in EU and 0.5% in US. However fostering regulatory cooperation and mutual equivalence, promoting the acceptance of geographic indicators, and opening up public procurement on a reciprocal basis will not be easy given different views on both sides. The US and EU do differ on the scope of the mandate so the early negotiations have focused on stock-taking exercises along with meetings with stakeholders (Interviews)[2]. So far three rounds have conducted, although the two sides envision six or seven meetings a year, in order to generate progress on a host of issues.

Table 2. Estimated EU and US non-tariff barriers, by sector

Index of NTM restrictiveness (scale 0-100)		
	into US	**into EU**
Chemicals	46	53
Pharmaceuticals	24	45
Cosmetics	48	52
Biotechnology	46	50
Machinery	51	37
Electronics	31	20
Office & ICT equipment	38	32
Medical & measuring equipment	49	45
Automotive industry	35	32
Aerospace	56	55
Food & beverages	46	34
Iron, steel and metal products	36	24
Textiles clothing & footwear	36	49
Wood & paper	30	47
Travel	36	18
Transport	40	26
Financial services	30	21
ICT services	20	19
Insurance	30	39
Communication	45	27
Construction	45	37
Other business services	42	20
Personal & cultural services	36	35

Source: ECORYS (2009).

[2] The European Union has never made, and does not want to make, any commitments on audiovisual services, and the U.S. does not seem to have prioritized this in TTIP, although it has pressed the issue in TISA see Inside Trade, March 28, 2013

Delivering results will be difficult as both sides have had extensive experience dealing with their respective regulatory differences in earlier discussions under the Transatlantic Agenda, New Transatlantic Agenda and Transatlantic Economic Council. Though these initiatives have achieved some important recent agreements on container security, aviation safety and customs cooperation the US and EU have sought to tackle regulatory differences that impede trade continuously over the past two decades with varied success. This has included close cooperation on global mergers, mutual recognition agreements in various sectors, and an early warning mechanism in the early legislative or regulatory process to avoid subsequent trade and investment problems.[3] This section will examine several areas expected to be contentious in the talks, although it is not a full consideration of all issues, but rather an indication of contentious issues that will take sustained political intervention to reach some form of compromise or agreement. The choice of liberalization in terms of negotiating modalities is between a positive and negative list approach. The US has followed a negative list approach with restrictions explicitly mentioned, a model that has been followed across the Americas, whereas the EU has followed a positive list approach stipulating their market access commitments which follows GATS model.

Tariffs

Even though tariffs are low on both sides of the Atlantic, amounting to less than 3% on average, there remain specific sectors such as textiles and processed foods with higher rates. The US Chamber has been one of the strongest advocates for addressing tariffs in the TTIP negotiations. If anything, recent agreements illustrate that even marginal changes in tariffs can yield positive gains. In the recently concluded CETA agreement, Canadian concessions on dairy access, and full access to European markets for Canadian grains and most seafood will be improved due to the reduction of tariff lines. In the current negotiations between the EU and Japan, the EU is more concerned about NTM whereas Japan is focusing on tariff negotiations. Actual bargaining in TTIP will likely begin with tariffs since this may generate momentum for the more intractable issues.

Procurement

The EU is pushing for expansive rules on public procurement to increase European access to central and subnational procurement contracts. This will prove difficult as prior US efforts to get specific states to sign onto the plurilateral Government Procurement Agreement (GPA) have failed (Inside US Trade 2012). The Commission continues to push for changes in Buy America provisions which have expanded significantly across states in recent years. It has also lobbied against discriminatory US policies that privilege small and medium businesses

[3] There are very few assessments of how prior transatlantic efforts work in practice. See Nicolaidis and Egan, 1998, Steffenson, 1995, Egan, 2005, Devuyst, 2005.

and use other qualitative criteria for procurement awards (Inside US Trade 2013). It will count on its recent success in persuading Canada to open up its bidding contracts as a model for US.

Regulatory Issues

This will likely be on the most difficult set of issues for negotiators. Already there have been some comments about issues of regulatory transparency and the lack of notice and comment procedures in Europe. While the US and EU have focused on how to achieve regulatory equivalency in medical devices, cosmetics, pharmaceuticals, chemicals, pesticides, information and communication technology, and automobiles in their initial discussions, these negotiations are also likely to be tied to cross-cutting issues. It is possible that both sides will discuss a range of options from mutual equivalence to common data collection and common regulatory principles in order to reduce costs, ease market barriers and promote best practices. However, none of this is new, as there has been considerable discussion on a range of issues among regulatory agencies such as OIRA, USDA, and FAA in past so there needs to be further consideration of how to revamp such efforts and achieve some tangible outcomes. This will be aided in the US by giving OIRA a more prominent coordinating role, placing more consideration on their respective approaches to regulatory impact assessment and building upon the recent Executive Order 13609 (2012) that aims to promote international regulatory cooperation.

III. Domestic Trade Politics

Domestic politics will influence American trade policy objectives in TTIP. Though the setting in which TTIP is taking place is one of optimism, trade agreements have become increasingly politicized in US. This will be magnified by the ensuing partisan politics that shapes the debates over the scope of the agreement and the willingness to support trade promotion authority. Congress delegates trade authority and agrees to a straight up or down vote with no amendments as part of the statutory agreement known as fast track authority which allows the President to negotiate reciprocal trade agreements. While Congressional authorization was continuous in the 1970s and 1980s, this has changed as authorization has not been given since 2002 when it was used to conclude pacts with Korea, Panama and Columbia before expiring in 2007. Both Democrats and Republicans have voiced opposition to providing trade promotion authority based on different views about issues ranging from transparency of negotiations to industry specific pressures on labor and environmental standards to generic drugs and patents (see US Senate Finance Committee Hearing June 6, 2013; US House Ways and Means, July 18, 2013).

In the United States, votes on trade agreements have been narrowly adopted in recent years. The negotiation of NAFTA was a focal point in mobilizing opposition against trade agreements due to significant opposition concerning

the potential impact on jobs, and the effect of lower environmental and labor standards. While side agreements on labor and environment were attached to the deal, Clinton defied parts of his political base to sign an agreement with more Republican than Democratic votes. Subsequent trade agreements have incorporated a bipartisan compromise known as the May 10 2007 Agreement in which international labor standards (ILO) are to be directly enforced to avoid labor violations between the two parties and include specific environmental obligations. Hence, subsequent trade agreements such as those with Peru and Columbia have included labor and environmental issues in the main text (Bolle 2013). The American FTA agenda has also expanded to focus on intellectual property issues, investment protection, SOE and other issues of interest to businesses worried about trading practices in other economies. Such concerns resonate with the Europeans who have raised issues about state discriminatory practices and subsidization of state owned industries, increased transparency about ownership structures and investment protection in third countries (Inside US Trade, July 12, 2013; Interview). Part of the proposed TTIP is about designing options for these difficult mutual problems such as regulatory barriers, investment and intellectual property for specific high end goods and services which are not adequately addressed by the negotiating dynamics of the current trade round. For the US, TPP and TTIP represent an opportunity for the Obama Administration to frame trade agreements as part of their overall export strategy for growth and jobs.

Getting FTA passed has been difficult for the Obama Administration. The US is promoting them as a means of getting market access commitments in services by providing an alternative platform for expanding US trade policy goals. While the U.S. government has expanded the scope of its trade agreements to be responsive to demands of diverse constituencies on left and right, businesses on both sides of the Atlantic have mobilized to present a unified front in sectors such as chemicals and auto manufacturers with joint proposals for TTIP. Such a concerted bilateral strategy is unusual. However, policy makers also have to contend with public support for such trade agreements especially in a recessionary climate. While there has been a notable decline in support for a trade agreement with Japan, Korea and China, from 2008 to 2010 according to polls conducted by Chicago Council on Global Affairs (date), there remains public support for increasing trade between the US and EU (Stokes 2011). While strong majorities in Spain (90%), Germany (90%) and Great Britain (84%) support the benefits of trade, the figure is lower in the US (66%). Contrary to the view that protectionism is increasing as a consequence of the continued recession, 58 percent of Americans say they support increased trade with the EU (Reuters 2013). While inevitable frictions will emerge during negotiations, the Obama Administration will have to make the case on several fronts to garner support for an ambitious trade agenda. Among the most critical issue for the Obama Administration is securing the groundwork for Congressional approval of its current major trade initiatives. Part of the goal will be to work with lawmakers, many of who have never voted for such trade authorization, and to deal with many non-governmental organizations and labor unions have pushed hard against fast track

without specific guarantees (Inside US Trade). However, House Republicans have opposed an already lagging effort by the Obama Administration to get trade promotion authority by opposing any links with Trade Adjustment Assistance program (TAA), which they believe should expire and not be renewed (Inside US Trade 2013).

However the appointment of retiring Senator Baucus, a strong advocate of TPA, to Beijing raises concerns about whether an agreement on trade promotion can in fact be reached. While there has been considerable effort within the House Ways and Means and Senate Finance Committee to push for a bipartisan agreement on trade promotion, a number of members have tied any agreement to the issue of currency manipulation. While Obama needs support for his trade initiatives, he has to deal not only with his own party but also generate some cross partisan support allies against the backdrop of the upcoming electoral calendar. Senator Portman, a former USTR Representative has raised concerns over the Administration not seeking trade promotion approval much earlier as it impacts the US negotiating leverage and provides less assurance to partners that Congress will approve the deal so they may not put their "best offer on table" (Inside US Trade 2013; Financial Times).

Trade officials have to consider the interest of Congressional members who have been very specific about the inclusion of SPS issue in any TTIP agreement. Several Democratic members have pushed for changes to open up the EU poultry market, and have flagged the need to address issues raised by domestic beef and pork producers over European bans on specific chemicals and hormones (Inside US Trade 2013). TTIP will need an agricultural component to satisfy Senators from both parties. Similarly, USTR has told the House Ways and Means Committee that it will not meet European demands on maritime liberalization protected by the Jones Act following past administration practice to exclude this sector from any trade agreement. USTR has assured members that financial services will constitute a separate deal given the complexities of implementing the Dodd Frank agreement. Clearly there has been push back from the SEC and Treasury who have pressed for financial services to be excluded from TTIP negotiations and have found support on the Hill. The United States has indicated in other trade agreements that it will propose equal treatment for electronic goods and services, freedom of cross-border data transfers, and freedom from regulations requiring companies to locate data servers in any particular location so Europe can expect a similar message in TTIP (Godsoe 2014: 4). Europe is much more concerned in the wake of NSA scandal in ensuring adequate protection of electronic data and privacy issues, but the issue of cross-border data flows has strong support from US industry who want to move beyond the safe harbor agreement. It is important to emphasize that federalism matters. Even within the US there are substantive concerns about the impact of any commitments on the ability of state and local levels to set differing health and safety standards in a number of areas (TACD Letter March 2013). Foreign trade agreements bind states under the supremacy clause and create legal obligations which US must fulfill regardless of its internal politics (Weiler 1994:114).

Currently there is no scheduled target date for completion in spite of the reference to concluding negotiations on "one tank of gas." Despite recent assurances from the White House that the Administration is ready to push a trade bill, partisan politics and vested interests continue to play a major role in shaping trade policy in terms of the scope of mandate and the subsequent accommodations needed to smooth the ratification process (Inside US Trade 2014). As the TTIP negotiations are still in early stages, important questions about the level of flexibility, the exclusion of specific sectors, the impact of major trade partners and their respective existing agreements with the EU and US will be important factors in the coming months.

IV. Conclusion: Third Country Impacts

A lot is at stake with the initiation of this major trade agreement for both sides. With the economic crisis still impacting European growth, the emergence of China in the global economy, and the limited progress in the multilateral round, the time seemed ripe for a new trade initiative on both sides of the Atlantic. TTIP is expected to achieve several important goals. One goal is to generate high standards for trade and investment rules as a means of upgrading efforts that have not been realizable within the current multilateral round. In doing so, the second goal is to disseminate these rules and create a platform to push other states to engage in domestic structural reforms to meet new trade commitments. And the third is how to engage China on trade and investment rules in a productive manner so that the goal is not one of containment which is increasingly the view emerging from Beijing (Defraigne 2013). Trade agreements that marginalize China make no sense given global supply chains (Solis 2013). While China has accelerated its own trade initiatives, there should be more engagement and strategic thinking to avoid the securitization of major trade negotiations. Instead, they should provide greater incentives to push compliance with product safety standards, and tackling intellectual property violations and anti-dumping measures to meet WTO commitments (Hsueh 2011; Steinfield 2003).

The TTIP will involve incredibly complex negotiations covering technical barriers to trade, agricultural tariffs, investment rules and protection, government procurement, and regulatory cooperation. Even if an agreement is reached, important questions remain in terms of the prospects for ratification: Can the US government garner sufficient support to gain trade promotion authority in an increasingly bipartisan environment? What impact will the European Parliament exercise under the new rules of the Lisbon Treaty in light of increased concerns about data privacy and the surveillance issue that has emerged in recent months[4]? Undoubtedly, the TTIP is a central component in trade liberalization

[4] TFEU Article 207 and 218 provides for enhanced role of European Parliament in international trade agreements under ordinary legislative procedure. This underscores the increased role of Parliament in being informed throughout the negotiations, providing its

for the Atlantic economies. However, domestic politics can affect the negotiating objectives and will impact the prospects of bringing any agreement to a successful conclusion. The history of recent trade talks have proven to be what Obama has referred to as a "hard slog." With more than twenty rounds and three years of negotiation for the TPP, and four years of negotiations and nine formal rounds for the CETA agreement, the final stage requires concerted political leadership to bring to a conclusion.

Even then, the issues of ratification and implementation can further impact any negotiated trade agreement. While the KORUS FTA was signed in 2007 it finally came into force in 2012 (Schott 2011). All too often the focus is on the negotiations rather than the subsequent implementation efforts which often results in continuous adjustment and incremental changes to take effect. Changes in the tariff schedule and in regulatory policies and procedures in the US-Korea agreement were aimed at addressing domestic political opposition by including safeguard protections against temporary import surges in the auto sector. While tariffs are marginal in this amended agreement, the mutual recognition of standards or equivalence of regulations will be more significant in the long run in addressing barriers to trade. Under the recent CETA, there are provisions that allow for the adjustment of the rules of origin given the prospect of a US-EU FTA being signed which will impact the integrated automotive industry in North America. In addition, services in all sectors are granted market access and non-discriminatory treatment subject to specific exceptions listed in the CETA, which would be amended if the US-EU FTA gives better treatment in services then the CETA agreement would be amended under MFN treatment.

In closing, two other important challenges are important to consider for third countries. First, some analysts have noted the trade diversion efforts of TTIP. Mexico and Canada fear significant losses from the TTIP agreement. The average annual growth has been 2.5 percent in Canada, 4.4 percent in Mexico, and 6.3 percent in Turkey, and all three have focused on regulatory alignment with their neighbor, as part of the accession negotiations and customs union in Turkey, and regulatory initiatives and border security measures through NAFTA. A study by the Bertelsmann Founded concluded that a comprehensive trade agreement could mean imports from the United States to Mexico may decline by as much as 16 percent while exports to the United States could decrease by the same figure for Mexico. For Canada, both imports to and exports from the United States are anticipated to decline by 9.33 percent, meaning that Canada's overall trade relationship with the US would change significantly. For Turkey, this would mean an estimated decline of 2.5 per cent due to trade diversion.

For NAFTA members, Canada and Mexico, the transatlantic trade agreement has important implications on their trading relations with both Europe and US. Both Canada and Mexico have been closely following the TTIP negotiations given their integrated supply chains with the US. Over the past seven years,

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views on the negotiating mandate before adopted by Council, and providing its consent on any subsequent agreement.

Mexican manufacturing exports rose from about 11 percent of the U.S. import market to an all-time high of 14.4 percent—elbowing out its competitors Japan and Canada, and in recent years gaining market share at the expense of China which had been able to undercut Mexico's export share to US after joining the WTO in 2001 (Kamil and Zook 2013). Mexico accounts for a fifth of the total U.S. imports of autos and auto parts, right behind Canada, so any agreement in TTIP on rules of origin, tariffs, and regulatory issues covering auto sector will impact US neighbors directly. Both have benefited from locational advantage, trade openness, and meeting international standards in the global supply chain in specific industries. Canada, recently signed a FTA with EU, made significant concessions on geographical indicators, causing concerns among US dairy producers who wanted much more concessions from Canada in TPP as dairy and poultry were particularly sensitive sectors for Canada in NAFTA negotiations. The announcement of trade negotiations between the US and EU provided a reality check for Canada as some of the agreements concluded over the past decade have taken an inordinately long time to reach resolution and others have no resolution in sight. TTIP will also address similar issues in agricultural sector such as import duties, domestic support, and export subsidies. However the real issues for Canada, US, and EU are not the few sheltered sectors, procurement preferences, or antidumping but the type of market access problems they faced decades earlier accessing Japanese markets based on administrative guidance and discriminatory distribution systems; anti-competitive keiretsu networks; exclusionary business practices; and discriminatory pricing. Growth will require a more aggressive posture in pushing WTO plus commitments, rules on state trading, competition, intellectual property and dispute resolution (Hart 2013).

Second, there are some parallels with TPP in terms of overall trade and market access objectives but there are also some important distinctions. TPP has an open access clause which has allowed Japan, Canada and Mexico to join ongoing negotiations. The inclusion of major trade partners has increased the attraction of TPP for the US. According to Solis, TPP is part of a larger strategy of diplomatic engagement in the Asia Pacific region that the US Administration has pursued (Solis 2013). By contrast, the initial discussions in TTIP have clearly limited the prospect of additional members joining the negotiations. Despite pressure from Turkey which is impacted by any trade agreement negotiated by the European Union, the US has reiterated that coordination with specific partners affected by the agreement is necessary but does not envisage the need to expand membership. As Turkey is part of a customs union with the EU, it has expressed concerns that it would be impacted by any external tariff level that the EU negotiates with the United States (Inside US Trade, August 2, 2013, Egan, Forthcoming). The lack of reciprocal access to markets that negotiate a FTA with EU has led Turkey to push for FTAs with Canada, Japan and the United States. After a stalling of accession negotiations with the EU –along with criticism of the crackdown of protesters in Ankara – Turkey has continued to promote EU inspired reforms in the judicial domain as well as customs rules and procedures (Mazraff 2012). The resumption of EU accession negotiations in November

along with creation of a High Level Working Group chaired by USTR Mike Froman and Turkish Minister of Economy Zafer Caglayan as TTIP moves forward should not be discounted in trying to deal with recent inconsistencies in Turkish foreign policy. Both the US and EU seek continued strategic economic engagement as they remain the most important trade and investment partners for Turkey (Pierini 2013).

The negotiations of TTIP and TPP come at an opportune time for European and American neighbors. There are increasing calls for NAFTA 2.0 as the quintessential free trade agreement has reached its twentieth anniversary. As Villereal and Fergusson note, there are questions about the continued benefits of NAFTA given the surge of FTA that have been negotiated with other countries that result in the same preferences being given as that of Canada and Mexico under NAFTA (Villereal and Fergusson 2013: 21). For some, the agreement to eliminate tariffs and other trade barriers among the United States, Canada and Mexico has delivered significant benefits in terms of trade relations, and the promotion of economic reforms and trade liberalization in Mexico which had previously been one of the most closed economies (McClarty 2013; Hufbauer 2013). For others, it provides an opportunity to address some of the shortcomings of NAFTA by addressing border infrastructure, regulatory cooperation, labor mobility and improving competitiveness through deepening integration. An indirect result of TPP and TTIP is the impact on NAFTA. The US wants to maintain high environmental and labor standards but also use the opportunity to upgrade intellectual property and copyright provisions. There will be at some point need to be some assessment of the impact of TTIP on NAFTA, the legal implications of two parallel agreements, and how they will mesh with one another.

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TTIP and CETA. Remaking of the *Atlantic Economy*?

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Abstract

Both, the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU as well as the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US are interpreted as attempts to rebuild the Atlantic Economy. Despite the rise of emerging Asia and the vision of a dominant Pacific Economy the economic motor of the US and Europe still is a crucial element of the global economy. Political concerns aside, TTIP will revive the Atlantic Economy but the project may come with a huge price as it has far-reaching implications for the direction of trade and foreign direct investment. The agreement on CETA will help Canada to successfully navigate in the changed landscape of bilateral agreements.

Introduction

CETA is under way, and TTIP may swiftly follow. However, latter only will move along if President Obama is getting 'fast track authority' that allows him to move a trade and investment partnership agreement with the EU beyond the domestic strives between Democrats and Republicans about protectionism and openness. This will be a difficult undertaking, as his own party is divided and overall not supportive in regards to a further liberalization of the US-economy. Ongoing Trans-Pacific Partnership negotiations with eleven Pacific-economies may run into the problem that a significant number of Democrats and Republicans want to include measures against currency manipulation, and more so express concerns about a weakening of US standards and regulations. At this point in time, the Democratic leader of the Senate, Harry Reid, turned Obama's demand for fast track authority down, and it will be quite an uphill battle for the US-administration to get sufficient support from both parties to move along with its trade initiatives. CETA, on contrast, seems to be a done deal, even though we have not yet seen the final text with all its fine print. Also, we should not forget that it still needs the approval of Canadian provinces and on the European side the approval of the European Parliament. After the May elections the Parliament will look differently, and so will the Commission. I assume that such a change in political composition will not derail CETA but may increase the attention to-

wards TTIP, not least because Canada – for maybe wrong reasons today – unlike the US enjoys sympathies on this side of the Atlantic. The political fallout of the NSA affair will trouble TTIP negotiations. One indication of potential political trouble already materialized. Leaked details about the planned state-investor mechanism fed into already existing concerns about a dramatic shift in the balance between domestic sovereignty and interests of outsiders. The pressure was high enough to convince EU Trade Commissioner Karel de Gucht to adjourn this part of the negotiations for three months and subsequently to promise an agreement that would safeguard national sovereignty. In other words, the political trade agreement offensive is meeting strong political opposition on both sides of the Atlantic. Still, for the sake of the argument I will neglect all this political dimensions and look from a political economy perspective on both those negotiations/agreements.

The underlying proposition of my paper argues that CETA is a model for coming bilateral and regional trade and investment agreements, and thus also for TTIP. Interested parties of CETA claim that it is the 'first 21st century agreement', and even though one should not follow easily such propaganda-like labels, there is more then a kernel truth in this claim. CETA is path-breaking as it includes areas and domains that so far have been either left out or not touched with the same level of determination as it is done in CETA. Such an evaluation implies that TTIP can't deliver less then CETA. Its three main ingredients explain why CETA is a truly new beast of agreement. First, this agreement opens up in rather encompassing ways public procurement markets. Second, it moves rather wide into the realms of private property rights and national regulation regimes. Third, it includes sub-sectors of the agricultural industry. Fourth, and arguably most critical, CETA provides the base for a partnership where both side are in deep but varying degree integrated into global and sub-global value chains. TTIP as well as CETA is an attempt to reground the *Atlantic Economy* in order to make it fit for the coming *Pacific Order*. In this paper I will discuss the potential changes of both projects for the EU and its economic core.

The Atlantic Economy

The *Atlantic Economy* has a centuries-long history (O'Rourke, Williamson 1999; Acemoglu, Johnson, Robinson 2005), and was instrumental not only for large flows in goods and capital but also in developing capitalist institutions that turned out to be growth-supporting. One can argue with convincing empirical evidence that the *second wave of globalization* that started some time after World War II under the auspices of a regime of 'embedded liberalism' (Ruggie) was in its core a revival of economic relations and exchanges between the US and Western Europe, and thus in its core a revival of the *Atlantic Economy*. This wave of globalization came with three distinct sub-waves. During the period 1950 to the mid-1970s cross-border trade with manufactured good and related services dominated. At the end of the 1970s foreign direct investments flows started to become prominent; and eventually since the 1980s we saw the rise of financial

flows (Altvater, Huebner, Stanger 1981). Over the long period 1950 to 2011 the annual growth rate of global exports was always above the annual average growth rate of global GDP. The two exemptions for this 'rule' only were the Great Crisis of 1973/74 and the Great Recession of 2008 where export volumes shrank dramatically, and global trade experienced huge reductions. Yet, global trade recovered in both cases soon, not least due to the support of adequate institutional settings that avoided too strong protectionist policies by the main global players.

All those processes constituted a *thick integration* of the Atlantic Economy that made it to the center of the global economy for most of the second half of the 20th century. However, in the last ten or fifteen years or so the situation began to change. In particular the rise of emerging Asia began shaping the global political economy, and observers seem to agree that until 2025 or so the *Pacific Economy* will be the core of the global economy. Already the Eurozone crises in the aftermath of the Great Recession from 2008 seemed to indicate the decline of Europe. Obvious demographic trends in core economies of the EU only confirm such doom saying. There is no doubt that the path of recovery for EU-economies is stony and will need quite some time.

Still, I argue that such an analytical view is misrepresenting the actual situation. Following Hamilton/Quinlan (2013) we can differentiate between three regional engines of growth, namely North America US and Canada), Europe (EU-27) and Asia (including India, China, Japan). The data presented in table 1 indicate that the Asian bloc has become a global economic power, and additionally has the advantage of a huge (and still rising) population.

Table 1 Shares in World Total, 2011

	North America	Europe	Asia
GDP (PPP)	20.9	22.0	35.9
Population	5.0	8.6	56.9
Private Consumption	29.0	27.4	25.6
Exports	10.9	36.0	32.2
Imports	15.0	35.8	30.1

Source: Hamilton/Quinlan, 2013

The Atlantic Economy (EU and US plus Canada) represents 43 % of global GDP (in PPP) and roughly 50 % of global exports in merchandise and services. Even though Europe is in deep economic troubles it needs to be reminded that it is still a powerful economic bloc in its own. The economic role of Europe in the global economy has shrunk and will continue to shrink but this relative decline should not be confounded with an absolute decline. This holds even more so for the relevance of the Atlantic Economy. Together the EU and the US plus

Canada form a powerful economic and political space. Both economic spaces have a long history of political and economic ties, and they share the basic structures of democratic political regimes and market capitalism. Since the end of WW II and until today the US is the most important destination for EU exports of goods; the US –share made up 17% of all exports from the EU-27 in 2011 (Eurostat 2013). In 2011, the value of overall transatlantic trade in goods and services was $ 636 billion. In contrast, Canada is a relatively smaller player as a destination of EU-exports. Only about 1.6% of all EU-27 exports are going to Canada. In both cases the EU has a long-standing surplus in its trade balance.

The Atlantic Economy differs substantially from other economic spaces: More important then trade of goods and services is in this case the mutual stock in foreign direct investment (fdi). In 2011 the US and the EU accounted for 57% of the global inward stock of fdi and even for 71 % of the outward stock of fdi. Both political-economic spaces have thick production networks of their own which are also intertwined. US foreign direct investment in the EU ($ 1.95 trillion) in 2010 was more then twice US foreign direct investment in any other economy or region in the global economy. In reverse, EU foreign direct investment in the US ($1,5 trillion in 2010) was quadruple the amount the US received from any other economy. A mutual fdi-stock of $ 3.5 trillion is not only the largest in the global economy but also a powerful economic fact. FDI also plays a prominent role in Canada-EU economic relations. In 2011, EU fdi in Canada had an overall value of Euro 22.6 bn; Canadian hold a fdi stock in the EU of overall Euro 137.6 bn (EU Commission 2014).

Those figures indicate vivid and strong production networks that are at least in numerical respect unique in the global economy. Arguably the thick fdi-relations were critical already in CETA negotiations and also will have a determining influence on TTIP. Safeguarding stable investment relations that do not discriminate between domestic and foreign economic actors becomes a key element of bilateral or regional trade and investment negotiations (Milner 2014). To some degree already CETA takes up this notion. TTIP will have to go further in order to meet the relatively high standards of existing EU-US exchanges.

CETA as Forerunner Agreement

Despite the successful mini package agreement of Bali from end of 2013 it seems only fair to state that the 'Doha Round' still is in stalling mode. Whether WTO will ever become relevant again needs to be seen. One response to the sagging global negotiations has been the launch of parallel negotiations on '*super regional agreements"* as well as on bilateral agreements. Even though those initiatives reflect the troubled state of global trade negotiations its main driving force is the radical change in the production-trade chain that has been generated by the processes of globalization and regional integration and resulted in global-regional value and production chains. Modern international agreements need to respond to these developments that established inter-firm governance structures between various economic spaces (Baldwin 2014). Most prominent recent initiatives are

the Trans-Pacific Partnership (TTP) negotiations and the Regional Comprehensive Economic Partnership Agreement (ASEAN +6) that would frame the emerging Pacific Economy. At the same time efforts were brought under way to revive the *Atlantic Economy*. In this respect CETA can be seen as the forerunner agreement from the side of the EU that aims to lift the Atlantic Economy to a new institutional plateau. In terms of economic relevance Canada is not the highest ranked economy for the EU. However, due to its membership in NAFTA Canada has been seen as an entrance door for the EU, and also as a test field for the new trade policy approach of the EU. CETA is the first agreement with a G 7 economy, and thus can be interpreted as a trial run for the EU (Huebner 2011). It is no surprise, then, that the launch of TTIP happened even before CETA negotiations were finalized. As a matter of fact, CETA was the catalyst for TTIP.

CETA as well as TTIP will deal with the reduction and even abolition of tariffs. However, in both cases average tariffs are already relatively low (even though the variance across sectors and products is not small). Thus, more important then the reduction of tariffs is dealing with non-tariff barriers, which exist not least due to strong differences in regulatory norms and practices. Non-tariff barriers increase trade costs and thus lead to sub-optimal trade flows. In a nutshell, CETA will bring – as far as we know by today – some substantial reductions of existing tariff lines and – more important – significant changes in regulatory practices as well as the opening of new markets [1].

- *Tariffs*. 98 % of all EU tariff lines will be set a 0% with the start of CETA. After seven years this share increases to 99 % of all EU tariff lines. In case of industrial goods the share will be 99.3% at entry point and after seven years 100%. Canada will set its tariff line to 0% for 98.4 % of all tariffs. For non-agricultural goods 99,6% will set to 0%. Forestry products will be duty-free to EU immediately; the same for chemicals and plastic. 95,5 % of tariff lines for fish and seafood set to 0% on the side of the EU. Automotive sector: phasing out of 6.1% duty over the seven-year period. Canada is getting a quota of 100,000 cars to export (currently exports are about 11,000 cars). Rules of origin allow parts that are originated in the US getting counted towards Canadian input, thus reflecting the US-Canada production network in the automotive sector.
- *Regulatory Cooperation*: A first in any Canadian FTA. This will help to deal with non-tariff blockades of trade. The principle of mutual recognition will become the basic approach. Parallel, both entities will work jointly in developing joined regulations for new products and processes.
- *Foreign Direct Investment*: Threshold for EU FDI in Canada raised to $ 1.5 bn. This is another incentive for EU companies to invest in Canada, and thus to transfer technology and making use of sectorial advantages.

[1] This brief summary is based on a technical summary of final negotiated outcomes, see: Actionplan.gc.ca/ceta. The actual final document is still under negotiations at the time of writing, kh.

State-Investor mechanism will be included, and this may become a problem during the process of ratification.

- *Labor Mobility*: Binding provisions on licensing and qualifications (first time ever in an FTA). This framework allows professional associations to negotiate detailed procedures (architects already started). Then temporary entry (intra-corporate transfers; investors and business visitors; contract service suppliers and independent professionals with contract length of 12 months; short-term business visitors) – will be the new rule.
- *Government Procurement*: Opening and strict liberalization on all administrative levels. Thresholds: Euro 130,000 – Euro 5 mio. Canada: threshold from Euro 130,000 to Euro 5 mio. This move towards liberalization of a quasi-sheltered sector adds new markets for economic actors from the EU and Canada.
- *IPR*: Canada extends IPR for pharmaceutical products. Producers of generics will lose competitiveness.

Given the high level of co-integration of the Canadian and the US economies it goes without further saying that TTIP can't fall behind CETA. In this sense CETA is a good indicator for the potential *minimum* outcomes of TTIP. Both sides on the negotiations table may ask for more but not always in the same subject area. The EU, for example, in January 20-14 issued a brief note that asked for including financial services and its regulatory corpse into TTIP negotiations. This initiative met immediate resistance from the side of U.S. Treasury which made the point that financial regulation does not belong to the core of trade policy and should dealt with, if at all, separately (Financial Times, 1/28/2014; European Commission 2014). This strife already indicates that the EU will be in a much tougher position compared to its CETA negotiations to achieve all its targets. In other words, the fine print of TTIP may differ from the fine print of CETA. This may hold in particular for the agricultural sector where CETA made some progress, mainly in lifting quotas, but overall left this sector untouched. TTIP may ask for a more courageous step forward as a further liberalization of the agricultural sector is already a key item in the ongoing Trans-Pacific negotiations.

TTIP: Getting Rid of NTBs

Like CETA the project of a transatlantic trade and investment agreement was reinvigorated during the EU-Presidency of Germany in 2007. Based on the initiative supported by former US-President Bush, EU-Commission President Barroso and Chancellor Merkel a 'Framework for Advancing Transatlantic Economic Integration between the United States of America and the European Union was signed that made the newly created 'Transatlantic Economic Council' (TEC) responsible for the oversight and guidance of its work program. From the beginning TEC had the strong direct and indirect support from business organizations on both sides of the Atlantic who also were represented in its advisory commit-

tee[2]. The political push for an agreement come under siege during the Great Recession and its protectionist implications but was soon revived and eventually resulted, in July 8, 2013, in the launch of negotiations between the US and the EU. This news came at a time when CETA was still under negotiations and had entered a period of tenacious talks. The launch of TTIP negotiations substantially changed the ongoing CETA talks and can be seen as responsible for the quick announcement of a successful Canada-EU deal. Given that the EU saw TTIP as the 'big fish' Canada came into a situation to close the deal and to accept the compromise lines offered by the EU.

Both, CETA as well as TTIP are political projects that are heavily supported by business organizations on both sides of the Atlantic. This support is grounded in the firm belief that free and unrestricted trade results in larger markets and thus business opportunities that eventually increase profits. At least in core EU economies such a view is widely shared by all main political parties, and thus European governments are overall in favor of cross-border trade. This free trade attitude is even more pronounced on the side of the EU where all Commissioners in charge of foreign trade have been in favor of a liberalization agenda and were willing to push such an agenda even in case of the odd minor resistance on the side of member states (see below). The situation is different in the US where in particular the Democratic Party but to some degree also the Republicans tend to protectionist attitudes, not least in order to safeguard immediate interests of their constituencies. It can argued, though, that free trade with the EU may be seen in a slightly better light then free trade with Asian economies where, for example. Japan – as a member of the Pacific Economy – is seen as a currency manipulator that undermines the economic base for US companies (Bergsten 2014).

The launch of official trade negotiations usually is foreshadowed by econometric studies that, on average, indicate net gains for the participating studies. In case of CETA it was the so-called 'Joint Study' (2009) that claimed net benefits for the EU-economies as well as for Canada. Even more detailed studies were prepared for TTIP, and again it is no surprise that all studies claim net benefits for both entities (GED 2013[3]; ifo 2013; CEPR 2013)[4]. The workhorse approach for those simulations is the computable general equilibrium model that is widely accepted as the standard in order to evaluate ex ante-effects of trade agreements. The underlying models of these simulations may differ and so do some of the modeling assumptions but overall they share the same methodological traits (CEPII 2013). The outlier in this line is the study commissioned by the German Bertelsmann Foundation (see below). The most positive outcome is postulated by the CEPR study commissioned by the EU. All simulations are calcu-

[2] http://ec.europa.eu/enterprise/policies/international/cooperating-governments/usa/transatlantic-economic-council/)

[3] This study will be referred to as 'Bertelsmann study' in the further text.

[4] Those studies are echoed by other simulations, like the one by the Swedish Board of Trade, 2013. All of them use similar computable general equilibrium models.

lated for various scenarios that also differ in regards to the political ambitions in place. Given the overall – on average - low level of tariffs, most of the estimated benefits stem actually from reductions of a wide range of non-tariff barriers (NTB) that cause trade costs. Non-tariff barriers are widely seen as the main obstacle for any deeper integration of national economies. The study of the ifo-Institute, for example, argues that NTBs are 4-5 times more relevant than tariffs in the EU-US trade flows (Felbermayr 2013).

The CEPR study presents four scenarios (see table 2) that show that the more ambitious the actual agreement the higher the benefits. It also shows that the yearly benefits for the EU are slightly higher then for the US. The most comprehensive and thus politically most ambitious agreement assumes a further lowering of already low tariffs for 100 % of tariff lines and an elimination of 25 % of costs due to NTBs. This simulation, as table 2 shows, also claims that all fears of trade diversion is out of place as third parties will also benefit from an ambitious agreement. Latter implication is in stark contrast to the results of a study commissioned by the Bertelsmann Foundation (2013) that shows strong *diversion effects* (see below).

As a matter of fact, both simulation studies follow different modeling approaches and philosophies, and this has implications for the outcomes. The CEPR study uses a computable general equilibrium model of world trade that simulates changes in policy, i.e. before and after liberalization of trade, and so does the Bertelsmann study. Both differ in the way they calculate real costs of NTBs and the level of disaggregation. Whereas former aggregate on the regional level, latter keeps treats all 126 economies that constitute the global economy as separate units. In contrast to traditional CGE-simulations the Bertelsmann study goes back to the effects of already existing free trade agreements and then makes use of the numerical effect of those agreements by including this figure into the simulation exercise (see below). In this way the study does not need to differentiate exactly whether the calculated effects are stemming from the reduction of NTBs or from other sources (ifo 2013a). This methodology, so the authors, overcomes some of the restrictions of the traditional CGE-simulations (Felbermayr 2013). Given the overall business-oriented and liberal attitude of the Bertelsmann Foundation there is no reason to interpret this methodological choice as a way to minimize the potential effects of TTIP.

The Bertelsmann study concludes, as does the CEPR study, that a comprehensive liberalization project will result in the highest net benefits for both entities. In other words, only a drastic reduction in NTB costs can generate strong positive trade effects[5]. Table 2 summarizes the overall five political scenarios that range from limited tariff reductions to a full-fledged liberalization scenario.

[5] This will be a ambitious and difficult task. See for an analysis Karmakar (2013).

Table 2

Summary of Macroeconomic Effect

	Limited agreement: tariffs only	Limited agreement: services only	Limited agreement: procurement only	Comprehensive agreement: less ambitious	Comprehensive agreement: ambitious
Change in GDP					
EU, million euros	23,753	5,298	6,367	68,274	119,212
US, million euros	9,447	7,356	1,875	49,543	94,904
Bilateral exports f.o.b.					
EU to US, million euros	43,840	4,591	6,997	107,811	186,965
US to EU, million euros	53,777	2,859	3,411	100,909	159,098
Total exports f.o.b.					
extra-EU, million euros	43,740	5,777	7,136	125,232	219,970
US, million euros	57,330	5,488	5,942	142,071	239,543

Note: estimates to be interpreted as changes relative to a projected 2027 global economy.

Source: CEPR 2013

Even though the actual TTIP may not live up to the strict standards of 'comprehensive agreements' as defined in the model simulations it is clear that dealing with regulatory issues will be key for creating economic benefits for both sides. NTBs are notoriously difficult to calculate but they are no phantoms, and this holds across most sectors. Both studies differ in the way they approach the costs of NTBs. CEPR follows a multi-pronged exercise that combines literature review, business surveys, outcomes of gravity models and direct consultations with businesses (CEPR 2013:15). A study by Felbermayr et. al. (2013) of the Munich-based ifo institute that was commissioned by the German Federal Ministry of Economics and Technology made use of empirical surveys and data collected in the MIRAGE-Consortium in order to quantify NTBs. Those data show not only significant trade cost due to NTBs but also huge sectorial variances.

The Bertelsmann study has been prepared by the same team of ifo-economists and focused in particular onto trade creation and trade diversion effects. Rather then going into the business of calculating specific NTB costs this study, as already outlined, reviews the trade effects of already existing free trade agreements like the Common Market of the EU or NAFTA, and then starts to adjust tariff and non-tariff parameters for the EU-US case until the trade effect reaches the average level of existing trade agreements which was calculated with close to 80%. In this manner the study can show that it needs significant regulatory progress if TTIP will live up to the effects of average liberalization projects

(GDE 2013:8ff.). Even getting rid of 25% of the trade costs created by NTBs will have significant trade effects[6]. The EU Commission in its communication from November 2013 is very outspoken that the regulatory part of TTIP is critical, and that any deal will have to include serious steps towards getting rid of 'red tape' (EU Commission 2013a).

Experience shows that such efforts can run quickly into political problems. The EU and the US have rather different regulatory approaches and efforts to standardize or only to accept mutual recognition will run into resistance on the side of producers and in some cases also alert non-governmental organizations. In many cases regulations may represent 'read tape' that only increase trade costs; in other cases, regulations may represent socially accepted standards that may differ between the two entities. Harmonization may be difficult (Schott/Cimino 2013), and thus the mechanism settled in CETA that uses mutual recognition may become prominent in TTIP.

Trade Creation and Trade Diversion

Political liberalization projects like CETA and TTIP come with the promise that the rising flood will lift *all* boats. In the view of international trade theory such a general promise is unfounded as the relevant theorems show that in order to create net benefits some of the boats need to sink, so to speak. Net benefits are the result of specialization that happens after free trade comes into existence, and specialization implies that some domestic sectors will gain and others will lose. The path towards specialization can be thornily and time-consumptive.

Bilateral trade agreements share this problem of sectorial adjustment and additionally come with a potential second winner-loser matrix that usually is dealt with in terms of 'trade creation' and 'trade diversion'. Bilateral agreements come with the potential danger that the trade creation effect between the contractual parties may be compensated by trade losses of third parties. In this critical area the CEPR study - and all other relevant studies - on the one side and the Bertelsmann study on the other side differ fundamentally. Whereas the CEPR-study does not detect a trade diversion-effect at all[7], and even presents net trade gains for the rest of the world, the Bertelsmann study states rather large and in many ways significant trade diversion effects[8]. In latter study trade diversion effects are calculated by comparing actual exports and imports of 2010 with export and import figures which are derived by the assumption that a comprehensive TTIP would have been in effect in 2010 and led to a average trade creation effect between EU and US of 80%. For the relevant scenario of deep liberalization two

[6] An early study by ECORYS (2009) that assumed a 50% reduction in NTBs hints to growth rates of export for the EU and the US of 7 and 8 %, respectively.

[7] As a matter of fact, the ambitious scenario creates overall net trade gains for the rest of the world (CEPR 2013:81).

[8] The study by Felbermayr etal (2013)for the German Ministry of Economics and Techniology actually is the base input for the Bertelsmann but seems in its interpretations downplay overall its implications.

cases in the EU indicate the dramatic changes such a TTIP would generate, namely the case of the largest exporter, Germany, and the case of the strongest European ally of the US, the UK. An early OECD study estimated the gains of a free trade agreement for the EU block and for the US in the range of 3-3.5 % of GDP (OECD 2013).

According to the Bertelsmann study, trade diversion will create serious problems by generating centrifugal forces. Like all simulations also the exercise published by Bertelsmann needs to be taken with a grain of salt. The EU Commission quickly recognized the political dynamite and made the unusual step to comment on this study: " We believe that caution is needed before jumping to validate these results. This study is based on a rather untested methodology that departs from the standard approach used so far in other simulation studies" (EU Commission September 2013b:15). This is a correct qualification but should not automatically disqualify the approach taken by the researchers of the study commissioned by Bertelsmann. As a matter of fact, the standard approach of a dynamic computable general equilibrium model has come under quite substantial critique over the last years, and can't be presented as the most reliable simulation procedure (Wing 2004). In some sense it is up to the observer which route of reasoning she follows. I tend to stick with the more unorthodox procedure provided by Felbermayr (2013) but would like to stress that the results are very much model-influenced.

An ambitious TTIP would drastically reduce German exports and imports with its most prominent EU trading partners. Exports and imports between Germany and the UK would decrease by more then 40%; in case of France the decrease of both categories is close to 24%; in case of France the figures are close to 30%. In regards to extra-EU trade of Germany TTIP would bring a reduction of exports and imports between Germany and China of 12%. In respect to ongoing crises in the southern periphery of the Eurozone economies like the ones of Greece, Ireland, Italy, Portugal, and Spain would experience a reduction of exports and imports on the average of more the 30% (GDE 2013:13ff.).

TTIP would also result in far-reaching trade diversion for the UK. Its already strong trade with the US would get a further impetus. This trade creation goes hand in hand with a strong trade diversion effect. Not only, as already mentioned, would trade with Germany shrink but overall trade with EU partners would recede. Trade with France and Italy would shrink by 37 % and 41 %, respectively; Spain and Ireland would experience even stronger reductions. And even trade with China would shrink by close to 28% (GDE 2013: 17).

Trade diversion effects are not restricted to the EU. The US would make a similar experience and see a much smaller role of its NAFTA partners Mexico and Canada in its overall trade portfolio. In the most ambitious scenario trade with Canada would shrink by about 10%; and Mexico would suffer a reduction of about 16% (Bertelsmann 2013:19). In regards to Canada, though, there is at least the silver line that trade with the EU is increasing even before taking any CETA-effects into account.

Liberalizing Drive of DG Trade

The early literature on EU trade policy often assumed that already the Treaty of Rome would have insulated trade policy from direct national influence due to the delegation effect that supposedly comes from moving trade policy-making from the national to the supranational level. Such a view was never really convincing, as Dür (2008) rightly argued, as already the Treaty of Rome asked for unanimity in regards to international trade agreements. The provision in article 113 thus allowed that national preferences and interests entered EU trade policy-making from the very beginning. Woll (2011) could show that companies lobby hard EU-decision makers in favor of free trade-policies. The Treaty of Lisbon didn't change the lobbyism but definitely introduced changes in the institutional making of trade policies. As a first, the authority of the Commission was largely extended by including all issues concerning trade in services, trade-related aspects of intellectual property, and foreign direct investment into its portfolio. Unlike in the past, national parliaments of member states no longer have to ratify international agreements. This depreciation of the role of national parliaments goes hand in hand with an appreciation of the role of the European Parliament. The newly established 'co-decision procedure' now extends to trade legislation. The principle of co-decision not only requires the Parliament's approval for the adoption of legal text but also allows the Parliament to amend proposals of the Commission jointly with the European Council. In other words, the European Parliament became a critical player in the field of trade policies. Thirdly, unanimity has become the exemption and qualified majority ruling the rule. This allows a critical mass of member states to push for a liberalization agenda.

Preferences for trade policies differ between the member states of the EU. This holds in particular for the agricultural sector where eventually the EU hold a rather protectionist position on the global level. The situation is different in regards to industrial goods and direct investments. Latest with former Commissioner Peter Mandelson who entered office in 2004 trade policy became all about improving competitiveness, and engaging in multilateral as well as bilateral agreements that would result in opening up markets and thus increasing the intensity of competition became the new mantra (Siles-Bruegge 2010). This new take found its most substantial programmatic reflection in the 'Global Europe' approach from 2006 (European Commission 2006). Even though some critics argue that the shift to a new trade policy approach didn't lead very far it is clear that since the launch of this program the EU became much more interested and engaged in bilateral negotiations. More so, the political project of trade and investment liberalization has moved center., not least because the Great Recession from 2008, and more so the still ongoing Eurozone demonstrated that the EU depends from a stable political-economic institutional framework on the global level. In a situation of weak structural growth of the Eurozone and the EU in combination with high unemployment, external trade has become an extremely important arena for the EU: " Trade has never been more important for the European Union's economy. In today's difficult economic circumstances, it has be-

come an important means of achieving much needed growth and creating jobs without drawing on public finances. It is the conveyor belt that links Europe to the new global growth centres and is a unique source of productivity gains" (EU Commission 2013c). In this programmatic spirit TTIP, and on a different level CETA are critical elements of a EU agenda that hopes to make use of extra-territorial economic spaces in order to overcome the growth-deficits of the internal market. This strategy is not without risks, at least if the postulated trade diversion effects would materialize.

Conclusions

Ambitious agreements like TTIP that are negotiated between the two of the largest trading blocks in the global economy necessarily will not leave the global economy untouched. If TTIP would come as a deep form of integration it would definitely revive the Atlantic Economy and breath new air into a long-standing partnership. In a dynamic perspective this revival may spur product and process innovations that would give the Atlantic Economy a renewed relevance. At the same time TTIP comes with the potential to significantly change the economic oientations of both entities. Following the simulation results of the Bertelsmann study the most obvious showcase is the UK. Not only would TTIP strengthen the already very strong economic ties between the US and the UK; at the same time TTIP would cause a strong decrease in the level of economic integration of the UK in the EU. Given the current debates about the future of the UK in the EU, TTIP could become a trigger to move also politically away from the European integration project. In this light it is not by chance that the Cameron government not only pushes hardly for TTIP but also works hard, domestically as well as on the European level, to reduce 'red tape' in the EU and thus to shrink the regulatory range and scope of the EU apparatus. TTIP could contribute to fundamentally change the character of the European project.

Germany's gains due to TTIP are strong in a deep integration scenario, and TTIP would further deepen the mutual value chains with the US. Such a gain has repercussions, though, that are mostly felt by other EU economies whose trade with Germany (exports as well as imports) would shrink. In particular the southern periphery of the Eurozone would come into a situation that its trade with Germany would get smaller, and eventually reduce their high trade balance deficits. On the other side, those economies need to find adequate substitutes, and this may be no easy path to go. The overall result would be a decline in the intra-EU economic relations, mainly in the disfavor of the weaker entities in the EU.

The US, it seems, will be best off with an ambitious TTIP. The potential reduction in its NAFTA-trade will be easily compensated by new opportunities that arise with TTIP. In this scenario it seems to have been a wise decision by Canada early to move towards CETA negotiations as this agreement may become the live safer in a situation where the US extends its ties with the Atlantic Econ-

omy. Canada may lose out towards the US but still would have the chance to make substantial gains with its European partners.

Informed speculation can be a helpful guide through difficult negotiations. Things will definitely turn out different then the reported simulations insinuate. Politicians may lose courage to fight for an ambitious project, and this will have strong influence on the potential outcomes of TTIP. The revival of the Atlantic Economy obviously depends from the outcomes of internal power and orientation struggles. On the other side, TTIP would not be worth the efforts if both sides would not go for a strong dose of liberalization. Time will tell.

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Politics and Philosophy beyond Economics and Commerce

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Abstract

The economic historian Kenneth Pomeranz called the widening per capita income gap between East and West between 1500 and the 1970 decade as the "Great Divergence". Since that decade, we have begun to live the "Great re-convergence". As an example, USA's per capita income in 1975 was 20 times the Chinese one; currently it is 5 times and by 2030 will be 2.5 times. This new world has provided the West with the opportunity of thinking of another great convergence: the Europe/USA relationship. This study involves the transatlantic relationship based on three main points. On one hand, it is an answer to the impossibility of universalizing liberal democracy mechanically and compulsively as the only way of achieving a "good life". On the other hand, a rapprochement between Europe and USA would consolidate the most prosperous political institutional environment in history. Finally, the TTIP is the first manifestation of a new "affectio societatis" of the supranational order that obliges the West to build relationship with an "Other(s)" that would require that they redefine themselves based on the 'mirror image' that it will receive from it.

Introduction

Adam Smith has practically always been perceived and on both sides of the Atlantic, as the first economist who systematically defended the advantages of free trade. In his book, "The Wealth of Nations" (2009), published in 1776, a recognized classic, he demonstrates that free trade between countries leads to an increase in the size of the market, promoting specialization and division of labor.

However, in this rather simplified vision, two relevant elements are underestimated: on one hand, the pre Smithonian physiocrats had already advanced considerably in appraising the virtues of free trade. On the other hand, Adam Smith is considered a great "economist" as a result of his strong ethical and philosophical background, both while studying social philosophy at Glasgow University and at Balliol College in Oxford, as well as his close relationship during his three years on the Continent, in an environment where the *"philosophes"* had displaced the

"physiocratism" maintained by Voltaire, Turgot and Quesnay (Emma Rothschild 2001).

For Smith, the advantages of free trade are firstly, the resulting empathy generated between the parties and only then, the chrematistic aspect. In fact, his most relevant book is "The Theory of Moral Sentiments" (2011), published in 1759 prior to "The Wealth of Nations".[1] The magnitude of Smith's work, particularly his revolutionary conception of economic liberalism, are not understood unless the transcendental importance of his 1759 publication is fully understood as well as its decisive influence on his 1776 publication.

Using Smith's notable intellectual saga as a guideline, in this paper we attempt to use Smith's reasoning to address the new form of approach between the European Union and the United States with the "Transatlantic Trade and Investment Partnership (TTIP)". On one hand, it's probable that this policy (TTIP) will be successful because there is a prior solid and complex historical empathy between the parties. But consequently, for this policy to work, it will require that the transatlantic relationship first be reconsidered as a relationship between two parties that have a common historic set of cultural elements (and therefore also moral).

Updating a Historic Empathy

In the traditional view of the International Relations theory, it is generally *maintained* that fundamentally there are two spheres in the relationship between countries that essentially are opposites: war and trade. While war is the classic *zero sum* or negative sum game, trade is the classic *positive sum game*. This extreme simplification of International Relations (on the other hand, a subject that is infinitely diverse as soon as the historical events are carefully considered), for example, reduces the diplomatic role to two very limited fields: Their role in dealing with the armed conflict and/or in handling the trade relationship. In the case we are referring to, the main European countries and USA present a paradox not necessarily unique but at least singular. Both have been extremely virtuous both in the art of war as in trade.

But fundamentally their common ground has been for centuries much more than these two successful but restrictive profiles. Europe is the cradle of modern liberal tradition, constituted by the virtuous complementation of political and economic *freedom*. USA has been the most virtuous offspring of the European Empires, and the accomplishers of the modern political experience that

[1] Smith completed "The Theory of Moral Sentiments" during his last period at Oxford (that the author appreciated very little given the outdated teaching imparted), In 1748 he entered Edinburgh University where for years he gave public lectures on rhetoric and literature. In 1751 he returned to Glasgow University to occupy the chairs of Logic and Moral philosophy. From this fruitful experience will emerge *"The Moral Sentiments Theory"* that established his recognized academic reputation. Immediately after he published another essay called "Considerations Concerning the First Formation of Languages".

most has contributed to adapting the old classical notion of "democracy" to political liberalism.[2]

However, to start off with, it is necessary to point out that it would be a mistake to forget that this history of strongly complementary political culture (which does not mean some type of cultural *equality)* is based precisely on the existence of *cultural differences.* These are fundamental since they have produced the history that is complementary that we have referred to. [3] But if it not possible to retrace the enormous cultural inertias that have linked our continents since 1492 to date, it is possible to refer to recent history to see those differences and complementarities operating in the near future.

Meanwhile, there was a turning point that occurred in Europe that, in more ways than one, has been systematically underestimated: the contemporary idea of an United Europe, formally initiated in 1957 with the "Treaty of Rome", is a landmark in modern global history, because, among other aspects, it challenges head-on the systematic importance of the mentioned simplifications to what constitutes the subject of International Affairs (War and trade). The philosophy on which the European Enterprise rests is expressly to challenge the "realistic" historic meaning of war. For International Relations theory war has always consisted in cultivating the ability to attack and/or defend itself.

It is that the advent and consolidation of the European Union is achieved redefining these two fundamental elements of the traditional warfare present in International Affairs: both the meaning of development of the offensive capacity as the defense of a territory. While the EU initially was an agreement that attempted to avoid a new war on the continent, one of the unplanned consequences has been the creation of the *safest zones in the world*. Why? Because never before has the international scenario had such a relevant player with similar defensive capacity of its interests and at the same time, with such willingness to expressly and systematically foster their military offensive incompetence.[4]

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[2] Nobody is better than Alexis de Tocqueville, in his 1836 text on "Democracy in America", in expressing his surprise and sympathy as a European Liberal regarding the practice of modern democracy in USA. It was all a novelty for him but none of these novelties but none collided with his cultural and political heritage as a young French citizen born in the shadow of the great 1789 Revolution: even though he has a critical eye, his effort to understand the American democracy is based on his concern as to how to adapt it to post-Revolutionary France.

[3] This history of production and articulation of differences is obviously unrepeatable here since it implies to aspire to retrace the history of production in what we know as the Western world.

[4] The EU boasts many examples of this particular configuration of "power" - mainly diplomatic, judicial, and sometimes ethical power. At the time of writing, the events in Ukraine are a good example of the impact the EU has on international disputes, an impact that achieves part of its aims without having to resort to military action.

Then, it is very probable that this means that the new Europe will be a key global player but institutionally determined to be essentially peaceful[5], regardless of the leaders in office. The existence of 28 players with the capacity of veto, ensures the impossibility of agreeing on some type of extreme aggression while the existence of two players with nuclear capacity (France and Great Britain) and other players at the military-technology forefront (Germany, Holland, Sweden, Italy and among others, the two abovementioned), ensures a sphere of internal security.

As we saw, this point has not been taken into account sufficiently in contemporary discussions. While throughout European history wars between France, England, Spain, Portugal or Prussia were always a plausible option, today there is only the remotest possibility that the United Europe in the short-medium term "attack" or get involved in a classical military action.

Given the relevance (real or potential) of this new player, this is a variable that undoubtedly contribute to a more peaceful world. It is probably thanks to this new integrated Europe, that the world is not more violent than what it is. Citing a much abused neo-kantian argument that maintains that "democracies do not go to war with other democracies", we can sustain that this convergent confederation of European democracies not only has avoided wars between its members (one of the initial reasons for the Community) but has significantly reduced the real possibility of war between non-Community members.

"Miracles": The End and Beginning of "Exceptionalism"

Europe and USA are two contemporary "miracles" that in some sense are "exceptional" experiences. Main factors of both "miracles" are based on the articulation of different ideas of liberty and equality. Although we maintain that the differences between Europe and USA are significant, they coincide in the following central point: they are modern successful experiences mainly because they have managed to implement and maintain liberal institutions, where different forms of "checks and balances" have consolidated, or at least, have survived. And it is worth repeating that trade is overall, an expression of liberty and equality.

When two or more players exchange goods or services, they do it in a scenario where the equality and liberty of the parts are tacitly accepted: they exchange goods because they consider they have equal rights and they exercise the right of giving something that they possess in exchange for goods that belongs to another. At the same time, both recognize that they lack something, that is to say, as agents that need the other so as to improve their current situation faced with a world situation that is increasingly complex.

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[5] It may seem ambitious, but there may be a possibility that this "pacifism" that the EU is starting to show has its roots in the line of thought that goes from Grotius to "Perpetual Peace."

However, the two big players of the possible agreement we are referring to, do not stick in the same way to this idea of "exceptionality". In a way USA has slowly lost its historical "exceptionality" while possibly Europe may be turning, in the near future, into a really "exceptional" project (though it still has to achieve it).

What has been the European "miracle"? Why has Europe at some point dramatically surpassed the rest? We can summarize the impressive bibliography on this subject with two contemporary works written by Eric Jones (2003) and Niall Ferguson (2011). For Jones, the magnitude of the "European Miracle" can be understood based on two considerations: the geographical dimension and the ecology.

> "In an authoritative study on the long-run geographic determinants of development, social ecologist Jared Diamond (1997) argues that Eurasia had large geographical advantages over the Americas and Africa, and that these lie at the heart of current income disparities. He argues that since plant and animal species spread most effectively within ecological zones, the east-west orientation of the Eurasian landmass made it easier to diffuse early human technologies across the continent. As a result, Eurasia enjoyed a larger diversity of plant and animal species, and thus easier domestication of useful species, than did societies in America and Africa—continents that are oriented north-south. High-productivity agriculture led to large, dense, stratified societies, with subsequent advances in technology (weaponry, oceangoing ships) and political organization. Another important causal factor widely studied in economic history is international trade, and hence access to sea-based trade and proximity to export markets...Recent econometric and case studies have shown that even when controlling for historical endogeneity, institutions remain "deep" causal factors, while openness and geography operates at best through them (Acemoglu, Johnson, and Robinson 2001; Rodrik 2003b; Rodrik, Subramanian, and Trebbi 2002)" (Zagha and Lankani 2005: 56).

The geographical location unveils another question: in part, the European miracle is explained because of the East-West orientation of the continent allowed people to compare others performances and copy what worked and discard what was unsuccessful. The possibility of comparing was particularly important in the use of agricultural technology. However, as pointed out by Niall Ferguson, the European geography generated the incentives for the apparition of another key variable for successful trade: competition.

> "Each factor can potentially reveal valuable insights about the true causes of countries' development successes and failures. For in-

> stance, Western Europe benefited both from the geographical advantages of east-west continental orientation discussed by Diamond (1997), and from being predominantly a coastal region in the temperate ecozone (Gallup, Sachs, and Mellinger 1999). All of this made land scarce and valuable (Herbst 2000). Additionally, rugged mountainous relief effectively separated Western Europe into a system of "competing jurisdictions of decentralized power," constantly warring with one another, none being able to completely defeat and control the others (Landes 1998). These factors raised returns to innovation, discovery, and adoption of new warfare techniques, which later gave Europeans first-mover advantage over other parts of the world")" (Zagha and Lankani 2005: 57)

This point is somewhat broad but nevertheless important to begin understanding the significance and reach of the European "miracle". The idea of contemporary Europe is consequence of a slow discovery process that made possible the consolidation of a human, social and institutional capital unprecedented in the history of mankind.

For Niall Ferguson, the European "miracle" possesses characteristics that in time will become part of the American "miracle". In his famous "Civilization, the West and the Rest", Ferguson maintains that we are seeing a paradigm shift after 500 years of Western dominance and develops a rigorous explanation as to why the Western world began to outpace the Eastern world (in particular, China) starting in the year 1500. The author points out that:

> "…the principal question addressed in this book increasingly seems to be the most interesting question a historian can ask. Just why, beginning around 1500, did a few small polities of the Western end of the Eurasian landmass come to dominate the rest of the world, including the most populous and in many ways more sophisticated of Eastern Eurasia? My subsidiary question is this: if we can come up with a good explanation for the West past ascendancy, can then we offer a prognosis for its future? Is this really the end of the West´s world and the advent of a new Eastern epoch?" (Ferguson 2011: 4).

Ferguson then mentions the 6 characteristics explaining the Western success. These are: 1) competition, 2) scientific revolution, 3) property, 4) medicine, 5) consumer society and 6) work ethic." (Ferguson 2011: 8)

Next, let us see on what is the American exceptionality based on? For Charles Murray,

> "America in the nineteenth was exceptional in many ways, and there is no uniquely right way to group them. My choice has been to group then under these four heading: America as a geographic setting,

> American ideology, traits of the American people, and the operation of the American political system" (Murray 2013: 20) .

In the specific case of ideology as an exceptional factor, Murray cites the historian Richard Hofstadter who maintains that:

> "It has been our fate as a nation not to have ideologies, but to be one. Unlike any previous political system in history, ours implement a specific set of philosophical ideas about the nature of human beings" (Murray 2013:22).

The Founding Fathers perceived individualism as a virtue and they were reasonably optimistic regarding the human condition. This led to an exceptional fact: the birth of USA as a republic and not as a monarchy. Furthermore, a *republic radically democratic* as so astutely pointed out by Tocqueville when he realized that democracy in America was much more than a democratic regime, it was over all the result of a sociological dimension.

> "The Founders were also optimistic about human potential. They believed that virtue and intelligence could be found not only among the elite but in anyone. They also believed that everyone may aspire to happiness. In a world that had taken for granted that virtue and meaningful happiness could be achieved only by the superior few, this view of human potential was novel and radical" (Murray 2013: 24).

As maintained by Murray, we believe the American "exceptionality", so obvious during the 19th and first half of 20th Century, is coming to an end. USA continues to be and representing a notable and singular historic experience, but we surmise that they no longer "have" or no longer "can have something special" that no one else can achieve.

In this context of a somewhat weakening American "exceptionality" and a promising European "exceptionality" but that does not seem able to establish itself fully, an initiative such as TTIP acquires relevance. It is not a new idea but it has gained relevance recently in the international agenda.

It is evident that this new updating of the agenda is related to the evolution of a global situation that is rapidly changing. It is possible to imagine that, as an offshoot of this global situation where new and increasing potentially challenging powers are evident, the TTIP appears as a result of a sensation of "increasing weakness" on the part of USA and Europe. TTIP's updating expresses an attempt to reaffirm the power of the two large Western partners. But, as we stated initially, this reaffirmation, to be meaningful, must transcend the merely trade aspect: as we saw, is to reaffirm/update a type of "Affectio societatis" which turn out to be a lot more important than the *commercial* effects.

The TTIP should be the instrument that allows updating and therefore strengthening in the current international situation, those elements that constituted the best of both worlds: articulate freedom and equality sensibly and peacefully via different historical paths that in the end are compatible.
This new world can be analyzed in the following tables:

Percentage of World GDP (1980-2015)
Europe, USA and Emerging Markets

	EU	USA	Emerging Markets
1980	31	25	31
1985	29	26	31
1990	28	25	31
1995	26	23	36
2000	25	24	37
2005	23	23	41
2010	20	20	48
2015	18	19	52

Source: "World Economic Outlook 2013." International Monetary Fund.

GDP per capita (1980-2015)
(Thousands of US Dollars)
Europe, USA and Emerging Markets

	EU	USA	Emerging Markets
1980	8	13	1
1985	11	18	1
1990	15	24	2
1995	18	29	3
2000	22	36	3
2005	27	44	4
2010	30	48	6
2015	34	57	8

Source: "World Economic Outlook 2013."International Monetary Fund.

TTIP: Some Points to be Explained

The main virtue of the TTIP initiative rests on the real possibility to regenerate the historical empathy between two geographic, social and institutional areas that have certainly had affinities during a long period of history.

The ability of this cultural structure called The West to continue being successful, depends on the radical reformulation of a type of alliance or sui generis cultural agreement that was established at the end of the 17th and mid 18th century, in the historical series that, starting with the Glorious Revolution that resulted in USA's Independence, and the philosophical triumph of the Enlightenment, ends with the French Revolution. To be successful, the initiative to reformulate said agreement in the 21st century, has to be much more than a free trade or investment agreement. It must contain the establishment of a new stage of Liberal Democracy or the "Liberal Project".

The difficulty in achieving such an ambitious goal originate in different horizons. One of them has to do with the management of tensions between universalism and peculiarity, between homogeneity and disparity**.** In this regard, a point to be studied carefully is that both Europe and USA are two "unions". Obviously the union refers to one, to the unit. Since Ancient Greece, our rationalist philosophical tradition indicates that what is correct is the unit, the one, and the incorrect or unsatisfactory is the plural, the diverse. In this traditional thinking, the union is positive, harmonious whilst the lack of unity is something bad, traumatic and problematical.

Nevertheless, the European miracle rests on diversity. Europe is the unit on diversity. What has generated European prosperity is not their intention of uniting but "disunity" or plurality. The EU supposes an idea of Europe and not an individual aspiration. The idea of Europe that the EU embodies, paradoxically, is diversity.

The same is true for the American Union. United States of America has been successful given that the intention of the union has helped defend diversity. As mentioned, International Relations and trade have a fundamental conceptual philosophical divergence: while the International Relations Theory interprets the unit or union as a necessary condition for governability (and therefore believe their reason for being as some form of zero sum game), trade is nourished by the diversity of the parts (this is exactly why we have trade) and the consequent lack of harmony. We have trade because the players were dissatisfied ex ante and there is a positive sum game because ex post, both parties agreed to a voluntary exchange in an environment of equality between the parts.

In "La France par l'Europe" Jacques Delors maintains that "creating Europe is a way of regaining that margin of liberty necessary for 'a certain idea of France' (Judt 1996: 14). While the European project has been partly a French project, it really started as French-German project and has also been, though in a lesser scale, a German, English, Belgium, Dutch and even American project. Even more, we can say that the European project has been and is a project belonging to each of the member countries and as we mentioned, in some cases, a project of non-member countries, such as USA.

This last is a definition in itself of the European project: at a certain point, USA has been and is part of the European Project. Then, this a hypothesis that should be studied in depth for the TTIP: USA it is not a formal member of the European Union but it has been and is part of the European Project. The Eu-

ropean Project transcends the European nations and it consolidates as a European idea or aspiration. This way, this reencounter between USA and Europe means considering USA as part of the European Project and Europe as part of the "Liberal Project", a project in which USA has played a major role (a primus between equals) throughout the 20th Century.

The European Project has contributed in reconciling the tradition of freedom and equality. In part, this reconciliation between freedom and equality has begun to embed itself in the new idea of Europe, that started in the 1957 "Treaty of Rome" through the dynamic increase in Union members, from 6 to 12, then to 15 and then from 15 to 28.

The new Europe rests on an unprecedented project in the history of mankind: the increasing coexistence not only of different "modus vivendi" but, in some cases, of opposite ways of thinking and of living a good life. The European Project's paradigm is especially liberal because to consolidate, it aspires to increasing diversity of the parts. In other words, its temporary idea that the whole is superior to the sum of the parts since it rests on the increasing diversity of those parts to consolidate an idea of a plural whole, tolerant and thriving.

This way, the more "modus vivendi" that is incorporated in this new European Project, the more consolidated will the European project become. The more varied that these "modus vivendi" are, more consolidated is what John Gray called the "Liberal Project". This idea of a new European Project that is emerging in Europe of 28 reflects two strong methodologies assumptions. There is a philosophical definition of the project that limits its scope and by doing so, assumes that the "Liberal Project" lacks a universal telos but, at the same time, defines as a value to be respected (universally) the European modus vivendi related to the existence of personal, political and social rights.

Following Gray, we see that the European Project finishes as a political aspiration at the geographical border of the Union, but prevails as an idea beyond all geography. Because, with Berlin and Gray, the European Project has tacitly accepted that it does not search for exclusionary universality, but searches to consolidate local good forms of life, capable of structuring a diverse universality. In Gray's words:

> "The liberal state originated in a search for *modus vivendi*. Contemporary liberal regimes are late flowerings of a project of toleration that began in Europe in the sixteenth century. The task we inherit is refashioning liberal toleration so that it can guide the pursuit of *modus vivendi* in a more plural world. Liberal toleration has contributed immeasurably to human well-being. Nowhere so deep-rooted that it can be taken for granted, it is an achievement that cannot be valued too highly. We cannot do without that early modern ideal; but it cannot be our guide in late modern circumstances. For the ideal of toleration we have inherited embodies two incompatible philosophies. Viewed from one side, liberal toleration is the ideal of a rational consensus on the best way of life. From the other, it is the be-

> lief that human beings can flourish in many ways of life. If liberalism has a future, it is in giving up the search for a rational consensus on the best way of life. …" (Gray 1995: 1).

Final Considerations

Summing up, this study contains main considerations: TTIP is not only a fledgling free trade agreement but also symbol regarding two contemporary realities. On one hand, if the liberal democracy has had failures when it was considered as a hegemonic universal project, paradoxically, it seems to recover relevance and meaning as local and regional political "modus vivendi", "adapted" to each country's and culture's peculiarities that claim them as long as they know how to incorporate "decent" values[6].

Secondly, TTIP seems to be a project that recognizes two things simultaneously. While USA loose relative weight in the international scenario, Europe has relatively little weight as "sum of the parts" but is highly relevant as a whole. While the sum of Germany, France, United Kingdom, Italy and Spain (to mention the 5 largest economies) does suppose a larger part but does not constitute a relevant whole, the idea of a United Europe symbolizes the possibility of constituting a highly relevant geopolitical player in the next century.

What is and what could TTIP become? Firstly, it is a potential free trade agreement between two decisive global economy players. As such, it has a great importance but politically and philosophically it has even more. TTIP can be considered as a symbol of an era for the Western world and recognition that that same Western world must change to start a new one. It is possible to achieve this.

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[6] We use "decent" in the sense that John Rawls used it in "The Law of Peoples." That is to say, even though countries and cultures do not accept the universality of the "Liberal Project's" values, their political ethics is not radically incompatible with these values.

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Transatlantic Economic Integration

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Abstract

The European Sovereign debt crisis caused the most severe recession in Europe since 1999, the year that several European Countries adopted the single European currency, the Euro. The EU is making serious efforts to cope with the crisis, and it has adopted or proposed policies and governance reforms to transform the EU/Eurozone economic financial system to become more resilient to shocks.

Although such policies and reforms aim to make the European and International financial system less fragile and more resilient to shocks, some new data on trade of EU and Eurozone countries indicate that there exists evidence of reduced trade among some EU and Eurozone countries. In particular, there exists evidence that Germany trades less with the EU and the Eurozone since 2007. On the other hand, Germany increased its trade with the rest of the world. Specifically, Germany and the EU both expanded trade with the US. Such evidence can have implications regarding the future economic and financial relations between the EU, Germany, and the US. These relations require more attention and analysis in light of the most recent trade developments between the EU and the US, which have been negotiating the Transatlantic Trade and Investment Partnership (TTIP) since July 2013. This study analyzes and evaluates the effects of the TTIP on the EU, the US, and on other trading partners.

Introduction

Since the concept of the nation state was introduced in Europe in the 16th century and national borders were established, governments have tried to protect their countries from all types of foreign intrusions. They have often prohibited foreign workers and craftsmen from establishing workshops in their countries. Governments have discriminated against foreign products entering the countries by erecting trade barriers, such as import tariffs, quotas, and non-tariff barriers, such as regulations that specify product safety, quality, health, and other requirements, often devised to keep imports out of their national markets. The governments' objective in raising these barriers was the protection of domestic producers from

foreign cheap imports.[1] Less often, nonetheless, trade barriers were raised to protect consumers from imports that did not meet minimum acceptable national standards.

As protectionism spread to many European countries, economists challenged the validity of mercantilism, i.e., the theory that supports trade protectionism. Several economists and politicians in the UK began heated debates towards the end of the 18 century on the issue of protectionism versus free trade. Among these economists were Adam Smith, David Ricardo, Robert Malthus and John Stuart Mills. Each has ended up earning a top position in the history of economic thought. The public debates and intellectual exchanges among economists, politicians, and other scholars on the repeal of the "Corn Laws" were notorious. This was a major issue that divided politicians, citizens, and economists that debated whether it was to the benefit of the UK to end protection of British farmers from cheap foreign agricultural imports, usually originating in the colonies.

Alas, protection of agriculture by the developed countries is still a very seriously contested topic, as important now as it was back in the days of David Ricardo and Robert Malthus. Market segmentation as a result of the creation of small nation states in Europe, starting in the 16th century, turned out to be economically inefficient.

This was quickly understood a few centuries later by the Americans, at the end of World War II, who decided to impose conditions on the Marshall Plan aid to recipient countries. The US requested the removal of trade barriers between all European countries that agreed to receive aid from the Marshall Plan because it was expected that trade liberalization would facilitate economic growth.[2] Indeed with the Treaty of Paris in 1950, the genius of Jean Monnet and Robert Schuman created and launched the European Coal and Steel Community (ECSC) with the full support of the US. The ECSC, although a free trade area for only two commodities (steel and coal), achieved its objectives. It first cemented peace in the European continent and secondly stimulated economic growth amongst all its member countries. Since then, the European countries embarked on a long but unpaved path to achieve European Integration.[3]

Much has been achieved so far to unify Europe, but the European project is still incomplete. The original six members of the ECSC have integrated their economies by launching several programs. In 1957, with the Treaty of Rome,

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[1] Import tariffs are taxes on foreign goods entering the country, whereas quotas are quantitative restrictions on foreign goods in terms of maximum number of units that can enter the country each year.

[2] There was also a genuine and sincere effort led by Count Richard Coudenhove Kalergi, who created the Pan-European movement after World War I for the unification (integration) of Europe. However, the extreme totalitarian ideologies of Nazism and Fascism prior to World War II that dominated Europe during this time killed any hope for peace and European Integration.

[3] Thanks to the brilliant intellectual contribution of Jean Monnet who, along with Robert Schuman created an international organization endowed with supra national authority in certain vital areas of the economies above the powers of the member states.

they formed the European Economic Community (EEC) which established a Free Trade Area (FTA) for all goods and services. Within the FTA, all goods and services were freely traded among the six members.[4] EEC countries were permitted to protect their economy by imposing trade barriers against non-EEC countries.

Members of a FTA are allowed to impose varying tariffs against non-member countries.[5] The Treaty of Rome also established a Customs Union (CU). A CU is a FTA which in addition requires member countries to adopt a common external tariff vis á vis non-CU member countries. The formation of a CU can solve the trade deflection problem.[6] The Treaty of Rome also established a Common Market among the six EEC countries.[7] The Treaty of Rome established the European Atomic Energy Community among the six EEC member countries. As a result, production and distribution of atomic energy was jointly supervised within a common market by representatives of the six EEC countries. After the Treaty of Rome, several programs were launched aiming to strengthen integration (deepening), and the EEC was enlarged by accepting new members (widening). In addition, the EEC established its own governing institutions and evolved to become a unique *sui generis* international organization, with powers beyond those of the member countries.

With the Maastricht Treaty in 1993, an Economic and Monetary Union (EMU) was established and a common currency, the Euro, was adopted which presently is shared by 18 EMU members. The name of the EEC has been changed to European Union (EU) by the Maastricht Treaty to denote a higher level of integration. Since July 2013, the EU is comprised of 28 member countries. The EU has also adopted several common policies that all member countries share. For example, the EU has a trade policy which is exclusively conducted by its executive institution, the EU Commission.

Since 2009, however, several EU countries have experienced a severe recession, the worst since the end of World War II. This recession is a continuation of the US subprime mortgage crisis, which entered the EU as a result of economic and financial integration via contagion.[8] The countries that have been most

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[4] The ECSC countries are: Germany, France, Italy, Belgium, Netherlands, and Luxembourg. These countries since then are referred to as the original six.

[5] A FTA is the first level of integration; however, a FTA in only one commodity is not recognized by the World Trade Organization (WTO) as it is insufficient to generate adequate trade to improve the welfare of the partner countries and the world.

[6] If a commodity for example was to be exported from the US to an EEC member country and the EEC was not a CU, the commodity would have entered the EEC through the country that had the lowest tariff. In such a situation, the problem of trade deflection could have been created if the lowest tariff country was not in the closest distance to the US.

[7] A common market is a FTA a CU and an area within which the factors of production, capital and labor are allowed to move freely within it.

[8] The US recession caused by the subprime mortgage crisis was so severe that justifiably earned the name "The Great Recession".

affected by the recession are a subset of EU members that adopted the Euro, the Southern European countries and Ireland.

The first signal that the crisis had entered Europe was the rising interest rates of the highly indebted countries. This was evidenced by the rising interest rate spreads of the ten-year government bonds of different countries in relation to the equivalent German ten-year government bond interest rate. The interest rates of Greece, Ireland, Portugal, Spain, and Cyprus increased so much due to the rising default risk premium that it became prohibitively expensive for them to borrow in the market. All these countries as a result had to receive bailouts jointly offered by the International Monetary Fund (IMF) and the EU. More than six years have passed since the financial crisis entered Europe, and the recession it caused has not subdued yet. There are, however, some indications that the crisis lost its intensity as Ireland and Spain have exited bailout status and, thus, the austerity programs imposed by the EU/IMF. Several EU countries have also experienced positive economic growth.[9] All the other bailout recipient countries continue to struggle, and there exist explanations as to why the recession has not subsided yet (Zestos, Rizova 2012).

The US was able to rather quickly exit the subprime mortgage crisis of 2007-2009, thanks to the extraordinary expansive monetary and fiscal policies adopted by the Federal Reserve, the US Congress, and the President. The US after its recovery, nevertheless, experienced a political crisis that was the result of partisan disputes. In 2011, the US lost its AAA credit rating as Standard and Poor's downgraded the US public debt for the first time since it began giving ratings in 1941. Furthermore, the inability of the two major political parties to adopt a long-term fiscal plan to drastically reduce US public debt led the parties to accept an automatically triggered fiscal mechanism known as sequestration.[10] Sequestration followed a previous fiscal threat that became known as the "fiscal cliff," which was to occur on December 31, 2012, when several temporary tax reductions were to expire and government expenditures had to be reduced. Although the fiscal cliff was temporarily avoided, the problem resurfaced, and the US government was shut down for two weeks (October 1-16, 2013). The partisan controversies and conflicts seem to have abated by December 18, 2013, as the US Congress approved a budget after operating three years without one (Hook 2014).[11] The approval of the budget was received as a great relief by many Americans who have been very critical of the artificially created political and fiscal crisis.

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[9] It is, however, premature to conclude the European sovereign debt crisis is over since several Eurozone countries are afflicted by double digit unemployment rates. For example, Greece and Spain have over 25 percent unemployment rates. Spain has also exited the bailout status, although Spain never accepted the austerity programs that accompany the bailouts.

[10] As a result, sequestration in March 2013 triggered automatic tax increases and government expenditure cuts.

[11] The US Congress also approved to raise the public debt limit without conditions until March, 2015.

Considering the economic and political situation in both the EU and the US, the presently negotiated trade agreement, the Transatlantic Trade and Investment Partnership (TTIP), seems to be the less costly method, politically, to boost both the US and the EU economies. If the US were to boost economic growth through other means, such as expansionary fiscal policy, this could have had a heavy political cost because it easily could trigger a new partisan conflict. If the expansion was to be achieved by employing monetary policy, such as a continuation of more aggressive quantitative easing, would have invoked strong outcry by many economists, politicians, and analysts. Expansionary monetary policy can create another asset bubble similar to the most recent US housing bubble. Such a possibility is supported by the market's reaction on December 18, 2013, when it was announced that tapering would begin in January 2014.[12] On January 29, 2014, the Fed announced that it would continue with more tapering, by reducing the amount of bond purchasing to $65 billion in February 2014. The news, however, already created destabilizing effects in the foreign exchange markets of emerging economies.

It would have also been exceptionally difficult for EU countries to stimulate GDP growth by applying expansionary fiscal policy as many of these countries experience over-indebtedness problems and would have violated the maximum public deficit and debt requirements of the Stability and Growth Pact (SGP), which requires all EMU countries to abide by the Maastricht fiscal criteria.[13] Over-indebtedness is considered to be the major cause of the Eurozone crisis.[14] By the same reasoning, the European Central Bank could not have applied expansionary monetary policy to stimulate growth as this is prohibited by the Maastricht Treaty that established the EMU.[15]

US-EU Trade Relations

The US, long ago, was a great supporter of European Integration, this was revealed when it requested that Marshall Plan recipients reduce or eliminate trade barriers among each other. The US established diplomatic relations with the ECSC in 1953 and formally opened the US Mission to the ECSC in Luxemburg in 1956, which, since 1961, has moved to Brussels and was named the United States Mission to the European Union. Similarly, in 1955, the EU Commission established a permanent representation to the US called the EU Delegation to the United States.[16]

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[12] This unorthodox quantitative easing monetary policy would have been necessary as the US is already operating in the "zero bound" interest rate area. This reduction was favorably received by the markets and analysts.

[13] See Zestos, 2006, Chapter 3

[14] The Eurozone consists of 18 EU countries all of which have adopted the Euro and delegated their monetary policies to the European Central Bank.

[15] The ECB was given a single mandate of price stability; thus it cannot adopt monetary policy to stimulate growth.

[16] United States mission to the European Union: http://useu.usmission.gov/

The EU-US official relations began when the two allies adopted the Transatlantic Declaration in 1990, which was followed by the New Transatlantic Agenda (NTA) in 1995. Since then, EU-US relations officially developed and strengthened starting with several discussion and negotiation teams at lower levels of diplomacy, but eventually reaching the highest levels. At this level of negotiations, the head of state of the EU presiding country and the President of the Commission meet with the US President and US Secretary of State. The topics of negotiation during the early years were broad including world economic development, peace, and promotion of international trade. At the London Summit in 1998 and as a consequence of the NTA, a new agreement was signed, the Transatlantic Economic Partnership (TEP), to further promote trade at the bilateral and multilateral level. The TEP had ambitious objectives to address and resolve issues and problems regarding the trade of goods and services and to seek cooperation in such areas as public procurement and intellectual rights. Furthermore, during every one of the annual EU-US Summits, representatives of certain groups of the EU and the US were invited to launch transatlantic dialogs among various groups, such as consumers, businesses, legislators, environmentalists, non-governmental organizations (NGOs), and many other groups representing the civil society. These conversations attempted to build bridges across the Atlantic.

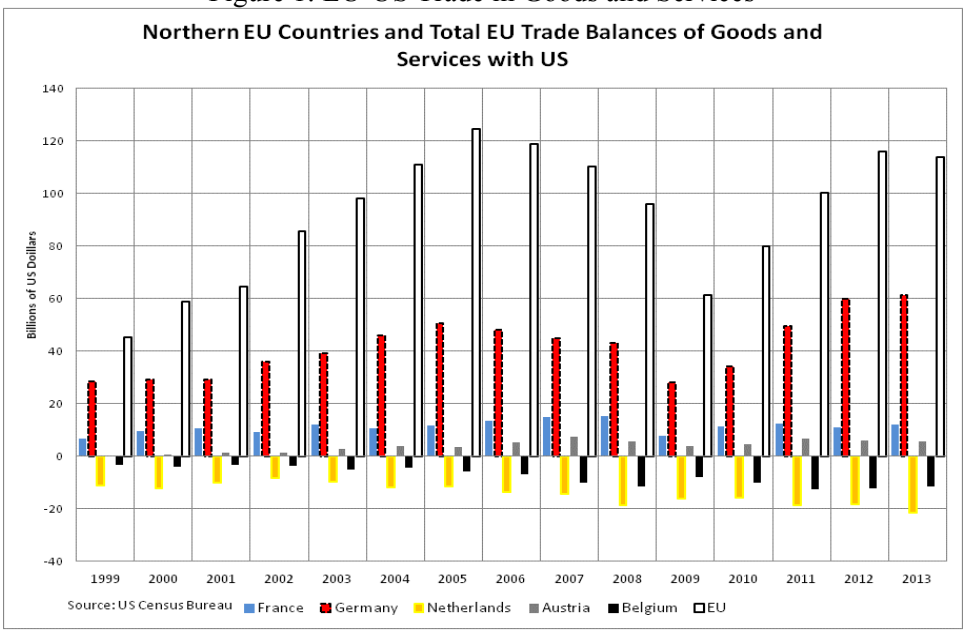
The EU and the US also became committed to the pursuit of trade liberalization via multilateral trade negotiations that took place within the GATT/WTO rounds of trade negotiations. The EU-US 2004 Summit in Dublin, Ireland drafted a proposal to strengthen trade relations by forming a trade partnership that will establish a transatlantic market free of any trade barriers. In this way, they decided to increase economic integration.[17] As a result, both the EU and the US reduced trade barriers for members and signatories of all GATT/WTO multilateral trade rounds. As of 2013, the EU and the US are two of the most important trading partners in the world. Jointly, the EU and the US produced 47 percent of the world's output. The two together exported 26 percent of all goods and 44 percent of all services in 2012. The US is the largest market destination of EU exports, both goods and services. Similarly, the EU is the largest importer of US services and the second largest importer of US goods only behind China. See figure A in the appendix for more information on the EU's and US's share of world GDP. See also figures B and C in the appendix for exports and imports of goods and services, respectively between the US and the EU for the period 1986 - 2012.

[17] EU officials, especially those in the EU Commission are convinced that free international trade plays a very important role in economic development and growth of countries.

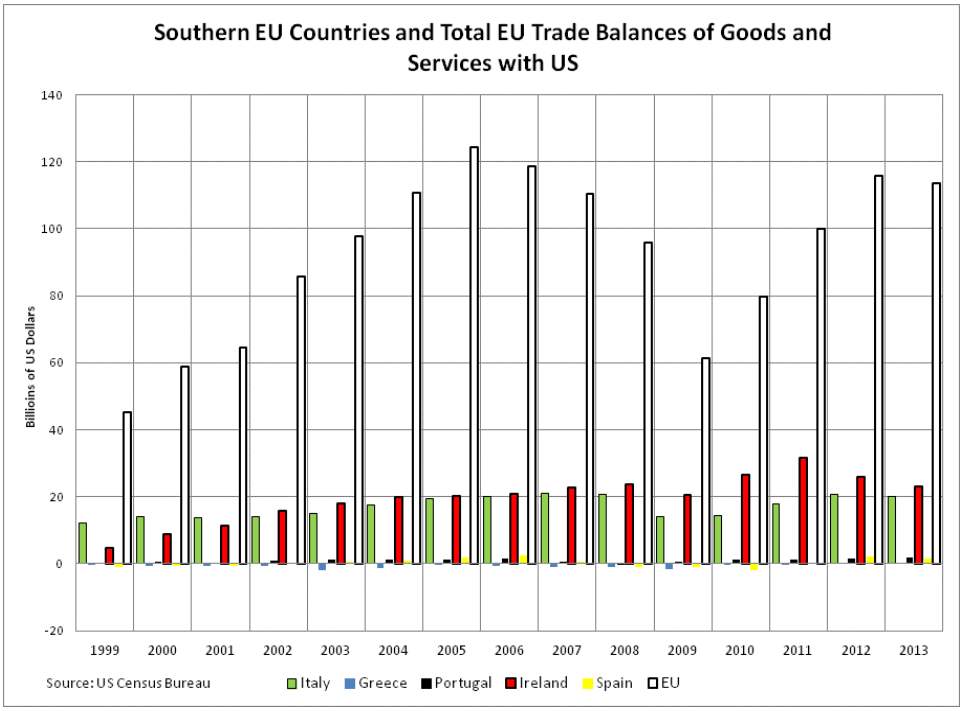
Trade in Goods and Services

The upper part of Figure 1 shows the trade balances in goods and services of the US versus the EU and of a selected group of Northern EU countries for the period 1999-2013. The group of Northern EU countries consists of France, Germany, Netherlands, Austria, and Belgium. Germany consistently generated a positive trade balance with the US that amounted to almost half of the EU balances. German trade balances with the US followed the same pattern as EU balances with the US. Both the EU and German trade balances are always positive and increased until 2005 when they reached a maximum. Since 2005, both EU and German balances decreased and reached their minimum points in 2009, the last year of the US subprime mortgage crisis. France and Austria also recorded positive trade balances with the US during the 1999-2013 period. Only Belgium and the Netherlands generated consistent negative trade balances of goods and services. In the lower part of Figure 1, the goods and services balance of the Southern (periphery) EU countries are presented in relation to the US. This figure clearly shows that Ireland has generated a positive balance throughout the period 1999-2012 since the Euro was introduced.[18] This was the result of massive capital investment (FDI) by US multinational companies in the information technology industry. Portugal, Spain, and Greece are the three Southern countries that generated very small trade balances with the US.

Figure 1: EU-US Trade in Goods and Services



[18] Ireland is included with the Southern EU countries because it is one of the countries that was significantly affected by the crisis and was one of the bailout recipients along with Greece, Spain, Portugal, and Cyprus.



Foreign Direct Investment

The most important recipient country of the EU Foreign Direct Investment (FDI) is the US, which accumulated €1.19 trillion in stock during 2010. Similarly, the US was by far the largest provider of inward FDI to the EU, which accumulated €1.201 trillion (stock) (European Commission 2013). The relation between EU-US inward and outward FDI for 2010 in terms of flows is shown in Figure 2 below. According to this figure, both outward and inward FDI of the EU with the US show upward trends, but also depict great volatility. Both inward and outward FDI to and from the EU to the US increased substantially prior to the formation of the EMU and the launching of the Euro.

This upward trend lasted approximately six years as both inward and outward FDI peaked in 2000. It was plausible for the US to boost FDI to the EU during this period of increased integration. Both EU and US FDI, however, decreased substantially during the dot-com and US corporate scandal crisis from 1999-2003. Since 2004, both EU outflow and inflow FDI to and from the US increased substantially until 2007, the year of the onset of the US subprime crisis. As the US overcame the Great Recession, FDI to the EU exponentially increased but drastically declined when the European sovereign debt crisis became well rooted in the periphery EU countries.[19] Outward EU FDI to the US has declined

[19] Periphery includes the Southern EU countries Greece, Portugal, Spain, Italy and Ireland.

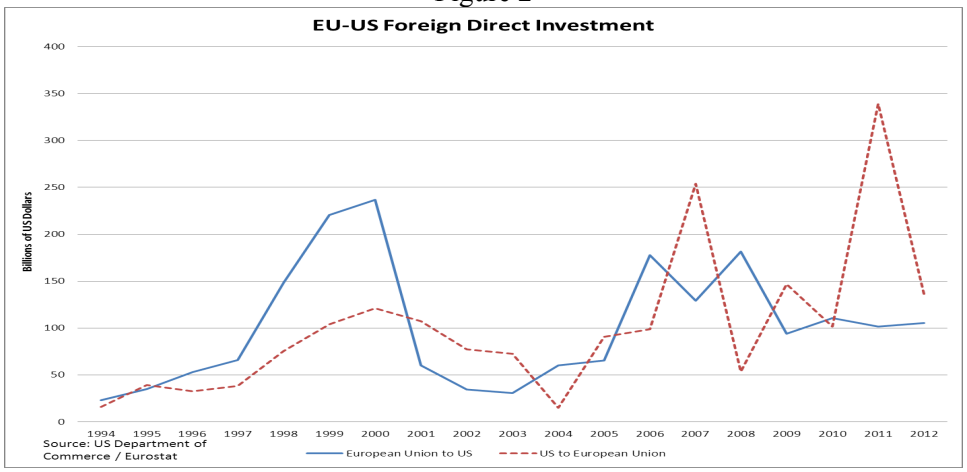
substantially in relation to the pre-crisis levels, totaling approximately $100 billion since 2009.

Increased inward FDI is favorably received by countries as it is expected to increase both employment and GDP in the recipient country. Increased FDI is also perceived as a vote of confidence for the health of the economy and the political stability of the country. Often countries in the EU and states in the US compete to receive "FDI" in their country or state by offering many benefits to companies that decide to commit substantial capital investment. Usually such benefit packages include reduction or elimination of real estate and corporate taxes for several years and often subsidies to foreign firms to attract FDI.[20]

Massive FDI in Ireland, especially in the high tech industries, helped Ireland achieve phenomenal economic growth and attain one of the highest per capita GDPs in the EU next only to that of Luxemburg. It is an accepted stylized fact that FDI has always been much more stable in relation to financial or portfolio investment.

Portfolio investment is exceptionally volatile because it captures short-term capital movements in search of high rates of return, making it sensitive to changes of several economic variables, such as interest rates and exchange rates. Contrary to this, FDI constitutes long-term investment in the form of construction of a new plant or purchase of an existing plant in another country. These types of investments are expected to be committed for the long-term; therefore, they are not subject to high volatility caused by changing market conditions. In Figure 2, it is clear that both EU FDI to the US and US FDI to EU are very volatile, particularly during the three recessions that occurred after the 1990s, the dot-com crisis, the US subprime mortgage crisis, and the European sovereign debt crisis.

Figure 2



[20] Not long ago, FDI was looked upon with hostility. Many developing countries saw the FDI as a means of losing their sovereignty to multinational corporations. This perception however has changed much within the last ten to fifteen years.

Transatlantic Trade and Investment Partnership (TTIP)

It was decided on November 28, 2001, at the yearly EU-US Summit in Washington D.C. to set up a "High Working Group" to investigate the possibility of further strengthening trade relations between the EU and the US. Since then, the EU Commission has moved quickly to approve a mandate for the TTIP. The TTIP is a bilateral trade agreement which aims to increase trade by cutting tariffs across all sectors, but it goes beyond simple merchandise trade liberalization. The TTIP aims to create a preferential trade bloc between the US and the EU. Preferential trade agreements are allowed by the WTO to discriminate in trade against non-member countries. All such preferential trade agreements secure exemption to their members from the Most Favored Nation (MFN) principle of non-discrimination of the GATT/WTO, the general rule of trade liberalization.[21] The rationale behind the decision of GATT/WTO to permit the establishment of preferential trade blocs was that they tend to increase world trade (Baldwin, Wyplosz 2012).[22] Countries that pursue trade liberalization implicitly assume that trade is beneficial. This conviction that trade is beneficial to a country, in principle, is correct since trade is based on a volunteer basis and a country can always refuse to trade if it is not to its benefit. However, what is not often well understood is how economists conclude whether a country is better off from increased trade. It is almost always the case that as a result of international trade, some sectors of the economy gain and some sectors lose. Economists assume the sectors (people) that gain always can compensate the sectors (people) who lose. Then if the gains from trade are greater than the losses, the country is considered to be better off regardless of who gains and who loses. It is assumed that governments can always take action to assure such transfers take place (Husted, Melvin 2012).[23] Alas, it is not customary that the affected parties injured from trade are compensated by those who gain. Costs of international trade usually ignore negative externalities in the form of pollution as fierce competitions among companies tend to ignore external costs such as air and water pollution. Major victims of increased international trade are the oceans as thousands of square kilometers of the Atlantic and Pacific oceans are littered with plastics and other non-biodegradable waste. International trade, although it raises growth, has also contributed in destroying indigenous culture.

One of the objectives of TTIP is to reduce tariffs between the EU and US so as to create a free transatlantic market for all commodities. Figure 3 below,

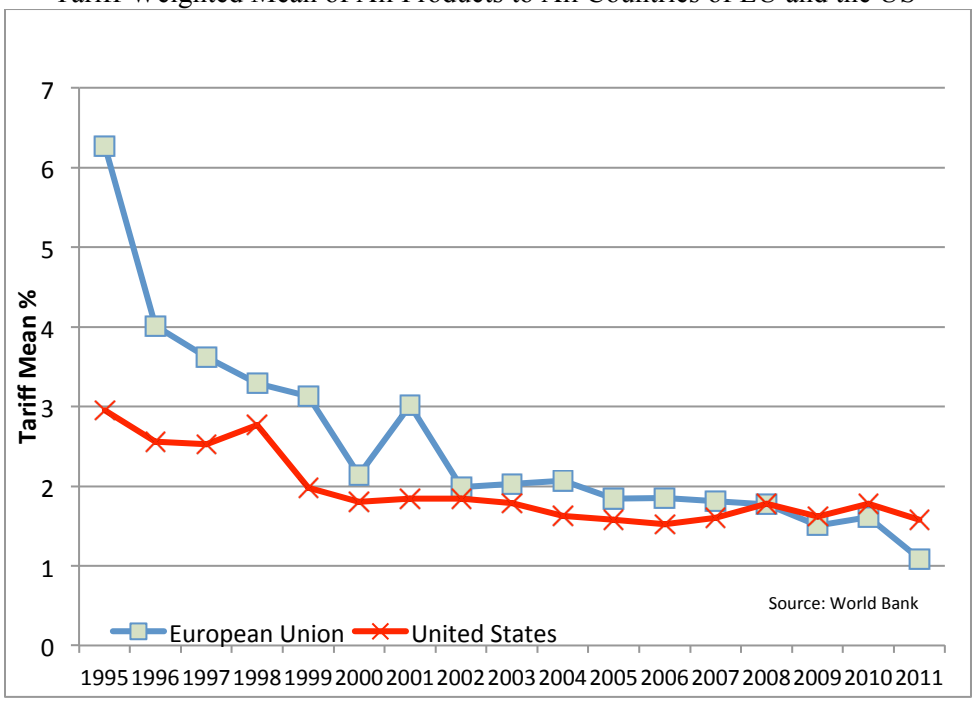
[21] The MFN principle states that if a country reduces tariffs to one country it is then obligated to extend the same tariff reduction to all other GATT/WTO members. The MFN principle was a brilliant device to liberalize trade. Trade blocs rendered the MFN principle almost irrelevant as the number of preferential trade blocs increased substantially, and about 80% of the world's trade is covered by regional trade bloc agreements.

[22] In technical economic, terms it was believed that the trade creation effects from the formation of trade blocs exceeded the trade diversion effects. Such were the findings of the early empirical studies on the formation of the EEC.

[23] This explanation is attributed to Paul Samuelson.

however, shows that the average tariffs of the US and the EU are very low, both of them below two percent. It is therefore impossible to expect a large reduction in tariffs to take place. Proponents of the agreement, nonetheless, suggest that, due to the large volume of trade between the two regions and the large size of the economies, the expected benefits would be substantial despite the small reduction of tariffs. The EU Commission described the TTIP as, "The biggest trade agreement in the world." The agreement aims to liberalize trade and investment between the EU and the US.

Figure 3
Tariff Weighted Mean of All Products to All Countries of EU and the US



The initial announcement of the EU and US officials regarding sectors and areas to be covered and negotiated by the TTIP is ambitious. One of the reasons that trade liberalization via tariff reductions were successful under the GATT/WTO auspices is because an across the board reduction of tariffs of many countries is both easy to be agreed upon and easy to be implemented.

Additional efforts to liberalize trade include non-tariff trade barriers (NTBs); these have been more difficult for countries to agree upon for their elimination. Once an agreement for removal of NTBs is agreed upon, it will be difficult to implement, as it is difficult to demonstrate or prove compliance with the agreement. This is one of the main reasons that the Doha round negotiations launched in 2001, known also as the Doha Development Agenda, lasted for about 13 years. The WTO Doha round negotiations were concluded on Dec 4, 2013, in

Bali, Indonesia. There is no doubt that the WTO final agreement, that concluded the Doha round negotiations, will influence the TTIP. The conclusion of the Doha round by the WTO will also affect the other major agreement the US pursues since the 2010 the Trans-Pacific Partnership (TPP) among 11 other Pacific Rim countries.

What Will the TTIP Cover?

US and EU official representatives have already concluded three rounds of negotiations. They gave all interested representatives of all stakeholders the opportunity to meet and express their views to official trade negotiators and to the corresponding representatives of the transatlantic partners. The last round of negotiations for the creation of the TTIP was held in Washington DC between December 16-20, 2013. Several representatives of various groups participated in the meetings. Consumers, businesses, nongovernmental organizations (NGO), environmentalists and several professional organizations representatives had the opportunity to discuss the topics that they would like to be included in the TTIP agreement. At the Washington, DC meeting, the negotiating teams agreed on the three major (CORE) parts of the TTIP: a) market access, b) regulatory aspects, and c) rules.[24]

The TTIP, besides focusing on goods trade liberalization, aims to open markets for services, FDI, and public procurement.[25] These are three new areas where little or no progress was achieved in previous bilateral or multilateral trade negotiations. TTIP will address the issue of intellectual property rights as well. The US and the EU negotiators focused on cutting red tape and making regulations more "compatible" between EU and the US. TTIP will guarantee growth for both the EU and US by reducing unnecessary costs of doing business across the Atlantic. All such costs can be reduced substantially through an agreement to reduce NTBs. The magnitude of the benefits however, differs from as large as €120 billion for the EU and €90 billion for the US annually (Francois 2013) to close to nothing according to some estimates.

The success of the TTIP agreement regarding the total benefits/costs for the EU, the US, and to the rest of the world depends on the most recent agreement between the 159 WTO member countries on December 3-4, 2013. It is plausible to assume that since the EU and the US are very important WTO and leading members of all trade agreements under the direction of the GATT/WTO, they will conclude an agreement so that the TTIP will be complementary to the Doha round conclusion.

It was announced that the biggest achievement of the recent WTO Doha agreement, in Bali, was cutting red tape to facilitate trade in ports. Although this may not be much of an accomplishment after thirteen years of negotiations, cut-

[24] The three CORE parts will be the focus of the fourth round of negotiations already agreed to be held in Brussels in March 2014.
[25] This decision will affect the over $4 trillion global market of services.

ting red tape is in line with the TTIP objectives. It remains to be seen if the EU-US negotiated TTIP agreement will be complementary to the Doha trade agreement, which is expected to become effective in July 2014. The new WTO Doha agreement in Bali must have disappointed all those who support global trade liberalization. The Doha conclusion at Bali failed to include two issues: a plan for developing countries to open the markets for industrial products and a commitment by developed countries to stop subsidizing agriculture products.[26]

It is very likely that the TTIP agreement between the EU and the US may drag on for a long time. The reason for this is that the US Congress may delay or even deny granting President Barack Obama the so called fast-track power or what is more officially known as Trade Promotion Authority (TPA). Once the president is granted the fast-track power, he has the power to negotiate trade agreements, while the Congress reserves the authority to either approve or disapprove the entire agreement but would have no authority to amend specific parts of the agreement. There are disagreements between and within the Republicans and Democrats about the recent TPA issue. Such disagreements are now more important as midterm congressional elections are approaching. US trading partners in the meantime expressed hesitancy to continue with negotiations before president Obama is granted the TPA. The possibility for President Obama to be granted the fast-track authority had another setback when the Democrat Senate Majority Leader, Harry Reid, said he opposed fast- track legislation now since it is likely to divide the party and cause a loss of a majority vote in the Senate as a result of the midterm elections (Politi 2014).

Financial Integration

Nowhere has it been mentioned thus far that financial regulation will be part of the TTIP agreement. There is, however, evidence that financial integration is strong between the US and EU. Table 1 shows a list of the 20 most important financial institutions that received bailout money from the US Federal Reserve (Fed) during the subprime mortgage crisis in 2007-2009. It is interesting to note that 9 of the 20 largest financial institutions were European. Two were Swiss banks; the rest belonged to EU member countries.

[26] This is probably the most important issue on international trade that can be resolved by a new global trade agreement following the Doha round conclusion.

Table 1
Federal Reserve Bailouts to US and European Financial Institutions
(Federal Reserve System 2014)

Bank Name	Peak Debt (In Billions USD)	Bank Country of Origin
Morgan Stanley	$107.29	US
Citigroup Inc.	$99.45	US
Bank of America Corp.	$91.40	US
Royal Bank of Scotland Group Plc	$84.50	UK
State Street Corp.	$77.80	US
UBS AG	$77.16	Switzerland
Goldman Sachs Group Inc.	$68.96	US
JPMorgan Chase & Co.	$68.64	US
Deutsche Bank AG	$66.01	Germany
Barclays Plc	$64.89	UK
Merrill Lynch & Co. Inc.	$62.12	US
Credit Suisse Group AG	$60.80	Switzerland
Dexia SA	$58.46	Belgium
Wachovia Corp.	$50.00	US
Lehman Brothers Holdings Inc.	$46.02	US
Wells Fargo & Co.	$45.00	US
Bear Stearns Cos. LLC	$30.00	US
BNP Paribas SA	$29.25	France
Hypo Real Estate Holding AG	$28.70	Germany
Fortis Bank SA/NV	$26.27	Belgium

The Fed provided rescue loans to foreign banks that operate in the US. The Fed indeed was applying prudent policy because bank failures, regardless of whether they were American or foreign, could pose systemic risk to the US economy if such institutions were "too big to fail." Indeed, all 20 financial institutions were very large. This can be inferred by the size of the bailouts they received. None of these institutions received a bailout less than $25 billion.

Figure 4

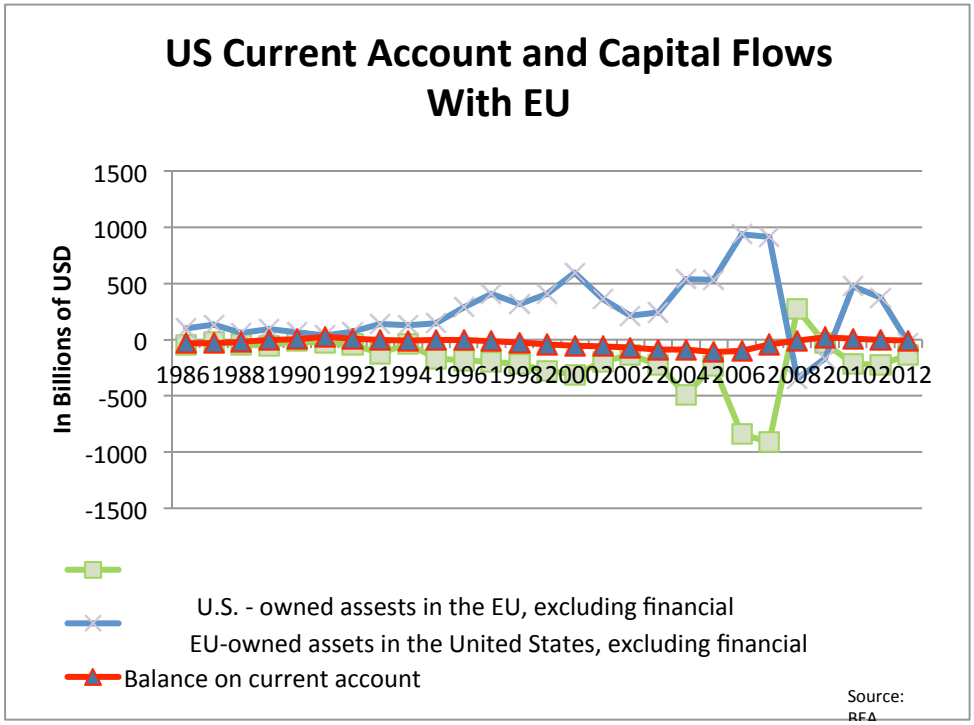


Figure 4, above, shows the capital inflows and outflows of the US in relation to the EU. According to this graph, the capital outflows to the EU are relatively small and they are almost symmetric to the capital flows of the US. The US outflows are a mirror image of the US inflows. This indicates that the US is not experiencing financial capital imbalances in relation to the EU. Similarly, the current account (CA) of the US versus the EU is shown in the same graph. The US CA for most of the period is balanced close to zero, thus, the US did not experience trade imbalances with the EU.

The EU, towards the end of February 2014, launched a campaign requesting that regulations of financial services be included in the negotiations of the TTIP agreement. An immediate response came from the US Treasury which strongly opposed regulations of financial services. The Treasury would prefer these regulations be negotiated outside the TTIP. The Treasury, however, agreed that opening up financial services markets must be included in the negotiations. The EU officials insist that regulations of financial services are too important to be left out from the TTIP negotiations. An opinion paper from the EU published on January 27, 2014, reported that excluding financial regulations from the TTIP negotiations "risked ignoring the lessons of the 2008 crisis." (Oliver, Donovan 2013).

Capital flows for the purpose of financial investment (portfolio investment) are very large, and it may be necessary for their movements to be moni-

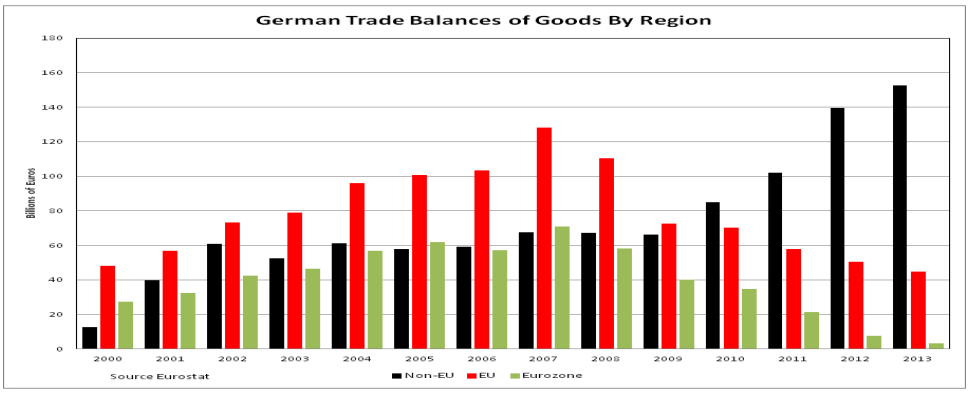
tored for the purpose of financial stability. US trade imbalances have attracted much attention in the last 15 years, as several economists consider the US trade imbalances to be a source of financial instability and a cause of the international financial crisis.

Unregulated financial derivatives, however, turn out to be the greatest threat to the international financial system. In particular, the opaque financial derivatives that are traded over-the-counter (OTC) are suspected to be the greatest threat to the international financial system. The above claim is supported by the fact that of the total amount of traded financial derivatives in June 2013 were $765 trillion, of which $692 trillion were OTC, which means nobody had a record of such transactions because they were not traded in official exchanges.[27] Most financial derivatives are traded in New York and London for the purpose of hedging specific needs by transferring market risks between counterparties participating in the transactions.

Some Surprising Trade Results between Germany, US and EU

Figure 5, below, shows the trade balances of Germany with the EU, the Eurozone, and non-EU countries. According to this graph, there exists a major change (structural break) in the trade balances of Germany with the US, Eurozone and non-EU countries. This structural break took place in 2007, the same year the Great Recession officially began in the US. According to Figure 5, the amount of goods that Germany exported to the EU and, particularly, to the Eurozone drastically declined. However, the amount of German exports to the non-EU countries increased very rapidly. These results are puzzling because within free trade regional blocs, trade should increase. It is, nonetheless, evident that Germany decreased the amount of trade for every year after 2007 with EU and the Eurozone. Germany, however, increased trade with non-EU countries.

Figure 5



[27] Retrieved from: https://www.bis.org/statistics/derstats.htm

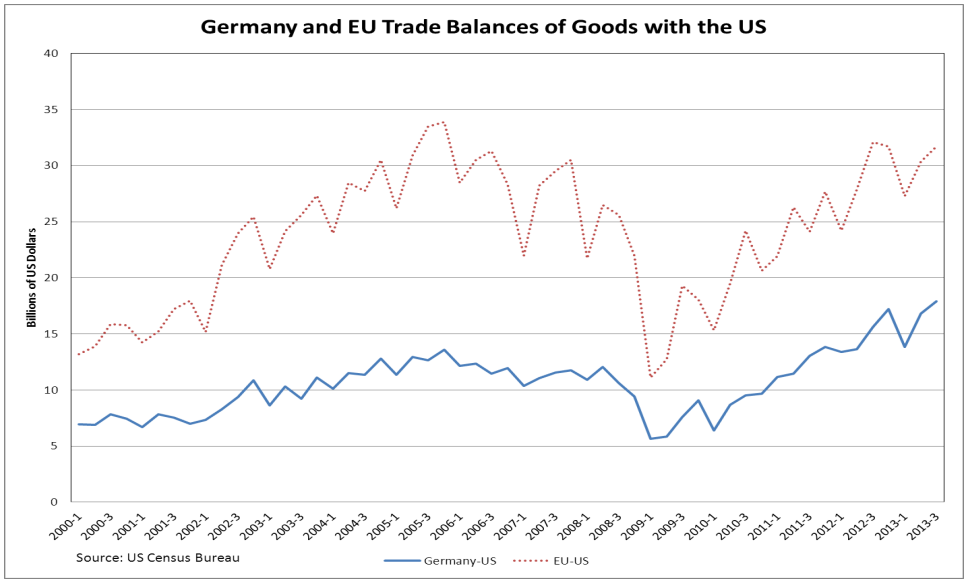
Furthermore, Figure 6 below clearly shows that Germany increased trade with the United States, but, the EU also increased trade with the United States. The latter, however, may be a result of Germany's increased trade with the US.[28]

The question arises how could Germany increase trade with the US before a trade agreement was signed? Germany, at the same time, decreased trade with the EU and the Eurozone, two regions with which she signed several agreements and established a free trade area, a CU, a common market, several common policies, and the same currency.

A very likely explanation is that the international financial crisis affected several EU/Eurozone countries as bank liquidity dried up quickly. A possible scenario was that banks were unable to finance trade as liquidity had dried up for both businesses and governments. The conclusion is that trade liberalization does not necessarily lead to enhanced trade among countries unless the financial and economic system remain stable during financial crises.

Figure 6, below, shows that both the EU and Germany increased trade with the US. The increase of the EU trade with the US reflects mainly the increased trade of Germany with the US as German trade constitutes approximately half of the EU-US trade.

Figure 6



Concluding Comments

The Transatlantic Trade and Investment Partnership (TTIP) is presently being negotiated between the US and EU aiming to establish the largest preferential

[28] This is a result of the fact that Germany's trade is a large portion of the EU's trade.

trading bloc in the world. Since the EU and US tariffs are very low the two transatlantic partners agreed to negotiate the liberalization of services, government procurement and the removal of non-tariff barriers. If successful, the two trading partners would capture substantial benefits according to some preliminary estimates. Such benefits may be delayed, however, if the US Congress does not approve the fast track request by President Obama to negotiate the TTIP and other trade agreements. The TTIP will not be complete if regulation of financial services is left out of the agreement. If this happens the international financial system will remain fragile, and any progress from increased trade is likely to dissipate when the next financial crisis approaches. There is strong evidence that transatlantic economic integration has begun prior to the negotiations of the TTIP, this was shown by the increase in German surpluses with the US. Transatlantic integration began with the onset of the US subprime mortgage crisis and continued during the European sovereign debt crisis. Increased trade between the US and EU is mainly driven by reduction of trade between Northern and Southern Eurozone countries. This was a consequence of the periphery Eurozone countries being cut off from capital (credit) markets. Such a change resulted in trade rebalancing, as the periphery trade deficits dissipated during the financial crisis. Such findings are likely to have long-term implications for the future of the EU, Eurozone and the United States.

Appendix

Figure A

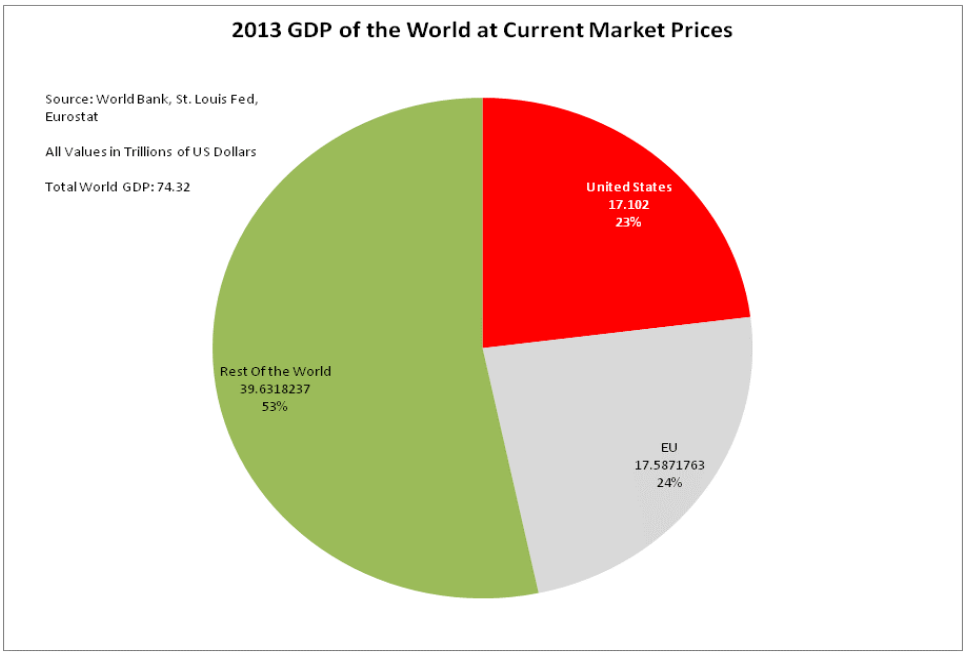


Figure B

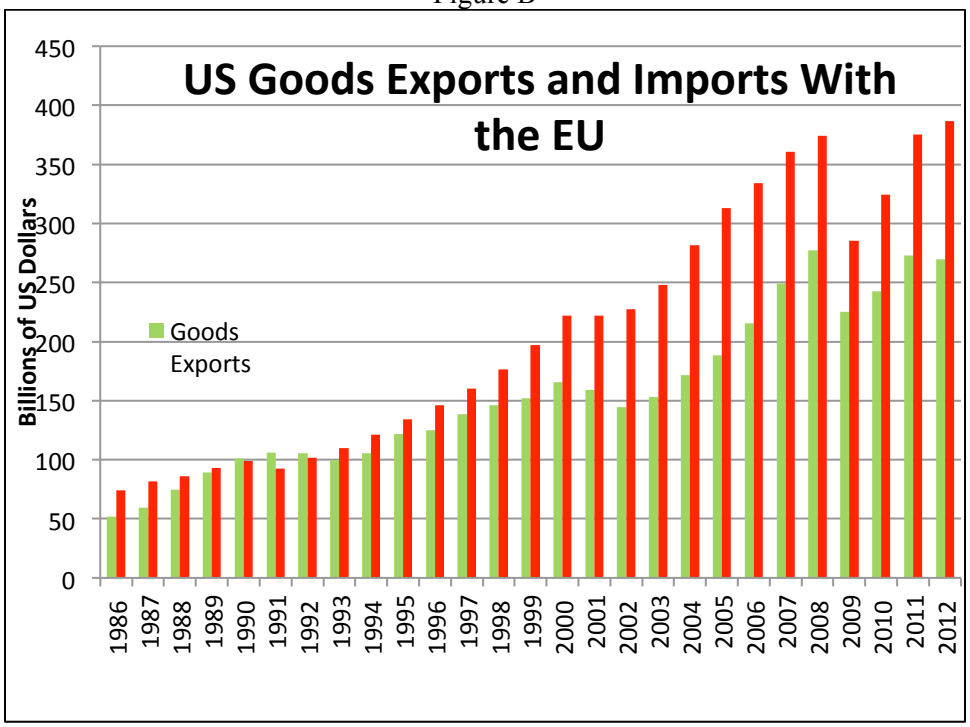


Figure C

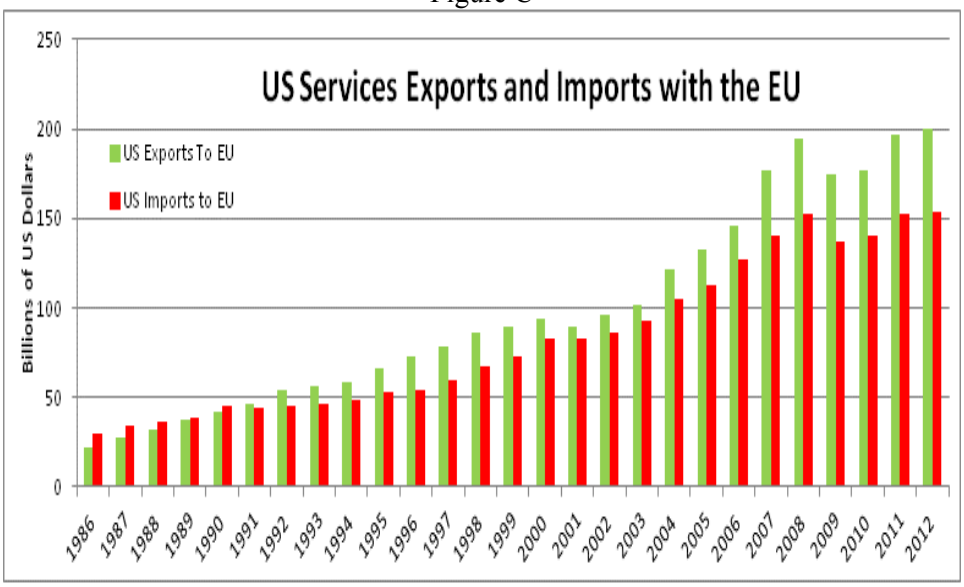
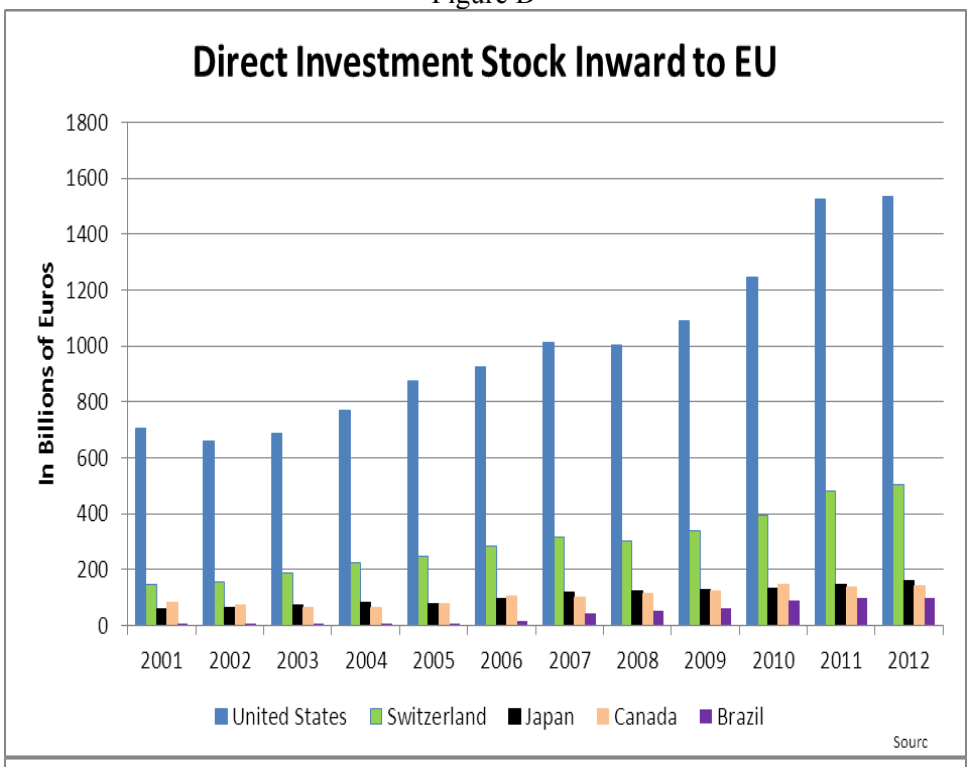
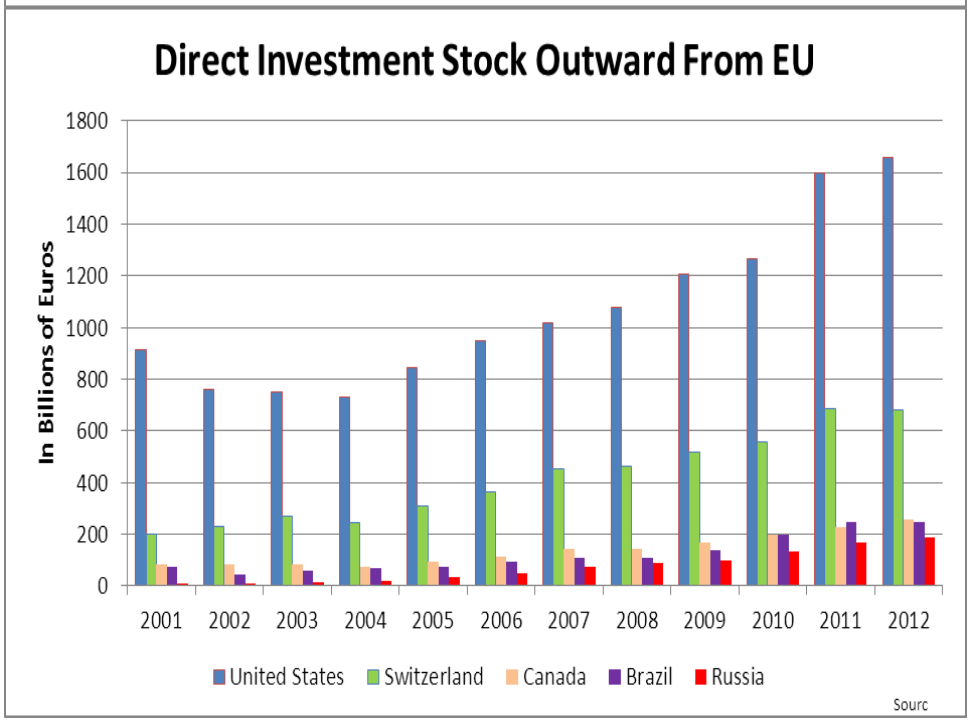


Figure D


Direct Investment Stock Inward to EU
In Billions of Euros
1800
1600
1400
1200
1000
800
600
400
200
0
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
United States
Switzerland
Japan
Canada
Brazil
Sourc


Direct Investment Stock Outward From EU
In Billions of Euros
1800
1600
1400
1200
1000
800
600
400
200
0
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
United States
Switzerland
Canada
Brazil
Russia
Sourc

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Challenges on the Way to a Transatlantic Trade and Investment Partnership

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Baylor University

Abstract

Given the importance of the transatlantic economic relationship, successful completion of the Transatlantic Trade and Investment Partnership negotiations is important for the world trading system. However, getting to a TTIP agreement will involve many challenges. The United States and the European Union have adopted different approaches in trade negotiations on agricultural trade barriers, and reconciling these approaches will be difficult. Deep-seated transatlantic differences exist concerning sanitary and phytosanitary standards, particularly where food safety is concerned. Product standards that are set or enforced at the subnational level, and often rooted in culture, will be extremely difficult to harmonize. Reaching common agreement on services trade and investment will be challenging. Data privacy, geographical indications, and protections for cultural industries will also be contentious issues. Given the complexity of the issues involved, the greatest threat to successful completion of the negotiations will be the temptation to push beyond the limits of what is politically feasible. Better an imperfect agreement that can be improved in subsequent negotiations than stalled negotiations caused by excessive ambition.

Introduction

On June 17, 2013 the United States and the European Union formally opened negotiations for a Transatlantic Trade and Investment Partnership (TTIP), with the first round of negotiations held in July of 2013 in Washington, D.C. Overtures for a free trade agreement between the European Union and the United States had been made several times in the past, but the two sides had always backed away. In part this was because they were concerned that, being predominant players in the global trading system, an agreement between them might work to undermine the broader world trade regime. They also recognized that the easier trade liberalization measures between them had already been put in

place, and that the remaining issues would be difficult and politically contentious.

Some things are different this time, however. The Eurozone economies are struggling economically and European Union countries are casting about for ways to increase growth and employment. Further trade liberalization at the multilateral level has all but stalled, with bleak prospects for a significant breakthrough in the near term. Also, the structure of the global economy is in rapid transition. Countries in Asia and other parts of the developing world are steadily and remarkably increasing their share of world output and trade. Consequently, the United States has announced a 'pivot to Asia' in its foreign policy.[1] While this does not necessarily imply a 'pivot from Europe' as some fear, concern exists in Europe that there could be at least a relative decline in the importance of transatlantic relations. Therefore, attitudes toward a US-EU free trade agreement are more favorable than ever before.

The United States and the European Union have been, and continue to be even today, dominant players in the global economy. Together they account for approximately forty-five percent of total world output in value terms,[2] for about thirty percent of world merchandise trade, and forty-five percent of world services trade. Their dominance is even more apparent when viewed in terms of capital flows. Together they account for about sixty percent of outward *flows* of foreign direct investment, and for about seventy percent of the *stock* of world foreign direct investment. A result of the high degree of transatlantic investment is that the combined sales of foreign affiliates of US firms in the EU and foreign affiliates of EU firms in the US are about five times as great as transatlantic trade. The degree of transatlantic economic integration is truly remarkable, and the importance of the European Union and the United States in the world economy is indisputable. Successful conclusion of Transatlantic Trade and Investment Partnership negotiations could have a profound effect on the world trading system as well as upon the countries directly involved.

Previous Initiatives to Enhance Transatlantic Economic Cooperation

A number of attempts have been made in the past to improve economic cooperation between the US and the EU. The Transatlantic Declaration in 1990 initiated regular US-EU summits aimed at strengthening the transatlantic relationship that are attended by the President of the European Commission, the President of the European Council and the President of the United States. These summits have yielded a number of agreements. In 1995 a New Transatlantic Agenda was adopted that, in addition to inter-governmental dialogues, established regular

[1] That this initiative has an economic dimension is reflected in United States participation in the Transpacific Partnership negotiations.

[2] The US and the EU account for 45% of world nominal GDP; 38% of GDP measured in purchasing power parity terms. (Calculated by author from IMF statistics)

consultations between interest groups on both sides of the Atlantic: a Transatlantic Business Dialogue, a Transatlantic Labor Dialogue, a Transatlantic Environmental Dialogue, and a Transatlantic Consumer Dialogue. Of these, the Transatlantic Business Dialogue has been the most active and effective. Among its successes are the mutual recognition agreements concerning product standards for electrical equipment, pharmaceutical products, and telecommunications and information technology equipment that were reached in 1998 (Ahearn 2009).

In 1998 a Transatlantic Economic Partnership was formed to focus specifically on trade relations. Goals were established for enhanced regulatory cooperation, improved consumer product safety, and further mutual recognition of product standards. Other initiatives have included: in 1999, adoption of a joint statement on *Early Warning and Problem Prevention Mechanisms* that was designed to identify before their adoption regulations that might inhibit trade; in 2000, establishment of a Consultative Forum on Biotechnology to enhance communication in this area; in 2002, adoption of *Guidelines for Regulatory Cooperation and Transparency* that encouraged further cooperation by transatlantic regulatory agencies; in 2004, adoption of a *Roadmap for EU-US Regulatory Cooperation and Transparency* that aimed for intensified regulatory cooperation; in 2005, expansion of the 2004 agreement to include additional sectors plus establishment of dialogues between the US Office of Management and Budget and the European Commission on transparency and risk assessment methodologies, and establishment of a *High-Level Regulatory Cooperation Forum* that included academics, business executives and high-level government officials to develop a joint regulatory work plan (Ahearn 2009).

Despite all of these initiatives, it is fair to say that not a great deal has been accomplished toward removal of transatlantic trade barriers beyond what was agreed in the Uruguay Round of multilateral trade negotiations. Contentious disputes have continued concerning agricultural trade distortions, airline industry subsidies, and food safety standards, to name but a few. In recognition of the need for further progress, the EU-US summit meeting in November 2011 the Transatlantic Economic Council was directed to establish a High Level Working Group on Jobs and Growth "…to identify policies and measures to increase EU-US trade and investment to support mutually beneficial job creation, economic growth and international competitiveness" (European Commission 2013a). In both an interim report issued in June 2012 and in its final report issued in February 2013 the group concluded that a comprehensive transatlantic trade and investment agreement had the greatest potential for promoting growth and increasing employment on both sides of the Atlantic. Consequently, in the same month that the final report was released, US President Barack Obama, European Council President Herman Van Rompuy and European Commission President José Manuel Barroso announced that they would initiate negotiations for such an agreement.

Challenges on the Way to an Agreement

In announcing that negotiations would begin for a Transatlantic Trade and Investment Agreement, the leaders expressed the hope and intention to have a completed agreement by the end of 2014. They realized that the political dynamic can change quickly, and that the window of political opportunity could close by the end of 2014. However, attaining the ambitious goal of a comprehensive trade and investment agreement in such a short time would be very difficult indeed, and is highly unlikely. Canada and the EU negotiated for four years before reaching their free trade agreement, and the issues in US-EU negotiations are likely to be at least as difficult. A discussion of some of the more challenging issues follows.

Agricultural Trade Barriers

While the US and the EU are important trading partners in agricultural goods, their trade with each other is a declining share of their total agricultural trade. The US accounted for 20 percent of EU agricultural exports in 2002, but by 2011 the share had declined to 13 percent. The EU accounted for 13 percent of US agricultural exports in 2002, but by 2012 its share had declined to 8 percent (Grueff, Tangermann 2013). On the face of it, one would think that these declining trade shares would make reaching agreement on agricultural issues in the TTIP negotiations easier. However, agriculture is a sensitive sector with much political clout on both sides of the Atlantic, and nothing concerning agricultural trade liberalization can be taken for granted. In agricultural trade negotiations the US tends to take an export-oriented approach, seeking expanded export markets for its agricultural producers. The EU takes a more defensive posture, with emphasis placed on protecting its domestic producers (Grueff, Tangermann 2013). In negotiations for a TTIP, these differing objectives are sure to clash.

With regard to agricultural import tariffs, the average final bound rate for the US is 4.9 percent ad valorem, but with tariff peaks of 19.2 percent for dairy products, 16.9 percent for sugars and confectionery and 16.3 percent for beverages and tobacco. The average final bound rate for EU agricultural imports is considerably higher than that of the US at 13.8 percent ad valorem, with tariff peaks of 24.3 percent on animal products, 57.6 percent for dairy products, and 28.3 percent for sugars and confectionery. The difference in the US and EU rates is partly due to the fact that the US relies more heavily on subsidies to protect its agricultural producers, whereas the EU depends more on border barriers to protect its agricultural industries. Because of the political sensitivities of agricultural industries, both the US and the EU have typically engaged in trade negotiations with the intention of avoiding any significant structural changes to their agricultural industries and programs (Grueff, Tangermann 2013). Without a change in this mindset, even elimination of import tariffs on agricultural products will be politically difficult.

Reportedly, agricultural subsidies may be left off the table in the US-EU negotiations and reserved for multilateral trade negotiations. Subsidies are an important part of agricultural policy on both sides of the Atlantic, and can be trade-distortive. The EU has changed the character of its subsidy schemes toward direct income payments so as not to distort trade, while the US has for the most part not done so.[3] For that reason, even though EU agricultural subsidies are considerably higher than those of the US, they are less frequently challenged before WTO dispute settlement panels. If agricultural subsidies become part of the negotiations the different approaches to them will make agreement difficult, but if they are left off the table serious trade distortions in agricultural products will remain.

Sanitary and Phytosanitary Issues

Tied in with agriculture are the sanitary and phytosanitary issues that have bedeviled US-EU trade for decades, particularly those related to genetically modified organisms (GMOs). While new crop varieties have been developed for centuries through selective breeding and cross-breeding, technological breakthroughs allowing for direct genetic manipulation have made possible the creation of entirely new products by introducing genes across biological genera and kingdoms. Products can be made herbicide resistant, insect resistant, less subject to spoilage, and given enhanced nutritional content through genetic modification. Genetic engineering has been widely practiced in the US, and consumers have generally accepted the new products without concern (although of late there is some opposition to GMOs in the US). However, in Europe there have been many more reservations concerning these products. Some resist the idea of "tampering with nature." Others worry that such products might give corporate agricultural interests undue control over food supplies. Concerns have been expressed about the possible allergenicity or toxicity of such products, and about the possibility that genetic transfer to neighboring plants could upset the balance of nature.

The difference in attitudes toward GMOs is partly rooted in cultural differences. In addition, European consumers seem to have much less confidence in their regulatory authorities to maintain food safety. The European Food Safety Authority, the counterpart to the Food and Drug Administration in the US, was established only in 2002 so has a short track record. Civil society groups in the EU have widely publicized the possible dangers of GMOs, so that public sentiment against them has remained strong and made life difficult for regulatory authorities as they have attempted to bring EU practices in line with those permitted under the WTO Sanitary and Phytosanitary Agreement (McKinney 2006).

WTO rules allow countries to establish whatever rules and regulations they consider necessary to protect the health and safety of their citizens, so long as a scientific basis exists for such rules and regulations. In the case of GMOs

[3] Changes to US agricultural polices resulting from the 2014 Farm Bill did nothing to remedy this, and likely made matters worse.

international scientific bodies, including those of the EU, have generally concluded that there is no scientific evidence that they are harmful. In the EU, however, the statutory basis for risk management procedures is the precautionary principle as opposed to the cost/benefit analysis used in the United States. While many formulations of the precautionary principle exist, in essence it says that whenever the possibility of significant harm exists and there is scientific uncertainty concerning the effects of an action, decision-makers are justified in limiting the action. Since scientific evidence can seldom, if ever, be considered totally conclusive, the precautionary principle can provide a rationale for regulations based on the subjective assessments of regulators whose judgments are often affected by public opinion.[4] Even when products are deemed safe by EU authorities, enforcement of EU safety regulations is carried out at the national level. Strong political opposition has caused some countries not to implement EU decisions on GMOs. EU food safety regulations that restrict trade are greatly resented by US producers who do not understand or appreciate public sentiment in the EU concerning GMOs. US producers seem determined to change practices of EU countries concerning GMOs, while the EU Trade Commissioner has assured civil society groups in Europe that no changes will be made.

In addition to the case of GMOs, the precautionary principle has been applied in other food safety areas.[5] For years the EU incurred retaliatory measures imposed by the US rather than remove its ban on the importation of hormone-treated beef.[6] The EU has also objected to the use of chlorine washes in chicken processing plants as pathogen reduction treatments, despite a declaration by the European Food Safety Authority that the chlorine washes of processed chicken pose no health risk. On the other side of the Atlantic, the US has for fifteen years kept certain EU beef items out of its market by refusing to remove its ban on the items that was put in place originally because of a few cases of "mad cow disease" in EU countries (Grueff, Tangermann 2013).

These long-standing disputes reflect different attitudes on opposite sides of the Atlantic concerning appropriate degrees of risk where food safety is concerned. Because they reflect deep-seated views among substantial segments of the populations of the countries involved, their complete resolution in bilateral free trade negotiations cannot be expected. For agreement to be reached, both sides will have to be open to some changes while at the same time recognizing

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[4] EU policy also states that "… scientific risk assessment alone cannot, in some cases, provide all the information on which a risk management decision should be based, and that other factors relevant to the matter under consideration should legitimately be taken into account including societal, economic, traditional, ethical and environmental factors and the feasibility of controls." (European Union 2002)

[5] The intractable nature of these issues is indicated by the fact that the US has brought three cases concerning them to WTO dispute settlement panels, has won all three, but none have been resolved (Grueff 2013).

[6] A compromise was reached on this issue when the US agreed to drop for now its retaliatory measures in return for access to the EU market for beef produced without the use of hormones (Grueff, Tangermann 2013).

that they cannot expect the other side to go beyond what is politically feasible. Desires for increased market access and improved economic efficiency will not always trump other considerations that are important to the public.

Technical Barriers to Trade

All countries set product standards in their pursuit of health, safety and environmental goals. The ways in which these standards are formulated and implemented can distort trade, whether or not that is the intention. The WTO Agreement on Technical Barriers to Trade attempts to discipline the imposition of product standards or regulations for protectionist purposes. But even when product standards are not designed to be protectionist, the fact that they differ from one trading area to the next creates additional costs and imposes inefficiencies on firms that have to keep up with and conform to the different standards. The US-EU High-Level Working Group on Jobs and Growth recommended that the TTIP negotiators try to go beyond the WTO Agreement on Technical Barriers to Trade to aim for "…greater openness, transparency and convergence in regulatory and standards-development processes; streamlining testing and certification requirements; enhancing cooperation in global conformity assessment and standardization" (Schott, Cimino 2013).

While some progress no doubt can be made in these areas, pushing too far and hard is likely to jeopardize the negotiations. Product standards are often rooted in culture, and changing them is difficult. The bodies that formulate them often closely guard their authority. The EU discovered in its efforts to complete the internal market under the Single European Act that harmonization of product standards was often not possible even within the EU, and settled for mutual recognition instead. Previous transatlantic attempts to attain mutual recognition of standards have been successful in only a few sectors, as mentioned earlier in the paper.

A major problem is that regulatory agencies in US are often found at the state level rather than the federal level, making agreement at the national level difficult. And in the EU there is a propensity to set regulations at the European level but to leave enforcement at the national level where it is often inconsistently applied. Even for mutual recognition of standards, regulatory bodies that answer to domestic legislators are often reluctant to put full faith and trust in counterpart agencies in other countries (Ahearn 2009). Also, procedures for conformity assessment differ between the US and the EU. For example, the EU only requires supplier certification of conformity to safety standards of some products that are considered low-risk, while the US requires third-party testing or certification (European Committee 2013b). Long-standing regulatory traditions such as these will be difficult to change.

The greatest gains may be realized by focusing on how new new regulations are formed. Firm and enforced commitments to transparency and transatlantic consultation/cooperation in the setting of regulations and product standards

for new products should be less problematic than attempting to modify existing regulations.[7]

Services

Trade in services is an increasingly important part of transatlantic trade, accounting for about 36% of US-EU trade in value terms (Slater 2013). The recent OECD-WTO measurement of trade by "value added" indicates an even more important role for services, in that the services component of US exports in 2009 was 49%, and that of the EU was 54% (OECD-WTO 2013). By their nature many services require investment in the consuming country for their delivery. Service industry negotiations involve sectors such as finance, transportation, insurance and communications that are sensitive from a national security point of view, and tend to be heavily regulated. For all of these reasons trade liberalization for services is more complex than for goods.

The High-Level Working Group Final Report recommends "…binding commitments to provide transparency, impartiality, and due process with regard to licensing and qualification requirements and procedures, as well as to enhance the regulatory disciplines included in existing U.S. and EU trade agreements" (HLWG 2013). In its free trade agreements, the US has liberalized services trade through the use of a negative list, that is, service sectors were open to competition unless they were on a list putting them off limits. In contrast, the EU has used a positive list with service sectors open to competition only if they are on the list (Schott, Cimono 2013). This difference in approaches will provide some complications for the TTIP negotiations.

A very difficult service sector for the TTIP negotiations will be that of finance. Monetary and financial regulators on either side of the Atlantic have developed their own sets of regulations, and trying to reconcile these is going to be particularly contentious. As a recent example, the EU Commissioner in charge of financial services vigorously objected to the United States Federal Reserve's plan to force higher capital requirements on the US subsidiaries of EU country banks such as Deutsche Bank, Barclay's and BNP Paribas. The regulation would require EU banks to maintain for their subsidiaries operating in the US the same 7% core capital/risk-weighted assets ratio that is required of US banks, rather than basing the ratio on a consolidated statement[8] (Barker, Braithwaite 2013). Some in the US fear that financial services firms and EU negotiators will attempt to use the TTIP negotiations to dilute some of the Dodd-Frank reforms of the financial sector in the US.

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[7] A step in this direction was taken by the Obama administration in 2012 when Executive Order 13609 instructed the Office of Information and Regulatory Affairs to promote international cooperation as it conducts cost/benefit analyses of proposed new regulations (Watson, James 2013).

[8] Deutsche Bank's US subsidiaries are said to have negative equity (Barker, Braithwaite 2013), and the bank as a whole is said to have so little tangible equity that a 2% decline in its asset values could make it insolvent (Bloomberg View 2013).

Investment

As stated earlier, the transatlantic economic relationship is based largely on transatlantic investment. The High-Level Working Group recommends that the TTIP "…should include investment liberalization and protection provisions based on the highest levels of liberalization and highest standards of protection that both sides have negotiated to date" (HLWG 2013). The US and the EU have never had an investment agreement because, until the Lisbon Treaty of 2009, the EU Commission shared competency in this area with the Member States. The Commission is moving to gradually consolidate the bilateral investment treaties of individual countries into a community-wide investment agreement (Schott, Cimino 2013). How ambitious the Commission can be will turn to a large extent on how broad a definition of foreign direct investment is agreed between the Member States and the Commission (Ahearn 2011). Investor protections extended under Chapter 11 of the North American Free Trade Agreement (NAFTA) have been criticized as having gone too far, in that they allow foreign investors to sue the federal government for damages arising from changes in sub-federal laws and regulations. Concerns by civil society groups in the EU that investor-to-state dispute settlement could put at risk environmental and health policies have prompted the EU Trade Commissioner to temporarily suspend the investment section of the TTIP talks. (ICTSD 2014) The large volume of transatlantic investments could potentially expose governments to significant liabilities if investor protections similar to those of NAFTA were written into the transatlantic trade agreement (Lester 2013).

Given that both the US and the EU already have high levels of investor protection, it may be desirable to avoid this contentious issue and focus instead on investment liberalization. Even though a very high level of transatlantic investments are currently in place, significant limitations on transatlantic investment still exist. In the US these are mainly in the transportation, communications and energy sectors. The US also has a process, run by the inter-agency Committee on Foreign Investment in the United States, for reviewing proposed mergers, acquisitions and takeovers of domestic firms by foreigners that might have national security implications. The economic and legal costs of navigating this process can be significant (Ahearn 2011). In some cases, such as limitations on foreign investments in commercial airlines, the ostensible national security justification is highly questionable. In the EU, since there has been no community-wide investment policy it is difficult to speak in general terms about limitations there. Attitudes toward foreign investment differ widely among the 28 member countries of the EU, so development of an EU-wide approach for the negotiations will be extremely challenging (Ahearn 2011).

Other Contentious Issues

While the subjects discussed above are likely to be the more contentious issues in the negotiations for a TTIP, several other areas could be problematic. One of these is the difference in attitudes across the Atlantic concerning data privacy. The EU has adopted much stronger measures to protect individuals' data privacy than has the US. Business firms in the US are eager to gain greater access to consumer data in the EU, and are likely to push hard for concessions in this area. Recent revelations about data collection activities by the US government will no doubt strengthen the resolve of EU negotiators not to yield ground in this area.

Another issue on which strong transatlantic differences of opinion exist is that of geographical indications. These identify goods as originating in a specific geographical area, where it is claimed that the quality of the goods or their characteristics is dependent on their geographical origin. The WTO Agreement on Trade Related Intellectual Property issues extended trademark protections to certain wines and spirits based upon their geographical origin. The EU is pushing for extension of geographical indications into other foodstuffs and agricultural products such as cheeses, hams, fruits and vegetables. US agricultural producers strongly disagree, and will vigorously oppose extension of geographical indications in the TTIP negotiations.

A further possible sticking point in the negotiations is the insistence of certain countries, such as France, on retaining limitations on competition in cultural industries such as filmmaking, television programming, and certain other media. France insisted that cultural industries be carved out and put off limits in the negotiations, but under strong pressure from other EU member countries agreed not to block the beginning of negotiations over the issue. US media companies will push for more competition in cultural industries, particularly with regard to digital transmission of movies, but will encounter strong resistance from some countries.

Finally, the EU will be pushing for further access to the government procurement markets of the US. The US and the EU are both signatories to the WTO Agreement on Government Procurement, but its coverage is limited. According to the European Commission, the WTO Agreement on Government Procurement covers 15% of the EU government procurement market but only 3.2% of the US market (European Commission 2011). A problem for the negotiations is that in the US many of the restrictions on government procurement from foreign firms originate at the state and local level, and are not subject to the terms of international trade agreements. There is room for improvement at the federal level on both sides, however. Agreement by the US that nondiscriminatory procurement be applied to all state and local government projects that involve federal funding would be a step forward.

Conclusion

Given the breadth and depth of the transatlantic economic relationship, removal of existing trade barriers through a TTIP could yield significant benefits. However, achieving agreement will be challenging for reasons discussed here. The trade barriers that could easily be dealt with have for the most part already been removed. Those that remain involve complicated and contentious issues. A survey of both public and private trade policy experts by the Atlantic Council and Bertelsmann Foundation found that the issues considered most important for successful negotiation of a TTIP agreement were also those considered to have the highest degree of difficulty for the negotiations.

This paper has identified several specific challenges that will be encountered along the road to a Transatlantic Trade and Investment Partnership. The greatest hazard, however, is that the parties expect too much and try to push the limits of the agreement beyond what is politically possible. Pursuit of a perfect agreement could endanger an imperfect but still very useful agreement. Complete tariff elimination, which will not be easy but should be attainable (with very slow phase-out for some agricultural products), would by itself benefit economies and consumers on both sides of the Atlantic. To expect that comprehensive agreement can be attained in the areas of sanitary and phytosanitary measures or technical barriers to trade is unrealistic. But limited movement toward further mutual recognition in these areas should be possible, as well as some liberalization of services trade and investment restrictions. A less than perfect agreement that could be improved in subsequent negotiations would be much preferable to a stalemate brought about by excessive ambition, because failure of the negotiations would be harmful to both the transatlantic relationship and to the global economy.

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II. Special Issues

The Automotive Sector in Light of the Transatlantic Trade and Investment Partnership

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Abstract

This chapter looks at the transformations of the automotive sector in the European Union and North America (Canada, Mexico and United States) as a result of the free trade agreement between the EU and Mexico and the prospects of the free trade agreements between the EU and Canada, on the one hand, and the EU and United States, on the other. The automotive sector is one of the areas where production processes experience multiple links in the geographical area under scrutiny in this study. In the case of the Transatlantic Trade and Investment Partnership (TTIP), EU exports of motor vehicles to the US are expected to increase by 149 percent. In this regard, this chapter will map the main changes that the automotive sector has experienced in the past decade and will indicate some of the expectations of the TTIP.

Introduction

The automotive sector has been one of the engines of the international economy. From environmental regulators in one country to seat belt producers in another, the sophistication of car production entails a variety of economic and political actors competing to attract investment and place their products in the market. The United States and Europe have been leading actors in the automotive sector since the first models were produced more than century ago. Beyond the automotive sector, the United States and Europe have developed and very intense relationship. Some numbers are emblematic of this trend: the total US investment in the EU is three times higher than in all of Asia and the EU investment in the US is around eight times the amount of EU investment in India and China together; also the EU and the US economies account together for about half the entire world GDP and for nearly a third of world trade flows. In this context, the automotive sector and the chain of suppliers around it represent a very significant component in the transatlantic trade and investment relations. The following sec-

[1] The author appreciates the research and comments from Erica Brierley in the writing up process of this chapter.

tions aim at exploring the current developments in the automotive sector and the expectations of the TTIP.

The Automotive Sector After the 2008 Crises

The 2008 economic crisis had a deep impact on the global automobile industry. Sales of automobiles declined in most of the OECD countries by more than 20 per cent between late 2008 and early 2009. In the United States, decreased levels of consumption and business investment led to a 25 per cent decrease in total production output in the latter half of 2008. In Europe, the impact of the crisis on the automobile sector varied in the different types of cars. The sales of small cars dropped less than those of other vehicles, but the overall picture indicates that vehicle-producing countries experienced a sharp decline in production growth in 2008. The combination of the crises with other factors such as rise in oil prices before the onset of the crisis and the tightening of the credit conditions in both Europe and North America multiplied the impact on the demand in the automobile sector. Since the high cost of obtaining a loan and inability to gain auto loans on reasonable terms prompted many buyers to postpone purchasing vehicles during and after the crisis, it produced a 80 per cent collapse of car sales in both Canada and United States (Haugh, Mourougane, Chatal 2010).

As 2008 came to a close, both GM and Chrysler were running out of cash and were only weeks away from complete collapse. Amid the financial crisis, credit markets were frozen and no alternative sources of financing were available to GM and Chrysler (White House 2011). To prevent the imminent collapse of the industry in 2008, the Bush administration granted GM and Chrysler federally guaranteed loans to allow them to survive into early 2009. The Auto Recovery Task Force formed under President Obama recommended rescuing GM and Chrysler and extending a line of credit to Ford Motors. The recommendations were accepted and implemented by the Obama administration, preventing a collapse of big three. After reviewing the business plan submitted by Chrysler in February 2009, it was clear that the company was weaker than GM – lacking a developed product pipeline or the international reach to compete in an increasingly globalized auto market. The President also decided that Chrysler had a chance to achieve viability through a partnership with the international automobile manufacturer Fiat. In order to effectuate the restructuring and alliance with Fiat, Chrysler entered bankruptcy in June 2009 (White House 2011). In Europe, the most aggressive plan was implemented by Germany with a financial support package of 1.95 billion USD to help the support of country's automobile industry with measures including tax relied and loan guarantees (Eubanks 2010).

On the demand side countries on both sides of the Atlantic implemented support policies for consumer, including subsidized credit facilities for replacing old cars by new cars. "Cash for clunkers" programs whereby governments subsidize the purchase of a new vehicle to replace old energy inefficient vehicles were widely used. The main objective of these programs was to shift household expenditure from the future to the present (Haugh et al. 2010). As a result of the

financial support from governments, the automotive sector is back to its traditional dynamism and in some cases has surpassed expectations, particularly in the United States. In this regard, the US Government provided a total of USD 80 billion to stabilize the US automotive industry through investments in General Motors (GM), Chrysler Financial, Ally Financial, and programs to support automotive suppliers and guarantee warranties (White House 2011). The record of the US programs indicates positive results: In 2010, GM, Chrysler, and Ford increased their market share from 41.0 to 44.4 percent, which was the first time that the Detroit three gained market share against their foreign competitors since 1995; in 2011, Chrysler repaid its outstanding loans to the U.S. Treasury – a full six years before their scheduled maturity; and by 2014, the US auto market grew for a fifth straight year for just the second time since World War II --the last time US sales rose for five straight years was 1996 to 2000-- (Trudell 2013).

US automakers have also expanded their operations in Europe. Chrysler started selling Fiat Freemont in May 2011 in Italy and the Jeep Wrangler Polar was introduced in 2013. On the other hand, Ford of Europe has subsidiaries with production plants headquartered in Essex, Britain, and Cologne, Germany. As a result, the largest auto manufacturers makers worldwide are engaged in revisiting their strategies in order to keep their leading position as global producers. Toyota has consistently topped the list, losing its top spot only in 2011 to General Motors. The permanent shifts in innovation and market strategies will lead, in the view of industry analysts, to numerous other companies including the German care manufacturer, Volkswagen, South Korea's Hyundai and a resurgent Ford to compete for the top position of globe's largest automobile manufacturer (Dawson 2013).

The EU-USA Agreement

The prospects of a EU-US free trade agreement had been mentioned in the transatlantic relations since the early 1990s. Then EU Trade Commissioner Leon Brittan called for a Transatlantic Free Trade Agreement in 1995. However, this idea was not embraced due to the potential negative impact on the world economy and particularly on the creation of the WTO and later on the launch of the Doha negotiations. A couple of decades later, the free trade area between the EU and the United States is not only welcomed, but also perceived as an additional instrument to boost the economies on both sides of the Atlantic, particularly after the hit of the 2008 great recession (Krugman 2012). The proliferation of free trade agreements and the stalemate of WTO until the Bali Package of 2013 have also provided a more conducive context for negotiations than in the early 1990s. In addition, the negotiation and implementation of free trade agreements has proliferated in the past 20 years and the EU and the United States have also engaged in the wave of free trade agreements. The EU has a free trade agreement with Mexico and is expected to approve another with Canada, while the United States is negotiating the Trans- Pacific Partnership (TPP) with eleven East Asian and Pacific countries and the proliferation of free trade zones

Reports on the TTIP indicate that its potential impact would be positive. It is estimated that the GDP would increase by between 68.2 and 119.2 billion euros for the EU and between 49.5 and 94.9 billion euros for the US (Francois 2013). The EU and the US are relatively open towards each other in terms of investment and trade, as reflected in relatively low levels for tariffs. While in most sectors EU tariffs are slightly higher than those imposed by the US, they are still relatively low. However, there are two main exceptions: motor vehicles, and processed foods. "The EU average tariffs on these products are substantially higher than the US tariffs. For motor vehicles the EU applies an average tariff (8.0 per cent) that is almost eight times higher than the US. For processed food products, EU average tariffs (14.6 per cent) are more than four times higher than US average tariffs" (Francois 2013: 14).

A more challenging area in the negotiations lies in the non-tariffs barriers (NTBs), often in the form of domestic regulations on both sides of the Atlantic. Unlike tariffs, many regulations cannot simply be removed, as they often serve important and legitimate domestic objectives like product safety and environmental protection (Francois 2013: 7-8). On the other hand, it is reported that NTBs on goods on both sides of the Atlantic are generally higher than on services, ranging from 20 percent to 56 per cent. The highest perceived NTB levels were found on the aerospace and space industry. On goods exported to the US, machinery also exhibits high levels of NTBs, while the lowest levels are reported for pharmaceuticals. For goods exported from the US, high levels of NTBs were reported for chemicals, cosmetics and biotechnology. Lower levels of NTBs were reported for electronics, iron, steel and metal products (Francois 2013).

Other impacts of the TTIP will be on third parties. According to Kerici, countries left outside TTIP and TPP would either have to accept less favorable access to these markets, or would have to adopt the standards laid down by these two partnerships. In the case of Turkey, he states that "the exclusion of Turkey from this new emerging international structure, composed of TPP and TTIP, risks pushing Turkey into the arms of those countries that challenge the Western economic order" (Kirisci 2013: 6). In the case of trade partners of the United States, some reports expect some level of trade diversion. For example, Canada and Mexico, both with preferential trade agreements with the U.S. and EU, would experience welfare losses corresponding to 9.48 and 7.24 percent respectively (Felbermayr, Larch, Flach, Yalcin, & Benz 2013: 6). Another effect of the TTIP on the global economy is that the convergence of NTBs standards between the EU and the US could then become de facto global standards for multilateral NTBs.

The production in the automotive sector in the EU-US area has experienced several transformations in the past decade and the expectations of the TTIP may reinforce the trade and production in this sector. Two elements are the base of this assumption. The first is related to tariffs. If adopted, the agreement could result in increased manufacturing activity in the United States and Canada, as the American Automotive Policy Council, which represents Chrysler, Ford, and GM, expects it. While the negotiations take place, some European carmakers, for in-

stance, already started building SUVs in Alabama and South Carolina to avoid the 25-percent truck tax. BMW, Mercedes-Benz, and Volkswagen are also eyeing even more factories in the United States if it means they can build in the U.S. and ship cars back to Europe without incurring a 10 percent import duty (Ewing 2013).

The second element in the automotive sector is related to regulations. Efforts to unify American and European new-car regulations have been ongoing for decades. Virtually no progress has been made during the past 20 years in spite of—or perhaps owing to—an entire United Nations office devoted to the subject. In this regard, it is expected that the TIIP will be able to produce further convergence among several regulatory agencies such a the National Highway Traffic Safety Administration (NHTSA), the European New Car Assessment Program (NCAP), the Environmental Protection Agency (EPA) and the California's environmental standards, to name a few. Another example is Emissions standards, which are one of the few areas where Continental and American regulations have seen some convergence in the past few years. Europe has been more tolerant of diesel engines and their oxides of nitrogen. However, in the next generation of regulations, both markets will tighten up on everything, creating the perfect opportunity to fully align the standards (Berkowitz 2013).

European companies like Siemens, Nestlé and ThyssenKrupp have manufactured products in America for decades, but those products have been destined for US buyers. The TTIP would reinvigorate strategies for the opening of new markets and once a free-trade pact is in place, it might make more sense for companies to export those products back to Europe. In this regard, some automakers have already positions themselves for producing in the United States: Bayerische Motoren Werke (BMW) makes cars in Spartanburg, South Carolina, for consumption in the United States; Mercedes makes vehicles in Tuscaloosa, Alabama, and produces a Mercedes M-Class utility vehicle and to manufacture the next generation of its C-Class sedan; Fiat is seeking to reintroduce its Alfa Romeo brand in the United States; and Volkswagen has been producing a version of its Passat in Chattanooga, Tennessee, which has helped revived its American sales (Ewing 2013).

Canada: Free Trade and Automobile Sector

Free trade agreements have led Canadian business leaders to adapt to new trends of market opportunities and challenges. The Comprehensive Economic and Trade Agreement (CETA) with the European Union will open a market of 500 million consumers, the largest market opportunity since the conclusion of negotiations of NAFTA. The expected benefits derived from the CETA is close to 80,000 new jobs in a labour market of 18 million Canadians working today and a 12 billion USD boost for 1.6 trillion USD economy.

The impact on sectors of the economy will vary in relation not only to the terms of the agreement, but also in the capacity to respond to the access to new markets and the new competition as well. Beef and pork farmers, for in-

stance, will have a significant higher quota for selling into the EU market, but they will need to adopt hormone-free standards in order to capitalize this market opportunity (Times Colonist 2013). In the case of Canadian automakers, the potential of CETA will allow to ship as many as 100,000 duty-free vehicles to Europe, up to the annual average of 8,180 cars between 2007-2012 (Government of Canada 2013).

In the automobile sector, the EU duties currently range from 3.5 per cent to 22 per cent (averaging 11.2 per cent); the agreement includes phase-out transition periods of three, five and seven years to match Canada's offer. In the case of Canada, duties are currently set at 6.1 per cent and there is a seven-year phase-out transition on most sensitive lines. With regard to rule of origin, the preliminary CETA's main rule of origin is 50 per cent limit on non-originating materials, decreasing to 45 per cent after seven years. It is important is the cumulation provision in the case of an EU-U.S. FTA, allowing auto parts originating in the United States to count towards the originating status of a vehicle produced in Canada or the EU following discussions between the parties on the applicable conditions. One year after the implementation of a provision allowing for cumulation with the United States, the origin quota is eliminated and the main rule of origin includes a 40 per cent limit on non-originating materials (Government of Canada 2013). In other words, if an EU-US trade agreement arises, auto parts made in US that are used as inputs in Canadian motor vehicle production will be considered as originating in Canada and will receive preferential treatment. Overall, firm details on the agreement will provide greater insight as the deal is currently vague - with provisions that aim to "strike a balance to respect real-world sourcing patterns" while also encouraging Canadian production. (Cooper 2013: 4).

CECA will bring an element of regulatory transcontinental regionalism (Hameri, Jayasuriya 2011). Starting with strengthening cooperation and the sharing of information between the EU and Canada to the extent that does not affect the North American integration of the auto manufacturing market. More importantly, Canada will incorporate, in whole or part, 17 United Nations Economic Commission for Europe (UNECE) standards by the Agreement's coming into force (14 are already in the Canadian regulatory regime) (Government of Canada 2013).

European auto imports to Canada (representing 8.3 per cent of Canadian imports from the EU – the second largest good) are highly concentrated in luxury products and make up a relatively small market share. Moreover, as the tariffs are expected to be phased out over a period of 3 to 7 years, Canadian auto manufacturers will be able to adapt over time to potential changes in their industry as a result of the agreement (Cooper 2013). Canada imports a very high percentage of vehicles imported from the EU are luxury products, including BMW, Mercedes-Benz, Audi and Porsche.

Some groups are sceptical of the benefits of the CETA and the possibility of the TTIP. Unifor, Canada's largest private sector union and also representing autoworkers at Windsor Assembly Plant in Ontario, where Chrysler makes its

flagship minivans, has asserted that the trade deal will not be good for the Canadian auto industry and manufacturing. Dino Chiodo, the Ontario Chair of Unifor, has argued that in the automotive industry, Canada already has an imbalance in trade and it is expected to deepen as a result of zero trade (CBC News 2013). On the other hand, the adaptation of the Canadian automobile industry may produce some economic and social costs as a result of the changes of the US automobile industry. Canadian industry's export market is largely the United States. This is because an agreement was signed between the two countries in 1965. The Automotive Pact provided the sale of automobiles and parts to be made without duty at the border. The Pact was replaced in 1988 by (NAFTA) in 1994 (Swiss Business Hub Canada 2012). As a result, for instance, Windsor has a large automotive industry because of its proximity to Detroit and the US Market. With the changes in the industry, the tendency has been for the plants to be located in the proximity of the assembly plants that they serve. Whereas, Windsor had a number of assembly plants, now that number has been reduced because of outsourcing and rationalization. Nevertheless, Windsor remains a centre for the industry (Swiss Business Hub Canada 2012).

Conclusion

The outcome of the negotiations will set a new dynamic in the area of the automobile production in North America and Europe. Five possible current events may indicate the future evolution of the automobile sector during and after the negotiations of the TTIP conclude. The first is the increasing investment in the US market. Between 2009, when GM emerged from bankruptcy with the help of a 49.5 billion USD taxpayer bailout, to 2013, the company investment of more than 10.1 billion USD in its US operations, including 2.8 billion USD in 2013. It is expected that GM will invest nearly 1.3 billion USD at five plants in the United States (Reuters 2013). The second is that there will be a process of accommodation with the outcome of the Trans-Pacific Partnership (TPP), particularly with regard to the claims of US producers as to manipulating exchange rates to gain an unfair competitive advantage in Asia. More precisely, US automakers want tariffs — 2.5 percent on cars and 25 percent on pickup trucks — to remain in place until Japan demonstrates that its market is open. However, US trade officials have said that they will remain in place for a significant period if a deal is reached, but haven not specified precisely how long. They could be in place for 15 to 25 years (Shepardson 2014).

The third element is the adaptation of the Canadian, Mexican and US companies to the North American market. In the automotive sector, North America has developed productive networks and become a relative integrated manufacturing area. Today, "If you buy a car in Mexico, it may well have been assembled in Canada and contained Made-in-America parts" (US Department of State 2014). The fourth element is the impact of the TTIP in Mexico. Automotive is Mexico's most important industry within manufacturing, accounting for approximately 3 percent of GDP, 14 per cent of manufacturing output and 23 percent of

all exports. It also employs half a million people. In 2012, Mexico was the eight largest vehicle producer worldwide. Over 80 per cent of Mexico's total auto production is exported and the United States is Mexico's most important export destination in the automotive sector, accounting for over 60 per cent of total exports. The fifth and final event is the role of the US congress in the broader context of negotiation of the TTIP, particularly with regard to whether President Barack Obama will be able to persuade the polarized US congress to grant him the Trade Promotion Authority or so-called fast-track authority, which gives the White House power to negotiate trade deals and limits Congress's ability to intervene in nitty-gritty details once talks are concluded.

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Rhetoric and Reality: The Trade Challenge of Genetically Modified Organisms

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Abstract

The following examines the difficulty in concluding a TTIP agreement regarding trade of genetically modified organisms (GMOs). The differing regulatory frameworks and treatment of GMOs in the US and EU have led to a serious trade dispute, which continues to be a contentious issue in TTIP discussions. In particular, I examine differing: 1) policy evolution, 2) public opinion and economic interests, and 3) government structure and political pressures in the US and EU that have contributed to the current trade juggernaut. In addition to the internal dynamics in the EU and US that have shaped diverging GMO regulations, the international community, in particular the WTO, has placed pressures to forge greater policy convergence. The rhetoric of public officials and divergent proposals for the TTIP on both sides, however, suggest there is still a large gap between regulatory frameworks inhibiting a far-reaching compromise to bridge the distance.

Introduction

The TTIP is an attempt to lower both tariff and non-tariff barriers between the EU and US in many areas including agriculture. Tariff barriers for agriculture are less controversial since weighted tariffs for US agricultural exports to the EU average 4.8 percent and 2.1 percent for EU agricultural exports to the US (The Economist 2013; Hansen-Kuhn and Suppan 2013). Agricultural non-tariff barriers, however, will be the more difficult aspect to negotiate. In particular, one of the very sensitive and highly politicized commodities that historically have had very difficult non-tariff barriers in the form of divergent regulations are GMOs[1]GMOs stand as the most "economically significant" and divergent policies between the US and EU regarding food and agricultural policy (Vogel 2012).

[1] Genetic modification is a bio-technological process that "allows selected individual genes to be transferred from one organism into another, and also between non-related species" (World Health Organization 2010).

The following will exam the long-standing divergent policies regulating the cultivation and trade of genetically modified organisms (GMOs) in the US and EU and the differing rhetoric on both sides of the pond that may determine the likelihood of a resolution to the conflict in the TTIP agreement. In addition, we will also look at external pressures that may provide some policy convergence. Assessing discussions on each side of the pond suggest, however, that what the US wants regarding a change in the GMO regulatory practices in Europe is not what the Europeans are willing to wholesale do, but there may be some middle ground. Since both governments will not publish a draft text until just prior to ratification, it is difficult to determine what the final text will include, but we can examine the current situation and the rhetoric and position papers on each side to come to some tentative conclusions and an understanding of the underlying conflict.

GMOs have the potential to have a significant impact on food supply and sustainability, health and the environment, moreover, it has become a significant agricultural industry, especially in the US, impacting agricultural trade; thus, understanding the EU and US's trade dispute over GMOs is crucial. The US is the world's largest producer of genetically modified (GM) crops and is home to the major manufacturers of proprietary seeds; whereas, the EU has often blocked cultivation and importation of GM crops (International Service for the Acquisition of Agri-Biotech Applications 2012). The differing regulatory frameworks and treatment of genetically modified organisms in the US and EU has led to a serious trade dispute, which was even brought before the WTO, and continues to be a contentious trade concern.

Why is there divergence between the US and EU regarding GMO regulations and trade?

The difference on both sides of the Atlantic can be traced to divergent: 1) policy evolution, 2) public opinion and economic interests 3) government structure and political pressures. Disagreement between the EU and US dates back to the early discussions within each regarding regulating this new technology, which emerged in the mid-1970s. In the US, in the late 80s it was decided to regulate product rather than process (Patterson and Josling 2002). The basic idea was that it does not matter if a product is genetically modified; it still remains to be that product. For instance, genetically modified corn should be regulated the same way that non-GM corn is, thus establishing what is called 'substantial equivalence'. Although the Environmental Protection Agency (EPA) wanted to regulate process the other relevant institutions tasked with regulating GMOs such as the Office of Science and Technology Policy, US Department of Agriculture and Food and Drug Administration were interested in the economic potential of GMOs and ended up having more influence shaping the policy. As a result, regulating the products agro-biotechnology would produce, rather than the process won out. Not only did the US decide to utilize substantial equivalence, the US also advocated a "preventative approach" which focuses on actual rather than

possible risk (Patterson and Josling 2002:4). As a result, in the US 1986 Coordinated Framework for Regulation of Biotechnology no new laws were deemed necessary for the regulation of GMOs (Pew Trust 2001). The outcome has been no pre-market testing and thus far, no application to commercialize a GMO product has been denied (Hansen-Kuhn and Suppan 2013).

On the other hand, in the EU the Directorate General on the Environment, Consumer Protection and Nuclear Safety (DGXI) became the responsible authorities in shaping the Biotechnology Regulations Interservice Committee, which became the main body to develop GMO regulations within the Commission (Patterson and Josling 2002). DG XI, like its US counterpart, the EPA, also sought to regulate the process rather than the product of GMOs. What that meant in practice was that genetically modified products would be regulated differently than traditional products, since the process to make them was distinct. As a result, laws were created to regulate specifically GM products or products where GMOs were utilized in production (i.e. beef in which GMO animal feed was used). Thus, the approach the EU adopted toward GMOs was one of precaution, whereby; probable rather than actual risk is taken into account. Which government agencies took the lead in regulating GMOs early on and the distinct approach they took on both sides of the Atlantic helped set the stage for the current regulatory clash.

The difference between the basic ideals underlying the preventative and precautionary approaches has led in part to the trade dispute between the EU and US regarding GMOs since the EU is not as quick to accept GMOs for import or cultivation. In fact, the EU is the world region with the longest time required to approve a GMO import product (EuropaBio 2011). The US and biotech industries have also criticized what they perceive as the re-approval process of stacked products in the EU (Member of EuropaBio 2013; Hansen-Kuhn and Suppan 2013). A stacked product is one that combines two or more introduced gene traits into a product. For instance, in the US if a new product was created that combined a previously approved herbicide gene and a previously approved pesticide gene that stacked product would not need to go through the approval process again, whereas in the EU the stacked product would need to go through the approval process all over again even though its components as separate entities were already approved.

One other point of contention and major difference between the US and EU is the required labeling in the EU of any product "produced from GMOs, *meaning* derived whole or in part, from GMOs, but not containing or consisting of GMOs" must be labeled (Official Journal of the European Union 2003: Art 3:2). EU labeling requirements were introduced early on when GMO lobbying groups realized that several member states as well as members of the European Parliament would only allow GMOs if labeling was part of the deal (Grant and Stocker 2009). Thus, with support of the GMO industry, introducing GMOs to the market was contingent upon mandatory labeling. In the US there are no federal regulations on labeling. Although some states in the US have attempted to pass legislation requiring the labeling of GMOs in food, earlier efforts were not

successful. The tide, however, may be beginning to change at the state level with passage of GMO labeling laws in Connecticut and Maine and 26 states introduced GMO labeling bills in 2013 (Center for Food Safety 2014). At the federal level on May 21, 2013 Senator Bernie Sanders from Vermont introduced an amendment to the farm bill S. 954 to allow states to require GMO labeling, but the amendment was voted down. Many environmental and healthy food advocate groups have lobbied the federal level to require labeling, but such attempts have failed. With no federally mandated GMO labeling in the US, the industry perceives labeling GMOs in Europe as disadvantaging their products, or as a non-tariff barrier. This is of particular concern to US producers since public opinion in Europe has historically been very skeptical of GMOs (Eurobarometer 2010).

Europeans have been much more concerned about GMOs than Americans, particularly following the regulatory failure that led to the BSE crisis in 1996. The BSE crisis firmly shaped public opinion regarding food safety and human transformation of traditional food practices, such as GMOs. Public concern and outrage over the BSE crisis is what led to the creation of the DG for Health and Safety (SANCO) which regulates food safety and the European Food and Safety Authority (EFSA), which conducts risk assessment of food safety including GMOs. The creation of these bodies was to assuage public concerns about food safety in Europe. However, the BSE crisis strongly impacted public sentiment regarding human intervention in the food chain making Europeans skeptical of non-traditional agricultural practices, such as genetic modification. In fact, a recent Eurobarometer (2010) opinion poll asserts that 66% of Europeans in the EU27 are worried about having GMOs in their foods and drinks (Eurobarometer 2010).

In the US Americans have been less knowledgeable about GMOs and less concerned over them. More recent polls, however, suggest that Americans are now increasingly calling for labeling. Between 2001-2006 the Pew Research Group conducted three public opinion surveys and found that American public opinion regarding GMOs remained fluid. The first poll was conducted in 2001, which was also the year of the StarLink recall. StarLink corn had only been approved for animal feed and it was found in 300 various products throughout the country on grocery store shelves. All the products containing the StarLink GM corn had to be recalled since it was not approved for human consumption and there were concerns over allergic reactions. The Pew Research Group found that information regarding GMOs was highest in 2001 as a result of the StarLink recall (The Mellman Group Research Based Strategy 2006). In 2001 the Pew poll showed that 45% had heard a great deal or some about GMOs and 54% heard almost nothing or nothing and by 2006 only 32% had heard some or a great deal about GMOs and 65% had heard almost nothing or nothing (The Mellman Group Research Based Strategy 2006). The StarLink recall does not compare to the BSE crisis, where several people died and there was international coverage, which may explain the brief but not sustained knowledge of GMOs.

Regarding public opinion between 2001 and 2006 on the safety of GMOs see Table 1:

Table 1: US Public Opinion on the safety of GMOs

2001	2006
29% basically safe	34% basically safe
25% basically unsafe	29% basically unsafe
46 % no opinion	37% no opinion

Source: The Mellman Group Research Based Strategy, "The Pew Initiative On Food And Biotechnology." http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Public_Opinion/Food_and_Biotechnology/2006summary.pdf, November 16, 2006.

It should be noted that between 2001-2006 in the US the planting of GMO corn rose from 26% to 61% (The Mellman Group Research Based Strategy 2006).

Concern regarding GMOs, however, seems to have grown recently. An ABC News random sample opinion poll conducted June 13-17, 2013 reported that 52% of Americans believe GMOs are unsafe, 34% believe GMOs are safe, and 13% are unsure. Similarly, a recent New York Times Poll conducted in January 2013 demonstrated that 75% of Americans are concerned about GMOs in their food (Kopicki 2013). In addition, the New York Times poll also found that a whopping 93% of Americans feel that foods containing GMOs should be labeled (Kopicki 2013)

Comparing US and European opinion polls it is clear that Europeans historically have been more skeptical of GMOs, but it seems opinion is changing toward greater skepticism of GMOs in the US. Europeans demanding labeling of GMOs much earlier than Americans did set a different regulatory trajectory, and perhaps the tide may change in the US, although as of yet there have been no policy change at the national level.

One of the reasons for a lack of policy change has to do with the economic importance of GMO crops in the US as well as the financial resources of the large agribusinesses that produce GMOs. The US is the world's largest producer of corn and the second largest producer of soy (USDA 2013b; Index Mundi 2013); and in 2013 90% of all corn production and 93% of all soy production in the US were GM varieties (USDA 2013a). This means that major agricultural producing states have representatives in Congress that will vehemently push for Europe to change its current regulatory practices. Moreover, the companies that produce GMOs such as Monsanto, DuPont and Syngenta have used their vast resources to also ensure that GMO regulatory structures do not change in the US. For instance, in California when a public referendum requiring the labeling of GMOs, Proposition 37, was up for a vote, companies like Monsanto and The Hershey Co. contributed $44 million to the no vote on Prop 37, compared to NGOs which spearheaded the yes vote and were only able to raise $7.3 million(Almendrala 1920). The proposition failed.

In Europe there are several countries vehemently opposed to GMOs in part due to public skepticism and pressure. Since GM agriculture producing firms are mostly American, there is not the same economic incentive to produce GMOs

in Europe. Also, at the EU level there is less possibility for political influence of GM corporations since members of the Commission are appointed positions and insulated from political pressure. Moreover, Europe has also made a much more conscious effort to stop the revolving door between industry and risk assessment bodies such as EFSA, the main risk assessment body for GM products. For instance the European Parliament in May 2012 delayed budget approval for EFSA due to concern over conflict of interest within the institution. As a result of the EP's actions EFSA also changed members of its panel and management board (Apoteker 2013). The Court of Auditors in 2012 also called for greater independence and transparency of EFSA.

On the other hand, in the US there has been little government action or attention paid to the more pervasive revolving door activity regarding GMOs. For instance some of the more notable occurrences in the US have been Michael Taylor (FDA), Ann Veneman (USDA) and Roger Beachy (USDA and National Institute of Food and Agriculture) all served in government posts and also worked within the biotech industry as well prior to or following their regulatory work for the government (Smith 2007). Such a revolving door policy can have an influence on the risk assessment and subsequent policy of GMOs in the US.

Another key structural difference between the US and EU is that for GMO regulations to be passed in the EU they fall under the comitology procedure in which a qualified majority vote across member states is needed. Since this is such a sensitive issue member states are either vehemently opposed to GMOs or out of respect or political 'good will' will not vote against the strongly held position of another member state. In the US the regulatory decision-making does not go through Congress for a vote and states do not have veto power over legislation.

The External Influences shaping US and EU regulations

In addition to the internal dynamics that have shaped diverging regulatory practices, external pressures have attempted to create greater convergence of practices. Initially Codex Alimentarius (Codex), which was created in 1963 by the World Health Organization and the Food and Agriculture Organization of the United Nations to "harmonize international food standards, guidelines and codes of practice to protect the health of the consumers and ensure fair practices in the food trade" began an international dialogue and standard for regulating GMOs ("Codex Alimentarius – International Food Standards" 2013). The standards that Codex established became the basis for the WTO's agreement on Sanitary and Phytosanitary Standards (SPS), which have become the basis for other trade agreements like the TTIP (Hansen-Kuhn and Suppan 2013).

In 2003 the US, Canada and Argentina lodged a complaint with the WTO regarding EU regulations of GMOs, claiming that they violated the WTO SPS Agreement. At the heart of the complaint was the EU's application of the 'safe-guard clause' in the Directive on the Deliberate Release into the Environment of Genetically Modified Organisms (2001/18), one of the major pieces of

legislation regulating GMOs in Europe (European Parliament and Council 2001). The 'safe guard' clause enables member states to temporarily stop the production or sale of a GMO if they have additional information determining a GMO to be a hazard to humans or the environment. Six member states have applied the 'safe-guard clause': Austria, France, Greece, Hungary, Germany and Luxembourg.

A panel was convened to examine the dispute and on November 21, 2006 three panel reports determined that the EU was indeed in violation of the SPS Agreement. The WTO decided that the EU's de facto moratorium on GMO cultivation, application delays and the 'safe guard clause's' lack of "sufficient scientific evidence" was in violation of the SPS Agreement, thus the EU was pressured to re-evaluate its regulatory practices (Europa Rapid Press Release 2010; World Trade Organization 2008).

As an outcome of the WTO's 2006 report the European Commission, US, Canada and Argentina have held discussions on biotech issues. The EU and Canada and the EU and Argentina have come to some settlements on the GMO issue including the "the renewal of authorizations of genetically modified products" (Europa Rapid Press Release 2010). The EU and US have not arrived at a settlement yet, and thus remains a sticking point in EU-US trade relations.

The WTO case however, has put pressure on the European Commission to speed up approval of imported GMO products. Even Commission President Jose Manuel Barroso has put pressure on the Commission to support legislation to allow GMOs as long as they do not present a health or safety risk and that science should dictate the decision, in accordance with the WTOs finding (European Commission 2010).

Since the WTO dispute the EU and US have been able to coordinate standards for regulating organic agricultural goods with the creation of the Organic Equivalency Arrangement. The agreement included input from "farmers, businesses and civil society" (Hansen-Kuhn and Suppan 2013). Implemented in 2012, the agreement establishes mutual recognition between USDA and EU organic standards, and sets up an exchange of information and dialogue. Outside of a larger trade agreement the US and EU were able to work together to eliminate trade barriers regarding organic products, but regulation agreements on genetically modified goods may be a much greater challenge.

Is there a possibility to find a compromise?

It seems that the position and rhetoric coming from the EU and the US are quite different. The WTO's SPS Agreement will be the basis of the TTIP, but it is unclear if there will be attempts to go beyond SPS rules regarding GMOs. Each side seems to want to break through much of the non-tariff barriers that exist, but it seems that GMOs may be an area where a softer compromise may be necessary in order to ensure ratification on both sides.

In a Commission EU position paper on SPS issues the Commission stated:

> *They* will seek to build upon the key principles of the World Trade Or-

> ganization (WTO) SPS Agreement, including: the requirements that each side's SPS measures be based on science and on international standards, where these exist, while recognising the right of each Party to appraise and manage risk in accordance with the level of protection it deems appropriate, in particular, when relevant scientific evidence is insufficient; and with the objective of minimising negative trade effects. Measures taken, in particular, when relevant scientific evidence is insufficient, must be applied only to the extent necessary to protect human, animal, or plant life or health, must developed in a transparent manner and reviewed within a reasonable period of time…Regulatory convergence shall be without prejudice to the right to regulate in accordance with the level of health, safety, consumer and environmental protection that either Party deems appropriate, or to otherwise meet legitimate regulatory objectives (European Commission-Trade 2013).

The EU statement position on SPS, if one reads between the lines, in part speaks directly to the GMO issue. Within the EU, member states have taken very different stances on GMOs. Some member states see them as an economic opportunity, whereas others are vehemently opposed due to deep-seated distrust of GMOs. Because of the strong divide among member states regarding GMOs, the Commission has found itself in a very difficult position. Quite often the Council has found itself in a deadlock forcing the Commission to make the final decision on GMOs, and they have usually decided to not take a decision due to political tensions surrounding the issue. However, due to the WTO case, the EU has been forced to ensure that science is the guiding principle regulating GMOs. Commission President Jose Manuel Barroso has put pressure on the Commission to use science to dictate decisions (European Commission 2010). However, Barroso has also stated that the EU will not change its position on GMOs and that the European public supports the EU's cautious approach (Politi & Chaffin 2013). Similarly, former Agriculture Commissioner Franz Fischler stated "It would be a mistake simply to use these free-trade negotiations to put pressure on the European side that they should agree to get rid of GMO restrictions…I think this will fail" (Politi & Chaffin 2013).

Even members of SANCO, the DG in charge of regulating GMOs, have stated that they are doubtful that the EU's GMO regulatory framework will be part of the agreement (member of DG SANCO 2013). Instead the EU will keep their current rules, but perhaps will increase the frequency of talks between EFSA and the FDA, EPA and USDA, as was the case following the WTO case and work to speed up the approval process within EU institutions (member of DG SANCO 2013). According to the US Trade Representative, barriers related to biotechnology emanating from Europe are a high priority (Marantis 2013a; Marantis 2013b). Since the barriers to trade strongly affect the US, the US is demanding a resolution to the trade blockage due to EU GMO regulations. Regarding cultivation, it seems that GM producing firms have given up trying to grow in Europe(Member of EuropaBio 2013; Contiero 2013), but US exports of GMOs

are certainly an issue that is of concern and "on the table" in the eyes of US public officials. In a letter from Senate Finance Committee Chairman Max Baucus (D-Montana) and Ranking member Orrin Hatch (R-Utah), to Ambassador Ron Kirk United States Trade Representative, they state that:

> Broad bipartisan Congressional support for expanding trade with the EU depends, in large part, on lowering trade barriers for American agricultural products. This means increased agricultural market access and firm commitments to base sanitary and phytosanitary measures on sound science. The EU has historically imposed sanitary and phytosanitary measures that act as significant barriers to U.S.-EU trade, including the EU's restrictions on genetically engineered crops…and other barriers to trade affecting a significant portion of U.S. agricultural exports (Baucus and Hatch 2013).

There are other agricultural trade issues including US poultry and beef exports, which may dominate the agricultural agenda and may be easier to remedy. Members of Congress from agricultural states will want to see EU GMO regulatory trade barriers lifted, or they may not approve a final agreement[2]. Moreover, corporations that have submitted opinions to the US Trade Representative have criticized the EU's precautionary principle (Hansen-Kuhn and Suppan 2013).

Perhaps a useful model to predict what may be a possible compromise between the US and EU over this critical issue is to look at the EU-Canadian Free Trade Agreement (CETA) since Canada is the fourth largest producer of GM products (International Service for the Acquisistion of Agri-Biotech Applications 2012). The treaty has not yet been ratified, but both governments have come to an agreement in principle. An available summary of the agreement regarding biotechnology states:

- Agreed text is anchored on the principle of cooperation, in particular encouraging and building on cooperation between regula-

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[2] Senators Baucus and Hatch have introduced a Trade Promotion Authority bill, "which grants the president unilateral authority to negotiate and sign a trade agreement and then write implementing legislation to be introduced in Congress under fast-track procedures that require both the House and Senate to hold a vote within 90 days. Although Congress must ultimately approve the implementing legislation by a simple majority vote, fast-track authority bars amendments to the bill in committee or on the floor and limits the amount of time for debate on the House and Senate floors to 20 hours, effectively limiting substantive discussion of the legislation's content by Congress (Weatherford 2014)". It is unlikely, however, that such legislation will pass.

tors.

- The text also notes the importance of promoting efficient science-based approval processes, cooperating on low-level presence, and minimizing adverse trade impacts of regulatory practices.
- With respect to the approval of canola traits, Canada leveraged the CETA negotiations to get agreement with the EU on a parallel letter to demonstrate the EU's commitment to ensuring the efficient processing of canola applications and the expeditious movement of these proposals through the EU approval process (Public Works and Government Services Canada 2013:11).

Examining CETA, it seems that the compromise does not go beyond what the WTO lays out, with its emphasis on science dictating approval of GM products, which the EU claims that they adhere to already. There is special mention of Canola and an agreement to speed up the application process.

It seems that for the US-EU trade agreement it is more likely that a compromise will be for the EU to try to speed up the approval process and meet time deadlines currently part of the EU regulatory framework, which are usually surpassed. Demanding a wholesale change in the EU's regulatory framework regarding GMOs is too much of a hot button issue and several member states may not ratify a treaty that softened EU standards or regulatory process.

Conclusion

Historically, the EU and US have diverged considerably on their regulatory approach to GMOs. In particular, in Europe a precautionary approach evolved, whereas in the US a preventative approach emerged. In addition, in the past public opinion also diverged considerably between the US and EU with European citizens being much more weary of GM products. In the US there has grown increased public concern over GMOs, but it has not translated into legislation or regulatory practices since GM production dominates both soy and corn production, two major agricultural sectors and the companies that produce these products have considerable resources to influence the process.

As the US and EU move toward more negotiations, GM imports to the EU will remain a difficult non-tariff barrier to resolve. International bodies such as Codex and the WTO have established SPS rules that serve as a basis for the TTIP, but it seems tough negotiations would have to occur to go beyond the standards set in these international agreements.

Although US officials would like to see a significant easing of the EUs stringent regulatory framework and labeling requirements, it does not appear that the EU will agree to make a major overhaul of a system that has to be agreeable to all 28 member states. It is likely that the EU will agree to try to cooperate and collaborate more with relevant US regulatory bodies, perhaps having more regular meetings between EFSA and the EPA, USDA and FDA. Also, we may see as

part of the agreement the EU agree to try to speed up the application and approval process. The process itself, however, will remain. Thus, GMOs may remain a controversial trade issue even after completion of an agreement. However, if the political tides change in the US and the public demands labeling and better testing of GM products, perhaps the regulatory dispute between the two sides of the pond may not be so far apart.

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The Need for an "Euro Index" in the Era of the TTIP

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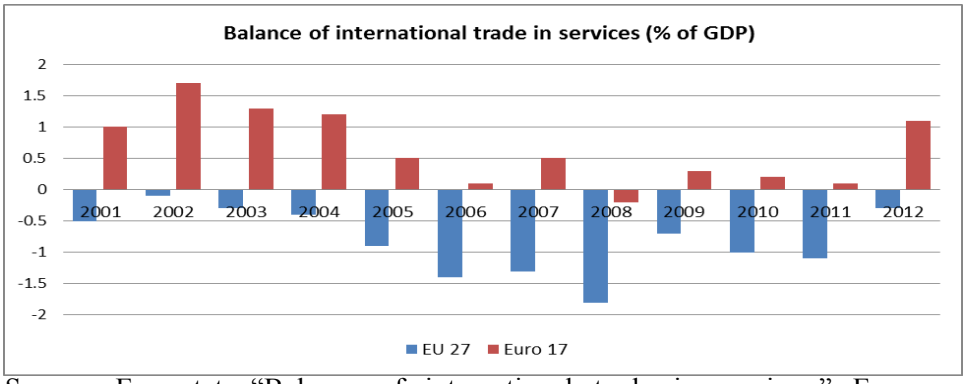
Abstract

The EU has become a powerhouse and the Eurozone an important economic block despite the lingering economic crisis. In July 2013, the US and the EU agreed on a free trade agreement—the Transatlantic Trade and Investment Partnership (TTIP)—which will have a profound impact on the world economy.

Although, the agreement is between the US and the EU, the Eurozone will have the leading role in the partnership because of the economic importance of the Euro Club. For instance, the European Union's 28 members account for 19% of world imports and exports; however, the Eurozone accounts for most of this percentage. In detail, the Eurostat reported that trade in goods for the Eurozone in October 2013 was at a surplus of 17 billion euros with the rest of the world and a 9 billion surplus in 2012 while the EU28's trade surplus was 4.3 billion in 2013 compared with a 10 billion deficit in 2012 (Eurostat 2013). Further, an analysis of the international trade in services shows that the Euroarea has a positive balance since 2001 while the EU 27 has consistently suffered a deficit.



Source: Euro-stat, "Balance of international trade in services," European Commission.
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The importance of the Eurozone rests on the performance of the euro which has, despite economic crisis and political turmoil, demonstrated that it is a stabilizing economic tool. Thus, its strength should be sealed with the creation of a 'Euro Index' particularly when the US and the EU are about to sign the Transatlantic Trade and Investment Agreement. The purpose of this index is to transform the euro into an economic and monetary indicator for the Eurozone that would build on the prestige of the euro club and enhance the analysis of the EU's economic performance, and even, serve to predict future performance.

Introduction

After fifteen years of existence, the Eurozone has become an important political and economic actor and the euro has become a solid common currency. The euro has demonstrated to be a strong currency and has allowed the Eurozone to weather most of its economic difficulties, as it has helped smooth the increase in the price of energy and commodities. This has eased the possibility of a harmful productivity shock similar to the ones suffered by most of Europe during the two "Oil-Crises."

Nonetheless, since 2009 the EU and the Eurozone are facing its first economic crisis and the strength of its foundations has been tested. Despite the strength of the euro, the crisis has revived the voice of euro-sceptics to a degree such that France and Germany have recently agreed to launch an anti-Eurosceptic crusade and are working together to defend the concept of the European Union, particularly as the elections to the European parliament are coming up in May 2014 in most European countries (RFI 2014).

The rise of the anti-European sentiment has been growing because of the hardship encountered due to the economic crisis. In fact, it has been reported that from June 2012 to September 2013 the level of euro-skepticism has grown in Spain from 26% to 37%, in France from 38% to 43%, in Germany from 36% to 44% and in Italy from 39% to 45% (AFP 2013).

In fact, it is worth noting that Germany has witnessed the rise of a new anti-European party, the Alternative for Germany (AfD), which narrowly missed entering the German parliament after the German federal election, held on Sunday September 22, 2013. This group scored 4.8 percent, a whisker short of the 5 percent threshold needed to win a seat in the German parliament. This group sent a clear euro-sceptic message that this new party might be a strong challenge in a European Parliament election on May 2014. The Alternative for Germany defends that the "no-bailout clause" of the Maastricht Treaty must be respected, that countries must be able to leave the Eurozone to form alternative monetary unions or establish parallel currencies if they do not respect the Stability and Growth Pact, and that the secondary market interventions by the European Central Bank should stop, among other things.

In fact, the Flash Euro-barometer 386 published on November 2013 shows that there has been a significant decrease in the percentage of citizens who believe that having the euro is a good thing for the EU. As of September 2010,

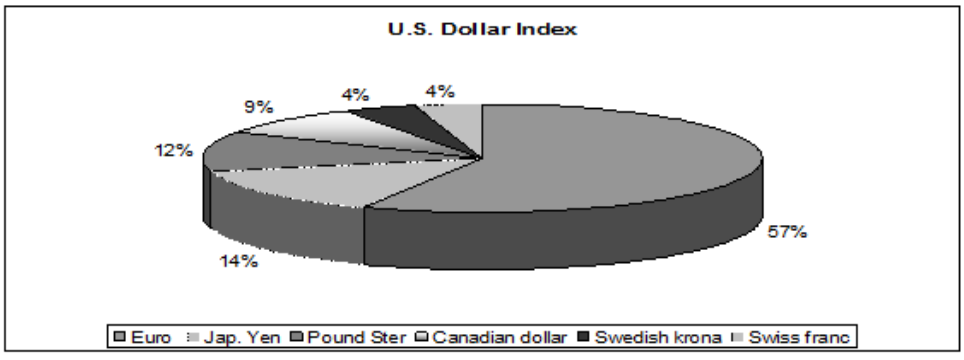
the study reports that 72% of those surveyed believed that the euro was a good thing; however, in October 2013 that percentage has decreased to 68% of those interviewed. Thus, just over two thirds of those living in the euro area think the euro is a good thing for the EU (European Commission 2013). When it comes to the image of the European Union, the Standard Euro-barometer 80, published in autumn 2013, shows that the trend is somewhat pessimistic. As of spring 2006, 50% of those surveyed declared that the image of the EU was positive while as of autumn 2013, only 31% reported this positive view (European Commission 2013).

The euro has, despite the economic crisis and political turmoil, demonstrated that it is a stabilizing economic tool and it should be bolstered with the creation of a 'Euro Index'. The ratification of the Transatlantic Trade and Investment Agreement proves to be a prime opportunity to create such an economic tool. The purpose of introducing a Euro Index is to transform the euro into an economic and monetary indicator for the Eurozone and EU that would enhance the ability to analyze the block's economic performance and speculate on future performance of the euro.

The US Dollar Index: The Path to Follow

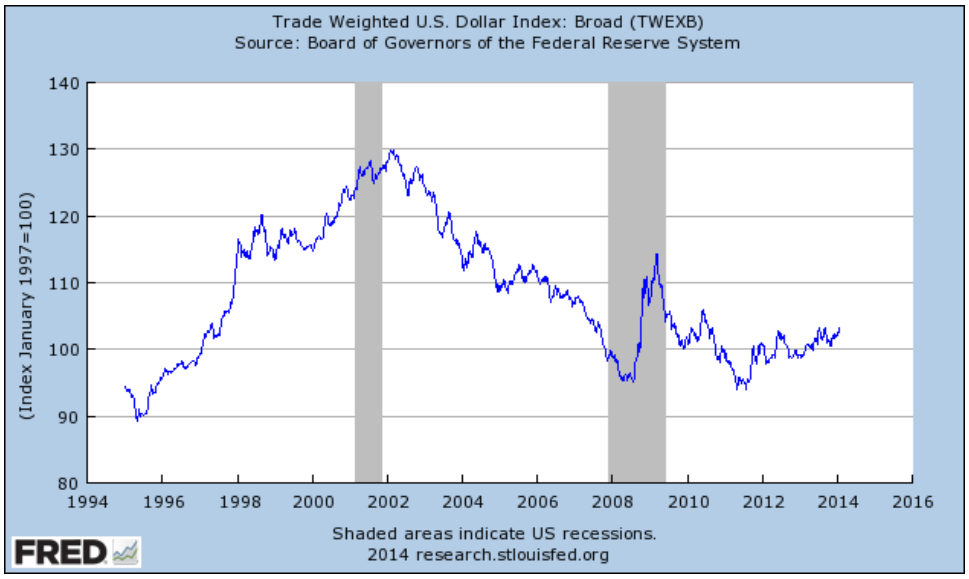
The U.S. dollar Index was created in March 1973 after the demise of the Bretton Woods system to measure the value of the U.S. dollar relative to the currency of its six most significant trading partners: the euro, Japanese yen, Canadian dollar, British pound, Swedish krona and Swiss franc. This index started with a base of 100 and its value is relative to this base; thus, a value of 110 would suggest that the U.S. dollar experienced a 10% increase in value over a time period.

The composition of the currencies that were included in the index has only changed when the euro was introduced in 1999 to substitute the French franc and the German mark. Furthermore, each of this six currencies have a percentage weight in the composition of the index that have changed occasionally to better represent the importance of that currency and the country as a trade partner in each precise moment. The graph below represents the actual weight of each of the currencies that compose the U.S. dollar Index.



Moreover, the US also uses the Trade Weighted U.S. Dollar Index which the Federal Reserve created in 1998 in order to expand the scope of the U.S. dollar Index and include certain countries with which the U.S. has strong trade links: the Euro Area, Canada, Japan, Mexico, China, United Kingdom, Taiwan, Korea, Singapore, Hong Kong, Malaysia, Brazil, Switzerland, Thailand, Philippines, Australia, Indonesia, India, Israel, Saudi Arabia, Russia, Sweden, Argentina, Venezuela, Chile and Colombia. Thus, this new index follows the idea of the U.S. dollar Index but includes a broader collection of currencies with the intention to better represent the U.S. trade relations.

The following graph plots the evolution of the Trade Weighted U.S. Dollar Index since 1994 to 2014. This graph shows the systematic loss of value (depreciation) of the US dollar starting in 2001 which has been associated with an urgent need by the US government to have a "cheap" currency that would help boost exports and fight the incipient recession caused by the terrorist attacks of September 11, 2001. However, in 2008 the US economy began to suffer so-called "Great Recession" which still lingers today and the value of this index and the US dollar has yet recovered from.



Source: Federal Reserve Bank of St. Louis, "Trade Weighted U.S. Dollar Index: Broad (TWEXB)," Economic Research, January 22, 2014. http://research.stlouisfed.org/fred2/series/TWEXB

These two indexes differ in four aspects. First, they differ on what they aim to convey. Second, they differ on the currencies included and their relative weights. Third, they are used to measure a particular issue of the U.S. economy. Finally, each index can follow its own particular mathematical methodology and calculation which is different from the methodology used in the Dow Jones Industrial Average (DJIA) or any other index.

The Euro Index: Technical, Political and Economic Aspects

The globalization of the current economy and financial markets has, on the one hand, increased the number of individuals that can participate in the financial market, and on the other hand, broadened the number and type of markets which are available to investors. In fact, in the past fifteen years the financial market has witnessed an increase both in the number of sub-markets such as the capital market, foreign exchange market, commodity markets, derivative markets, money market, pension market, etc., and the number of time series and indexes available in each of these subfields to follow and trade.

A number of independent time series grouped together form an index which helps create a model to simplify reality. The existence of indexes in the financial market is rather recent due to the number of new instruments and markets that have helped them flourish as indicators of market performance and strength.

There are four major characteristics of an index. First of all, all time-series that composed an index can change over time if the index needs to be updated or adjusted. Second, the price of each of the time series that form the index must be independently determined by market participants. Third, the index price is calculated based on the prices of the undervalued time series but are exposed to heavy mathematical and statistical arrangement. Finally, indexes are composed using differential equations.

The discussion is triggered when scholars, investors, etc. debate on whether indexes by themselves can or cannot convey any information on how they are going to perform in relation to one another, or be affected by both endogenous and exogenous factors. The reason for this argument is that being able to follow indexes and time series to predict patterns or performances, to a certain degree, is important because this will allow investors to obtain economic returns from investments. A body of economic and finance theories follow linear modelling based on the idea that indexes and series are not predictable and that identifying trends and cycles are not possible, which means that no economic return can be expected. There is an alternative a field of theories that defend the premise that financial markets behave in a non-linear fashion and with the help of a multidisciplinary approach it is possible to identify patterns and cycles; hence, that the markets' next step can be forecasted to certain degree.

The U.S. is one of the world's economic and political powers and it has the U.S. Dollar Index and the Trade Weighted U.S. Dollar Index to convey information about its currency and its trading patterns and agreements. This study presents the self-made Euro Index. The idea for this Euro Index rests of the fact that the euro is a de-facto common and international currency and that the Eurozone and the EU have become an important political and economic actor. Hence, it would be appropriate for the block to be able to have an index with the euro and its most significant cross-rates as the U.S. has the U.S. dollar Index.

The self-made Euro Index has been constructed taking five major euro cross-rates: the Eurodollar, the euro British pound, the euro Swiss franc, the euro

Canadian dollar, and the euro Japanese yen. There are three major reasons that explain choosing these particular cross rates of currencies. First of all, these currencies are freely traded in the foreign exchange market. It would be interesting to add emerging country currencies such as the BRIC countries but these currencies lack the liquidity necessary and the level market freedom. Secondly, these currencies do not participate in the European Exchange Rate Mechanism. There are a number of countries that are part of the EU and that are working towards meeting the Maastricht requirements that are major Eurozone trade partners. But these currencies cannot freely fluctuate as they must comply with the requirements. Finally, these cross-rates have a long history since they all exist since mid-1850; in fact, the pound Sterling is the oldest currency still in use. These three facts together demonstrate the strength and seniority of these currencies and prevent any political or economic bias.

The methodology used to create this index is very simple since the intention was to leave each cross-rate as intact as possible and to expose cross-rates to the least amount of mathematical manipulation. However, the Japanese yen has been divided by 100 in all the indexes to make it fall within the ranges of the other four currencies. Further, each of these currencies has been assigned a percentage weight based on the trade relationship between the Eurozone and those countries. Thus, the euro dollar has been assigned 56.3% which will be supported when the US and the EU finalize the trade agreement, the euro-Swiss has been assigned 7%, the euro-pound has been assigned 18%, the euro-Canadian dollar has been assigned 5.1%, and the euro-yen 13.6%. Finally, the Euro Index would be multiplied by 100. The aim of this study is therefore not to construct an index using a complex mathematical approach, but to construct an index—which does not exist—using a simple mathematical approach to study it using a multidisciplinary approach.

The Euro Index: Its Political and Economic Significance

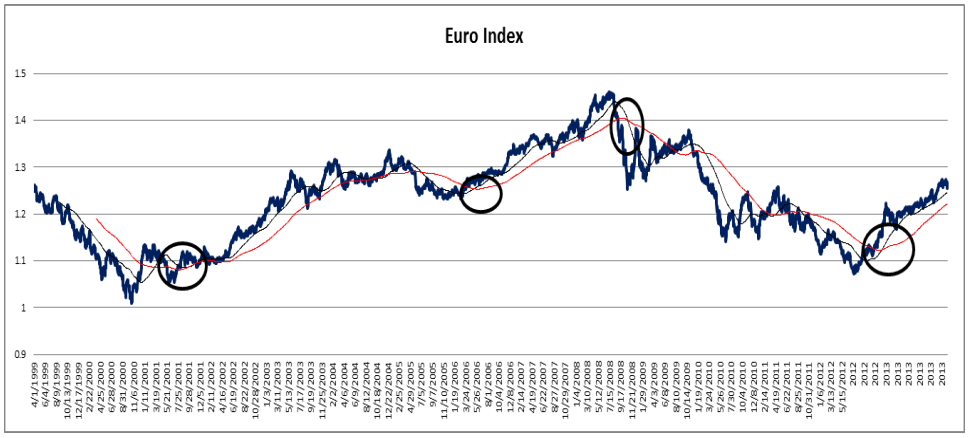
The euro can therefore be considered a strong currency and history has taught that great powers usually have great currencies. The greatness and importance of a currency rests on how often it was used in international trade and how many countries use the currency or have their national currency pegged to it.

During the Pax Britanica, the Pound sterling was used worldwide to seal the importance of the British Empire. Similarly, during the current Pax Americana, the US dollar has been the reference currency and the U.S. Dollar Index has been the index to follow as it measures the strength of not only the US dollar, but also the economy of the US. Thus, the index is considered both an economic and political indicator.

Now that the Eurozone and the EU have become an important political and economic actor and that there is going to be a free trade agreement between the US and the EU, it would be appropriate for the EU to have an index to measure the strength of the common currency. The importance of a 'Euro Index' rests on the fact that this index would present the euro as a common project that

will enhance and force further economic, financial, and political integration. On the other hand, the performance of the Euro Index could be compared and analyzed with the performance of the U.S. dollar Index which will improve market transparency and, in turn, favors investors and consumer choices.

The following graph shows the evolution of the Euro Index from March 1999 to January 2014.



Source: This graph has been created by the author with data provided by the Federal Reserve of New York and rendered using Microsoft Excel.

From a technical point of view, this index is de-trended using two simple moving averages to find the secular cycle following Nobel Price winner Simon Kuznets. The application of the so-called Fast Fourier Transform (FFT) has helped choose the 100-periods (the red indicator) and 300-periods (the green indicator) simple moving average to obtain an optimum change of trend. The graph shows that the euro is currently on a uptrend which means that almost all underlying cross-rates are in an downtrend against the euro.

Final Words

The purpose of this study was to create an index for the Eurozone with a task equivalent to the role of the U.S. dollar Index. The point is that a powerful economic actor, such as the EU and Eurozone, should have an index that measures the strength of the euro against major international currencies. Thus, the purpose of the Euro Index is twofold. First, it is an innovative attempt to provide the Eurozone with an indicator that could portray the evolution of the euro vis-à-vis other major currencies. Second, it would allow the analysis, study, and comparison of both indexes to shed light on a number of economic, social, and political factors.

The Euro Index has begun an important uptrend in mid-2012 which means that the underlying currencies are suffering devaluation. Particularly, the

U.S. dollar is the most significant currency and it has been given the highest weight in the index. The U.S. dollar has been suffering an important devaluation since 2001, which has been in the best possible interest of the U.S. under the current political and economic circumstances. Furthermore, any political and economic event in the U.S. will affect the evolution of the U.S. dollar and, therefore, impact the evolution of the Euro Index. For instance, on Tuesday February 11, 2014 the House of Representatives narrowly approved an unconditional debt limit extension until March 2015. This action will have a direct effect on the performance of the U.S. dollar and on the Euro Index. Thus, the trade agreement between the U.S. and the EU will impact the world economy and would be extremely interesting to follow since it is expected that the US dollar will continue suffering a devaluation which will help boost US exports but make European exports comparatively expensive.

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III. The Western Hemisphere

The EU's Transatlantic Trade Policy: Why the move towards comprehensive FTAs?

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Abstract

Although the EU and Mexico concluded a free trade agreement (FTA), which entered into force in October 2000, it was only in October 2013 that the EU reached a political agreement with Canada about a Comprehensive Economic and Trade Agreement (CETA), and it was also only in 2013 that the EU started negotiations with the United States about the Transatlantic Trade and Investment Partnership (TTIP). For decades the EU had relied on the General Agreement on Tariffs and Trade (GATT) rule of Most-Favoured-Nation (MFN) treatment in its relations with other industrialised countries, including the United States and Canada. Why then the relatively recent turn towards bilateral FTAs with other industrialised countries? It will be argued that a confluence of factors, including the economic crisis and the slow and poor outcomes of the multilateral approach within the WTO created a favourable climate for bilateralism.

Introduction

The recent turn towards bilateralism in EU's relations with Canada and the US has to be seen against a long history of emphasis on the multilateral approach to trade among industrialised countries. This paper will therefore trace the historic developments of these transatlantic trade relations and give some general background on the EU's trade policy from the start in the 1950s until the Lisbon Treaty which has changed the ground rules of trade policy making by introducing co-decision, making the European Parliament a co-legislator, and by extending the scope of EU trade policy to include investments.

The Common Commercial Policy[1]

The Common Commercial Policy (CCP) was from the beginning an exclusive competence of the European Economic Community (EEC), which became part of

[1] This paper partly relies on earlier writings by the author, especially the introductory chapter in Finn Laursen (ed.), *The EU and the Political Economy of Transatlantic Relations* (Brussels: P.I.E. Peter Lang, 2012).

the first pillar of the European Union (EU) created by the Maastricht Treaty in 1993. The Treaty of Rome establishing the EEC in 1958 gave the European Commission an exclusive right of initiative in trade policy. It established a trade policy committee (known as Art. 113 Committee at the time) of senior national trade officials and included qualified majority voting (QMV) in the Council of Ministers. Interestingly enough, it did not mention the European Parliament (EP). International trade agreement negotiations would be conducted by the Commission in co-operation with the special trade policy committee of national officials on the basis of a mandate from the Council (Woolcock 2000).

Trade policy at the time basically meant trade in goods. The treaty specifically said that the CCP "shall be based on uniform principles, particularly in regards to changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalization, export policy and measures to protect trade such as those taken in the event of dumping or subsidies" (Art. 113).

The scope of trade policy in the Treaty of Rome covered what GATT dealt with at the time. But international developments were gradually expanding the scope of international trade policy. Non-tariff barriers to trade (NTBs) got on the GATT agenda in the 1970s. The outcome was the rather weak Tokyo Codes dealing with some of these (Winham 1986). About the same time, the EEC member states started realizing that it is not enough to abolish tariffs and quantitative restrictions (QRs) within the customs union to realise free internal trade. Here too, NTBs became an obstacle, which was subsequently dealt with through the Single European Act (SEA) and the Internal Market Plan in the 1980s (Young, Wallace 2000).

The founding fathers had foreseen that harmonisation of national legislation was necessary to create an internal market. The Treaty of Rome included an article that required unanimity for such harmonisation (Art. 100). It turned out that it was often impossible to reach agreement on the necessary legislation. Sometimes the European Court of Justice (ECJ) stepped in and made rulings. This included the famous Casis de Dijon ruling, which established the principle of "mutual recognition" for the internal market in 1979 (Hix 2005: 124). Eventually, the Single European Act (SEA) in 1987 introduced a new Article 100a, which allowed for QMV, with some exemptions, to harmonise legislation. This gave European integration a new momentum in the run up to 1992, the declared deadline for completing the internal market. The Commission had concluded that nearly 300 directives were necessary to realise the four freedoms of the internal market, namely free movement of goods, services, capital, and people (Young 2010).

At about the time when the SEA was negotiated, the Uruguay Round of GATT started. The agenda now included agriculture, a sensitive topic for the EEC, services, trade related aspects of intellectual property rights (TRIPS), trade-related aspects of investment measures (TRIMS), and dispute settlements. The Common Agricultural Policy (CAP) increasingly produced a surplus that was dumped on the world market with EEC subsidies, something resented by a num-

ber of producers of agricultural products in third countries. In the end, the EU had to reform the CAP in order for the Uruguay Round to be concluded in 1993. The decisive agreement on CAP reform was reached with the United States at the Blair House in Washington in 1992, only to have France claim that the Commission had gone beyond its mandate. Subsequently, some side-payments to France had to be produced internally in the EU (Paemen, Bensch 1995).

When the Uruguay Round was concluded, the question came up whether it was a trade agreement that the EU as such could ratify or whether the member states would have to ratify it too. The Commission sought an answer to the question from the ECJ, which determined that GATS and TRIPS were shared competences. So the agreement was a mixed agreement that also required ratification by the member states. In the treaty reforms that followed the Uruguay Round, therefore, there were efforts to extend the definition of trade in the EU treaty to include services and intellectual property. They were included by the Treaty of Amsterdam (in force in 1999), but decisions had to be by unanimity. The Treaty of Nice (in force from 2003) introduced QMV for services and intellectual property. However, the sensitive areas of "cultural and audiovisual services, educational services, and social and human health services" would still require unanimity (Art. 133 TEC).

The latest EU treaty, the Treaty of Lisbon (in force since 2009), retains QMV for services and intellectual property. However, it still requires unanimity for cultural and audiovisual services ("where these agreements risk prejudicing the Union's cultural and linguistic diversity") as well as social, education, and health services ("where these agreements risk seriously disturbing the national organisation of such services and prejudicing the responsibility of Member States to deliver them"). It extends trade policy to include the new category of foreign direct investment (Laursen 2012). So, with exceptions, the recent treaty changes have enlarged the exclusive commercial policy competence of the EU. The extension to include investments allows investments to be part of the TTIP with the United States (as well as ongoing negotiations with China about a separate investment agreement). It should also be emphasized that the Lisbon Treaty introduces the ordinary legislative procedure for commercial policy, thus giving the EP a strong role in commercial policy (Art. 207 TFEU). Making the EP a co-legislator in trade policy is one of the more important innovations of the Lisbon Treaty. It may lead to a greater concern for human and labour rights, as well as consumer protection and safety (Meunier, Nicilaïdis 2011: 282; Niemann 2012).

Despite having built up a pyramid of relations with non-member states, so-called third countries, including preferential treatment of neighbouring countries and former colonies in Africa, the Caribbean, and the Pacific (ACP countries), the EU has traditionally emphasized multilateralism and GATT/WTO treatment of at least its major industrialised trading partners. So countries like the United States and Canada were at the bottom of the hierarchy of trade preferences, based on MFN treatment and other GATT principles, and they were not offered preferential treatment. This is what is changing now. In 2006, Trade Commissioner Peter Mandelson announced a new policy called "Global Europe,"

in which the possibility of more bilateral agreements, also with industrialised countries, was announced: "Our core argument is that rejection of protectionism at home must be accompanied by activism in creating open markets and fair conditions for trade abroad" (European Commission 2006: 6). Some of the emerging economies were seen as rather protectionist. The multilateral trading system was viewed as important, and the EU remained committed to the WTO and was working for resumed negotiations within the Doha Round. But,

> Free Trade Agreements (FTAs), if approached with care, can build on WTO and other international rules going further and faster in promoting openness and integration, by tackling issues which are not ready for multilateral discussion and by preparing the ground for the next level of multilateral liberalisation. Many key issues, including investment, public procurement, competition, other regulatory issues and IPR [intellectual property rights] enforcement, which remain outside the WTO at this time can be addressed through FTAs (*Ibid*: 10).

The document specifically mentioned ASEAN, Korea, MERCOSUR, India, Russia, and the Gulf Co-operation Council as potential FTA partners. The North American partners were not (yet) mentioned as potential FTA partners. In a section on Transatlantic Trade and Competitiveness it was stated:

> The transatlantic trading relationship is by far the largest in the world and at the heart of the global economy. The economic gains from tackling non-traditional behind-the-border barriers are potentially significant in the EU and US. We have been seeking to do so for some time, most recently through the Transatlantic Economic Initiative launched in 2005, and a range of regulatory dialogues. Despite some progress, this has proven to be difficult territory and further injection of momentum is necessary (*Ibid*: 12).

Despite the need for 'further injection of momentum' no Transatlantic FTA was proposed in 2006. Soon, however, it was to get on the agenda with Canada, starting in 2007 or 2008, but initially not with the United States. Mexico already had an FTA negotiated in the late 1990s and in force since 2000.

A new trade policy document, *Trade, Growth and World Affairs*, was issued by the Commission in 2010. The new Trade Commissioner Karel De Gucht continued the pursuit of bilateral agreements:

> We have successfully concluded FTA negotiations with Korea, as well as Peru, Columbia and Central America. Talks with the Gulf countries, India, Canada, and Singapore are at an advanced stage. We reopened important negotiations with the MERCOSUR region.

> Completing our current agenda of competitiveness-driven FTAs remains a high priority (European Commission 2010: 10).

East Asia was a priority area for the EU. Bilateral negotiations with Malaysia and Vietnam were now suggested. Overall, however, size remained an important consideration in trade policy:

> Because of their economic size and potential, as well as their influence on the global economy, our trade policy needs to pay particular attention to the US, China, Russia, Japan, India and Brazil (Ibid: 11).

So relations with the BRICs (Brazil, Russia, India and China) were mentioned on par with the traditionally most important trade partners, the US and Japan.

Transatlantic Economic Relations

The Global Agreement with Mexico

Mexico got a trade agreement with the EEC in 1975. It was adapted in 1989, and a new one was signed in 1991 but it was still only a trade co-operation agreement (Sberro 1999). After two years of negotiations, Mexico entered a so-called Global Agreement with the EU in 1997. The full name is "Economic Partnership, Political Coordination and Comprehensive Agreement between the European Community and its Member States, of the one part, and the United States of Mexico, of the other part". Since it was a mixed agreement, going beyond trade in goods, it also involved the member states as parties. The very first article committed the parties to fundamental human rights, a conditionality clause which became standard in EU agreements with third states in the 1990s, something Mexico was not so happy about. The agreement included political co-operation, but from the perspective of this paper, a central objective was to "establish a framework to encourage the development of trade in goods and services, including a bilateral and preferential, progressive and reciprocal liberalisation of trade in goods and services, taking into account the sensitive nature of certain products and service sectors and in accordance with the relevant WTO rules" (Art. 4). Notice the word "preferential". A Joint Council was established to "decide on the arrangements and timetable for a bilateral, progressive and reciprocal liberalisation of tariff and non-tariff barriers to trade in goods, in accordance with the relevant WTO rules, in particular Article XXIV of the General Agreement on Tariffs and Trade (GATT), and taking account of the sensitive nature of certain products (Art. 5)". The Global Agreement entered into force in 2000. Article XXIV is the one authorizing FTAs.

As a result of the Global Agreement, Mexican industrial products have had free access to the EU market since 2003, and EU products have had free access to the Mexican market since 2007. By being a comprehensive agreement,

the scope went beyond the WTO. It included the so-called Singapore issues of investment, competition, transparency and trade facilitation (Ciambur n.y.).

No doubt Mexico's participation in NAFTA was one of the reasons for the EU to seek closer relations with Mexico. Trade diversification was important for Mexico, and Europe could be used as a counterweight to the United States (Sberro 1999). For the EU, Mexico's proximity to the US was attractive, and European investments in Mexico could be a way to gain access to the US market. Further, the agreement included EU access to public procurement and services in Mexico on conditions similar to NAFTA conditions. Concerning the timing, it is also worth remembering that 1994 was the year of the Summit of the Americas where a Free Trade area in the Americas was proposed (FTAA) (Dominguez 2006).

Now that there is a political agreement on the CETA with Canada and the TTIP negotiations have started with the United States there is also talk of an upgrade of the FTA with Mexico.

The Emerging Agreement with Canada: The CETA

The early period of European–Canadian relations, at the start of the European integration process, is sometimes called the period of indifference. European integration in the 1950s created some unease in Canada because of the Canadian preference for North Atlantic free trade (Muirhead 1992: Ch. 6). The fact that Canada's most important trading partner in Europe, the United Kingdom, was not a member of the European Communities (EC) at the beginning eased the Canadian situation. Although the United Kingdom first applied for membership in the EC in 1961, the bid for membership was vetoed by General de Gaulle in 1963 and again in 1967. UK negotiations had the Canadian government of Prime Minister John Diefenbaker very worried. What would happen to the Commonwealth's preferences?

The United Kingdom finally joined in 1973. Before then, another event was to influence Canadian thinking, the so-called Nixon shocks in 1971, when the US government put a 10 per cent surcharge on imports and made no exemption for Canada. Canadian politicians began considering how to diversify trade in order to become less dependent on the United States. Three options were discussed in 1972 (Potter 1999: 35–36). The first option was to do nothing and resign to "continentalism", the term used for developing relations first of all with the United States. The second option considered was to embrace continentalism and seek more integration with the United States. The third option was to diversify trade using the EC as a counterweight. It was supported by the government of Pierre Trudeau during the 1970s.

Since 1972, when the EC enlargement was confirmed, there have been high-level bilateral consultations between the EC and Canada. In 1976, Canada got a Framework Agreement for Commercial and Economic Cooperation with the EC. It created what was called a contractual link. It confirmed the MFN

treatment and spoke in general terms about commercial and economic co-operation. Institutionally, it created a joint co-operation committee (JCC) to "promote and keep under review the various commercial and economic co-operation activities envisaged". The JCC would normally meet at least once a year. (Interestingly, the United States did not get a similar contractual link with the EC at the time.) But the outcome of the contractual link was modest (Rempel 1996: Ch. 5).

Given the meagre results of the third option, the second option, continentalism, increased in importance. In the 1980s, the government of Brian Mulroney promoted the Canada–US Free Trade Agreement (1988), and then, in 1993, it was expanded to include Mexico, to form the North American Free Trade Area (NAFTA). These developments, of course, further increased Canada's trade dependence on its southern neighbour(s).

In the late 1980s and the 1990s, the internal market plan in Europe affected EU–Canada relations as the creation of the customs union had done at the beginning, but it actually affected foreign direct investments (FDI) flows more than trade flows. A number of Canadian companies, especially the bigger ones, made important investments in Europe.

At the end of the Cold War, the idea of free trade was again promoted by some Canadian politicians, and the Americans also became interested in developing trade relations with the EC further. In both cases, the new interest led to a Declaration on Transatlantic Relations (TAD), which introduced increased policy consultation and co-ordination and further developed the institutional framework. The Canadian TAD began by adding summit meetings between the prime minister of Canada on one side and the president of the European Council and the president of the European Commission on the other. However, the TAD was vague on specifics.

Later in 1996, a joint political declaration and an Action Plan were adopted. The objective was to strengthen bilateral relations and to enhance economic and security co-operation. Although the Action Plan dealt with a number of issues, including new trade policy issues, such as the environment, investment, competition, labour standards, and intellectual property rights, commitments were not very specific. The economic section mentioned the negotiation of a trade and investment enhancement agreement and the development of a voluntary framework for regulatory co-operation.

Recent developments started in January 2007 when Premier Jean Charest of Quebec spoke out in favour of an FTA with the EU. At the time, the EU member states were divided. But a joint study by the European Commission and the government of Canada, which was published before the EU–Canada summit in Quebec City in October 2008, suggested important gains for both sides by addressing tariff barriers and nontariff barriers, including discriminatory regulations and standards, as well as liberalizing trade in services (Canada and European Union 2009). The summit meeting, therefore, agreed to explore the idea of a "stronger, ambitious and balanced economic partnership". The following EU–Canada summit in Prague, on May 6, 2009, then decided to launch negotiations

towards a "comprehensive economic partnership agreement".

Eventually the protracted and difficult negotiations produced a political agreement announced by Commission President Barroso and Canadian Prime Minister Stephen Harper on 18 October 2013.It will remove over 99% of tariffs and create new market access for services and investments. The agreement will be the first between the EU and a G8 country. The final text of the CETA still has to be worked out (European Commission 3 December 2013).

The Start of the TTIP negotiations with the United States

The United States has traditionally been the EU's largest trading partner, and there are important flows of FDI both ways. This has created a high degree of interdependence between the two sides of the Atlantic. Together the EU and the US account for about 40 per cent of world trade.

US–EU trade relations have gone through a number of disputes since the early 1960s as well as efforts to improve relations. An early dispute was the famous Chicken War, 1963–64. A more recent conflict was the one concerning European subsidies to Airbus, 1986–92. A dispute about hormones in beef has been running since 1987, with WTO dispute settlement decisions siding with the US (and Canada). Sometimes, the United States threatened to use Section 301 of the US Trade Act, which allowed the US to use unilateral action outside GATT in response to unfair trade practice. In some cases, GATT/WTO panels have contributed to the settlement of trade disputes (Piening 1997: 105–108). A long running conflict about bananas was eventually solved in 2001 with the EU losing. WTO cases found the EU's preferential treatment of bananas from the ACP countries in violation of GATT (BBC News 2001).

During the 1990s, there were several efforts to institutionalise EU–US relations. In 1990, the EU and the US agreed on a Transatlantic Declaration (TAD). It was complemented with a New Transatlantic Agenda (NTA) in December 1995. The NTA itself was formulated in very general terms, mentioning four areas of cooperation: peace and democracy, global challenges, world trade, and bridges across the Atlantic. The section on "contributing to the expansion of world trade and closer economic relations" referred to strengthening the multilateral trading system, implementing the Uruguay Round results, and completing unfinished business – in particular, telecommunications and maritime services (Piening 1997: 108–112).

Discussions about a more formalized relationship between the EU and the US had relatively limited results in the 1990s. Proposals for transatlantic free trade came up against protectionist forces on both sides as well as a feeling that transatlantic relations should not undermine the multilateral system. A Commission proposal for a New Transatlantic Marketplace (NTM), which would create free trade in services and abolish industrial tariffs by 2010, ran into stiff French opposition at a Council meeting in April 1998. The US wanted the NTM talks to include agricultural subsidies and audio-visual trade, both very sensitive issues in France (Smith, Steffenson 2011).

Instead, the EU–US summit in London in May 1998 adopted a joint statement on a Transatlantic Economic Partnership (TEP), the purpose of which was to intensify and extend co-operation in the fields of trade and investment (Smith, Steffenson 2011). In the multilateral area, regular dialogue was foreseen. The bilateral agenda included regulatory co-operation, mutual recognition, alignment of standards and regulatory requirements, consumer product safety, services, procurement, etc. The list suggested that behind-the-border issues were becoming the biggest issues in the relations among industrialized countries, including the EU and the US.

In 2007, a Transatlantic Economic Council (TEC) was created to accelerate government-to-government co-operation with the aim of advancing transatlantic economic integration. The TEC brought together the governments, the business community and consumers.

Current developments started in November 2011 when the US and EU established a "High Level Working Group on Jobs and Growth." In its report it recommended to start negotiations of a comprehensive trade and investment agreement. The Transatlantic Trade and Investment Partnership (TTIP) negotiations then got under way at the beginning of 2013. US President Barack Obama, European Council President Herman Van Rompuy and European Commission President José Manuel Barroso announced the launch on 13 February 2013:

> Through this negotiation, the United States and the European Union will have the opportunity not only to expand trade and investment across the Atlantic, but also to contribute to the development of global rules that can strengthen the multilateral trading system (European Commission 2013a).

In a memo circulated by the Commission at the same time it was stated:

> Latest estimates show that a comprehensive and ambitious agreement between the EU and the US could bring overall annual gains of 0.5% increase in GDP for the EU and a 0,4% increase in GDP for the US by 2027. This would be equivalent to €86 billion of added annual income to the EU economy and €65 billion of added annual income for the US economy (European Commission 2013b)

The agenda of the TTIP had three main sections, each including different issues:

A) Market Access
B) Regulatory Issues and Non-Tariff Barriers
C) Shared Global Trade Challenges and Opportunities

Market access included tariffs, services, investment and procurement.

Section B focussed on "behind-the-border" obstacles to trade.

Section C included intellectual property rights, trade and sustainable development and a third category, which included trade facilitation and competition.

In March 2013 an independent study by the Centre for Economic Policy Research (CEPR) in London arrived at the following conclusion:

> An ambitious and comprehensive trans-Atlantic trade and investment partnership could bring **significant economic gains as a whole for the EU (€119 billion a year)** and the US (€95 billion a year) once the agreement is fully implemented. This translates on average to an **extra €545 in disposable income each year for a family of four in the EU** (European Commission 2013c, emphasis in original).

There were three negotiation rounds in 2013, in July, November and December. They covered the twenty various areas of the TTIP, including: market access for agricultural and industrial goods, government procurement, investment, energy and raw materials, regulatory issues, sanitary and phytosanitary measures, services, intellectual property rights, sustainable development, small- and medium-sized enterprises, dispute settlement, competition, customs/trade facilitation, and state-owned enterprises (European Commission 2013d, 2013e, 2013f).

The fourth round is now scheduled for 10-14 March 2014. It will be preceded by a stocktaking meeting on 17-18 February between EU Trade Commissioner Karel de Gucht and US Trade Representative Michael Froman (European Commission 2014).

Explaining Transatlantic Bilateralism

Various studies over the years have pointed to important economic gains from liberalizing trade relations. FTAs have both trade creation and trade diversion effects, but trade creation usually outweigs trade diversion according to economic studies. Economic effects will therefore normally produce more jobs than jobs lost and insure increased average incomes. Why then is it normally difficult to negotiate and ratify FTAs?

Explanations have to be found in the political economy of trade. The creation of FTAs requires both demand and supply. Competitive industries will demand freer trade since it enlarges their market. Non-competitive industries will demand protection. Supply is provided by politicians, but politicians from districts with non-competitive industries may not win re-election if they support free trade. This creates situations where special interests may trump the wider general interest in freer trade.

Trade policy therefore can face collective action problems which will require political leadership or good institutions to overcome. The EU, and to a lesser extent the WTO, have created institutions to assist the member states in reaching optimal outcomes. But in bilateral relations power becomes a more important ingredient.

Power also plays a role in institutions like the EU and the WTO. The US was a hegemon in GATT during the early post-war period. Historically the Franco-German duo played an important role in the EU. Externally the EU has been able to be a 'hegemon' vis-à-vis some countries, especially the former colonies of ACP countries, but to some extant also European neighbors. In transatlantic relations today there is a greater degree of power symmetry, which should make it easier to find equitable solutions.

The move towards the CETA with Canada started when the financial crisis began in the USA. Both Canada and the EU depend a lot on the economic situation in the USA. Increased EU-Canada trade could therefore help alleviate the situation created by the financial crisis.

The Joint EU-Canada study in 2008 showed important economic gains from a comprehensive FTA. Later studies, including the CEPR study in 2013, predicted similarly important gains from a comprehensive EU-US agreement. This convinced political leaders on both sides of the Atlantic that it would be a good idea, even if difficult politics, to move towards free(r) trade in the Atlantic area.

The big question then is: Will there be sufficient leadership on both sides to deliver? Political economy theories and historical experience remind us that it can be difficult to negotiate and subsequently ratify FTAs.

There is now political agreement on the CETA, which is a big step forward only taken after protracted negotiations. But could the Canadian government still run into difficulties during the ratification process? There is bound to be a fair amount of domestic opposition as was the case with NAFTA.

Similarly we should not be surprised if the TTIP negotiations take a long time and the US administration may well have a battle with Congress to get an agreement ratified, as the Clinton Administration had with NAFTA.

Whether the new powers of the EP may affect ratification on the European side remains to be seen. The way the EP rejected the Anti-Counterfeiting Trade Agreement (ACTA), signed by the EU and a number of states in 2012 should give the Commission reasons for concern. The EP declined its consent on 4 July 2012 by an overwhelming vote, the main concern being threats to civil liberties. The fact that the negotiations had been secretive and excluded civil society groups did not help. It is therefore easy to understand that the Commission has held a number of public consultations and actively tries to draw in NGOs and stakeholders in connection with the TTIP negotiations.

Among the member states France has usually been the most protectionist country. Based on past behavior we should therefore expect France to create problems in connection with some issues on the agenda. Notice in this connection, however, so far the audiovisual sector is not on the agenda. The way a number of French senators strongly opposed the TTIP during a Senate debate on 9 January should be a warning (French senator 2014).

The current agenda puts emphasis on regulations and other behind-the-border issues. Past and current issues such as hormones in beef and genetically modified food should remind us that these are not easy issues. Health, environ-

mental, sanitary and phyto-sanitary standards will give a lot of basis for disagreements. But the Commission has made it clear that standards will not be lowered.

Concluding Remarks

It is too early to tell the fate of the recent move towards industrialized countries. The EU got an important agreement with Korea and is now also negotiating with Japan. A big step towards the CETA with Canada was taken with the political agreement in 2013. For the first time there are serious negotiations about a comprehensive EU-US FTA.

Negotiations may slow down in 2014 because of the EP elections in May and subsequent renewal of the Commission and election of new President of the European Council. It remains to be seen whether the new free trade mood is lasting. Since the economic fundamentals, globalisation, but lack-lustre economy, are still there it is a fair guess that the EU institutions and most member states will still be supportive of freer trade. And even if an agreement was recently reached within the WTO the FTA agenda remains wider.

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The Mexico–European Union Free Trade Agreement, NAFTA and TTIP

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Abstract

In 2000, Mexico signed a Free Trade Agreement with the European Union (MEXEUFTA). In signing the agreement, Mexico aimed to capture a higher share of the European market for its exports while attracting a wider proportion of European Foreign Direct Investment (FDI). The EU hoped, on the other hand, to recover the portion of the Mexican market for its exports that was lost after the implementation of NAFTA, and to use the Mexican market as an export platform for the wider North American and Western Hemisphere markets. The purpose of this paper is to analyze the main economic impacts of the MEXEUFTA since the year 2000 and the challenges that the TTIP poses for Mexico.

Introduction

This chapter analyzes the recent experience of Mexico in its effort to advance an agenda to diversify its commerce and investment with the European Union. In particular, this chapter discusses the factors that led Mexico and the European Union (EU) to negotiate a free trade agreement (MEXEUFTA) in 2000, which, in turn, is part of the EU-Mexico Economic Partnership, Political Coordination and Cooperation Agreement (Global Agreement). Furthermore, this chapter also addresses the structure, evolution and results of the MEXEUFTA since its entry into force, focusing mainly on the fields of commerce and investment. Lastly, the challenges that Mexico faces as a consequence of the negotiations of the Transatlantic Trade and Investment Partnership (TTIP) are also discussed.

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I. The origin of MEXEUFTA

Mexico's interests in the negotiation and signing of the MEXEUFTA need to be placed in the context of its global objectives in relation to Europe. This is a high-priority region for Mexico in economic and political terms, not only because of the shared cultural identities and historic background, but also because Europe, once integrated into the European Economic Community (EEC), became a central market in the Mexican everlasting quest to diversify its foreign trade.

However, due to a number of reasons that go beyond the scope of this chapter, trade between Mexico and Europe before the 1970s was marked by comparatively small amounts in absolute terms, in addition to a relative concentration of Mexican imports and exports in a few countries of Western Europe. It was during the 1970s that Mexico initiated a decided campaign to diversify and broaden its trade and financial relations with the EEC. In turn, beginning in the 1960s, what was then the EEC began signing free trade agreements with its trading partners –a response to an increasingly interdependent world and the international oil crisis, among others– and decided to amplify and improve its trade relations with developing countries and in 1975 signed a trade agreement with Mexico. The agreement had as its main objective to increase the commercial exchange through the liberalization of tariff and non-tariff barriers.

Undoubtedly, the aforementioned efforts achieved fruition. Between 1975 and 1992, the share of Mexico's trade with the EEC (now UE) increased from 6.2% to 13.3% of Mexican total trade, turning that block into Mexico's second trading partner. Likewise, in that same period of time the flows of European investment into Mexico increased notoriously, transforming the EEC (now EU) into Mexico's second main source of foreign direct investment (FDI), accounting, in 1994, for 18.2% of total FDI in Mexico (Table 1).

Table 1

FDI in Mexico 1989 – 1994
(millions of dollars)

Country or Block	Accumulated FDI 1989 - 1993	% Share of Total FDI 1989 - 1993	Total FDI in 1994	% Share of Total FDI in 1994	Accumulated FDI 1989-1994	% Share of Total FDI 1989 - 1994
TOTAL	18,287.7	100.0%	10,646.9	100.0%	28,934.6	100.0%
Canada	330.4	1.8%	739.2	6.9%	1,069.6	3.7%
U.S.	11,663.6	63.8%	4,951.1	46.5%	16,614.7	57.4%
EU	3,399.1	18.6%	1,938.7	18.2%	5,337.8	18.4%

Continuation of Table 1
FDI in Mexico 1989 – 1994 (millions of dollars)

FDI in Mexico 1989 – 1994 (millions of dollars)	FDI in Mexico 1989 – 1994 (millions of dollars)	FDI in Mexico 1989 – 1994 (millions of dollars)	FDI in Mexico 1989 – 1994 (millions of dollars)	FDI in Mexico 1989 – 1994 (millions of dollars)	FDI in Mexico 1989 – 1994 (millions of dollars)	FDI in Mexico 1989 – 1994 (millions of dollars)
Belgium	194.1	1.1%	0.0	0.0%	194.1	0.7%
Denmark	54.6	0.3%	14.5	0.1%	69.1	0.2%
Spain	198.9	1.1%	145.5	1.4%	344.4	1.2%
France	843.9	4.6%	90.3	0.8%	934.2	3.2%
Ireland	46.8	0.3%	0.0	0.0%	46.8	0.2%
Netherlands	464.8	2.5%	783.2	7.4%	1,248.0	4.3%
Portugal	1.1	0.0%	0.1	0.0%	1.2	0.0%
U.K.	849.3	4.6%	592.2	5.6%	1,441.5	5.0%
Luxem-bourg	65.8	0.4%	10.4	0.1%	76.2	0.3%

Source: Data from the Mexican Ministry of the Economy

II. The impact of NAFTA on Mexico-EU relations

It is worth stressing that NAFTA's entry into force had diverse and significant implications for Mexico-EU relations. After the signing of NAFTA, the EU expressed concern for the diversion of trade that the Agreement would cause at the expense of its products. The EU's concern was based on the fact that 32% of European exports into Mexico belonged to the "A" product category of NAFTA, that is, products whose tariff phase out would be immediate; 10.5% belonged to the Category "B", that is exports whose tariffs would be phased out in a five-year period, and 43.6% to the Category "C", that is products whose tariffs would be phased out in a ten-year period, and only 13.7% would not be affected. Therefore, the EU foresaw that its products would be displaced in the Mexican market by products from North American countries. Furthermore, for the UE the diversion of trade expected to be produced by NAFTA would not only affect its exports into Mexico but also its imports from that country.

An element that seemed to demonstrate the EU's concerns was the development of its trade relationship with Mexico in the first two years after NAFTA's entry into force, a time when Mexican sales to the EU decreased 35.5%, going from 1'094,709 to 705,737 thousand dollars. In turn, Mexican imports from the EU increased from 2'610,430 to 2'782, 885 thousand dollars, that is, a raise of only 6.61%, when the rate of growth had been of 51.4% between

1990 and 1993, and of 290% between 1986 and 1992. This reality indicated a notable setback in the commercial relationship between Mexico and the EU.

Moreover, the signing of NAFTA and the accession of Mexico into the Organization for Economic Co-operation and Development (OECD) encouraged the questioning of Mexico's access to the General System of Preferences of the EU. This was evidenced by the EU's decision to eliminate its tariff discounts to Mexican coal, steel and steel products for a period of three years beginning in January 1995.

The Reasons behind the Negotiation of the MEXEUFTA

The beginning of the 1990s, and mainly the second half of that decade, was accompanied by renewed political efforts in Mexico directed towards the diversification of its commercial and financial foreign relations, at a time when the EU appeared to become a counterweight to the increasing influence of the U.S. in Mexican politics and society resulting from the progressive economic integration that was taking place in North America. At that time, the EU was emerging as a first-rate international actor and could therefore turn into a valuable economic and political ally for Mexico in the 21st century. At the economic level, the EU was Mexico's second main commercial and investment partner; however, during the second half of the 1990s, the EU saw its participation in Mexican total trade decrease from 19% in 1988 to 6.5% in 1999. Thus, in order to recover and increase its market share and political weight in Europe, Mexico needed to promote its ties with that region more actively, especially at a time when the attention of the EU was focused on its eastern and southern borders.

For the EU, Mexico acquired an increasing strategic and economic importance. In strategic terms, Mexico became a priority due to its standing as member of NAFTA, being the only Latin American country economically integrated into North America while also retaining its Latin American ties, which had led Mexico to sign free trade agreements with Chile (1992), expanded in 1999; Colombia and Venezuela (G-3, 1995), denounced by the latter in 2006; Bolivia (1995) and Costa Rica (1995). Mexico also concluded commercial negotiations with Uruguay and the so-called Northern Triangle countries — Guatemala, Honduras and El Salvador. All of these agreements provided Mexico with the opportunity to become a bridge between both sides of the Western Hemisphere, and a crucial port of entry into the North American and Latin American markets. Similarly, Mexico could serve to the EU as a new connecting point towards the Asia-Pacific, due to its progressive engagement with that region, mainly through the Asia-Pacific Economic Cooperation (APEC) forum.

The Negotiation of the MEXEUFTA

Taking into account all of the above, on May 2, 1995, in Paris, Mexico and the EU signed a Solemn Joint Declaration, which provided, *inter alia*

> *...Both parties agree that the conclusion of a new political, commercial and economic agreement would be the means of bringing about closer relations between the European Union and Mexico that would be most in accordance with their common interests. [This Agreement would include, inter alia,] a framework to encourage the development of trade in goods, services and investments, including progressive and reciprocal liberalization, taking account of the sensitive nature of certain products and in accordance with the relevant WTO rules.*

After several formal and informal meetings, Mexico and the EU concluded on June 11, 1997, the negotiation of an Economic Partnership, Political Coordination and Cooperation Agreement between the European Community and its Member States, on one part, and the United Mexican States, on the other part (also known as the *Global Agreement*). This Agreement comprises three areas: political dialogue, cooperation and trade.[2]

In the area of trade, the *Global Agreement* specified the goals and the scope of negotiations. The main objective was the establishment of a free trade zone in accordance with the pertinent WTO rules[3]. The scope for negotiation included these areas:

1. Trade in goods;[4]
2. Trade in services;
3. Capital and payments movements, including foreign direct investment;
4. Government procurement;
5. Competition policies;
6. Intellectual property; and
7. Dispute settlement.

This set of issues is the same that is covered by the NAFTA agreement.

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[2] For a comprehensive view on the negotiations of the MEFEUFTA, view: Jaime Zabludovsky and Sergio Gómez Lora, "La ventana europea: retos de negociación del tratado de libre comercio de México con la Unión Europea", Inter-American Development Bank, Integration and Regional Programs Development, working paper IECI-09, 2002; Jaime Zabludovsky, "Results from the negotiations of the Free Trade Agreement between Mexico and the European Union", *El Mercado de Valores* 7, no. 3 (May – June 2000), p. 12 – 18.

[3] Particularly GATT Article XXIV, regarding customs unions and free trade zones for goods, and GATT Article V, governing the economic integration in services.

[4] Including questions pertaining to tariffs; quantitative restrictions; antidumping and countervailing duties; safeguards; rules of origin; customs cooperation; technical standards and rules; general exceptions for reasons of public morality, protection of life and health, etc.; and restrictions in the case of balance of payments difficulties.

For each of these areas, the *Global Agreement* defined the goals to be pursued during the trade negotiation. Thus, in the area of trade in goods and services the objective was the progressive, reciprocal and preferential bilateral liberalization, as it is in the area of movements of capital and payments. Regarding government procurement, "the Parties shall agree to the gradual and mutual opening of agreed government procurement markets on a reciprocal basis." In the area of competition policies, the aim was to establish appropriate measures to avoid distortions or restrictions of competition that may significantly affect bilateral trade. As for intellectual property, the goal was to create a consultation mechanism. Finally, in the field of dispute settlement, the parties sought to establish a specific procedure that was compatible with the WTO.

In the end and despite many legal and institutional complications, the free trade agreement between Mexico and the European Union entered into force on July 1st, 2000 and resulted, according to the then EU Trade Commissioner, Pascal Lamy, in the broadest agreement ever negotiated by the EU and a powerful instrument to foster a closer attunement between the economies of Mexico and the EU.

MEXUFTA, which entered into force on July 1st, 2000, resulted in the first free trade area linking Europe and America and, as such, it constituted a milestone in the effort to create a global economic framework. Being broad and comprehensive in scope, it is a powerful instrument to promote stronger trade and investment ties between Mexico and the EU, two of the world's largest and most active trading economies.

III. Results of the MEXEUFTA

Evolution of bilateral trade since the entry into force of the MEXEUFTA

The MEXEUFTA is, by definition, an agreement whose main purpose is to promote trade between Mexico and the EU. Therefore, one of the main criteria in evaluating its performance is to assess to what extent it accomplished that objective. As it will be made evident hereunder, that purpose has been achieved beyond any expectation. Since its entry into force, the commercial flows between its Parties had a notable increase. In 1999, the year that preceded its entry into force, bilateral trade was valued in $18, 085 billion dollars; by 2008 that figure had raised 168.25%, up to $55,946 billion dollars (Graph 1).

Due to the international financial and commercial crises that erupted in 2008, bilateral trade between Mexico and the EU decreased 31.4%, going from $55, 946 billion dollars in 2008 to $38, 827 in 2009; however, from that year and until 2012 bilateral trade has recovered its dynamism. After the 2008 decrease, trade between Mexico and the European Union increased 61.4%, rising from $38, 827.90 billion dollars in 2009 to $62,687.2 billion dollars in 2012 (Graph 1). Mexican exports and imports to and from the EU increased 89% and 49%, respectively, between 2009 and 2012 (Table 2).

Graph 1

Source: Data from the Mexican Ministry of the Economy

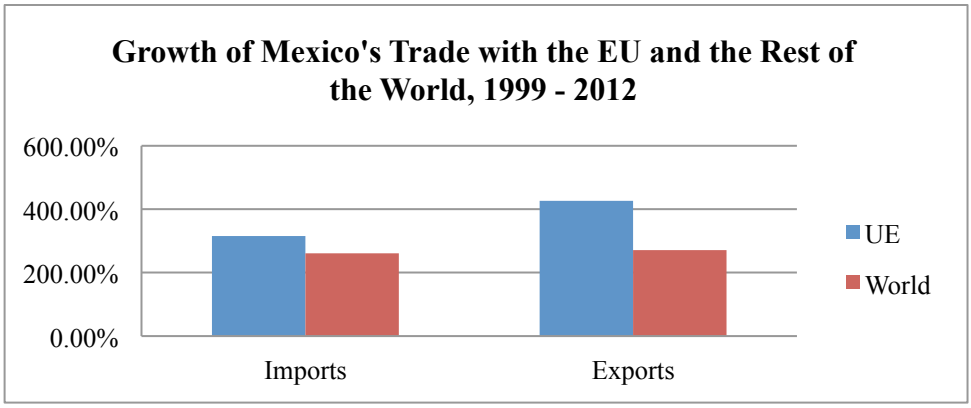
Table 2

Mexico's Trade with the EU and EFTA (millions of U.S. dollars)					
	2009	2010	2011	2012	Growth % 2009 - 2012
Exports to the EU	3,389.1	4,230.4	18,941.5	21,976.5	89.0
Imports from the EU	8,369.5	9,663.0	37,536.5	40,710.7	49.6
Exports to EFTA	165.4	356.2	1,251.0	887.4	85.8
Imports from EFTA	384.8	473.3	1,678.0	1,655.6	20.7

Source: Data from the Mexican Ministry of the Economy

Another of the MEXUEFTA's main purpose is to facilitate the increase of commercial flows between Mexico and the EU members, and to diversify Mexico's sources of imports and exports, reducing the excessive concentration of Mexican trade in the North American market. All of these objectives have been successfully achieved. MEXEUFTA allowed Mexican trade with the EU to increase at a higher rate than that registered with the rest of its trading partners (Graph 2).

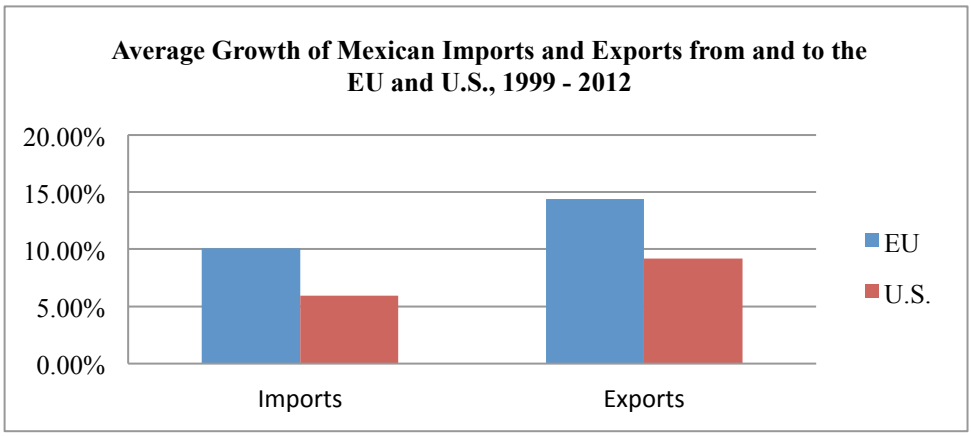
Graph 2



Source: Data from the Mexican Ministry of the Economy

This means that Mexican imports of EU products have grown at a higher rate than that of imports of U.S. origin (Graph 3). The same is true of Mexican exports to the EU, which have grown more than those destined to the U.S. market (Graph 3). The growth of Mexico's imports and exports from and to the EU caused an increase in the EU's participation in Mexican total imports, going from 9.1% in 1999 to 12% in 2008, although it decreased to 10.9% in 2012 (Table 3). Conversely, the share of Mexican exports to the EU as a fraction of its total exports has gone from 3.7% in 1999 to 5.7% in 2008 and 5.9% in 2012 (Table 3). Meanwhile, the share of Mexican products in the EU's total imports increased between 1999 and 2008, from 0.70% to 1.7% of the total, but decreased in the following years, recovering mildly in 2012 albeit not to the extent of its share in 2008 (Table 3).

Graph 3



Source: Data from the Mexican Ministry of the Economy

Table 3

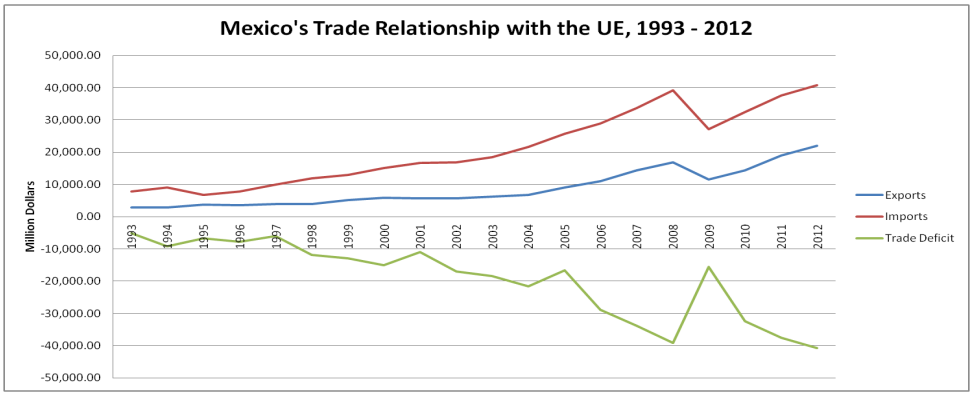
Bilateral Trade between Mexico and the EU								
	1999		2008		2010		2012	
Item	Ranking	% Share	Ranking	% Share	Ranking	% Share	Ranking	% Share
Mexican imports from the EU	2	9.10%	2	12.00%	3	10.7%	3	10.9%
EU imports from Mexico	30	0.70%	15	1.7%	24	0.9%	20	1.1%

Sources: Data from the Organization of American States Foreign Trade Information System, the European Union Statistical Service, and the Mexican Ministry of the Economy.

Mexico's Commercial Deficit with the EU

The trade balance with the EU, and the tendency to develop a trade deficit, has been a subject of concern for Mexico since it first decided to intensify its trade relation with Europe in the 1970s. Mexico maintained a trade deficit with the EU throughout the 1970s, a tendency that was temporarily reversed during the 1980s, only to be reverted once again during the 1990s and further intensified after MEXEUFTA's entry into force. While both Mexican imports and exports to the EU have experienced a significant increase since MEXEUFTA's entry into force, it is a fact that Mexico buys nearly twice as much from the EU (Graph 4).

Graph 4



Source: Mexican Ministry of the Economy

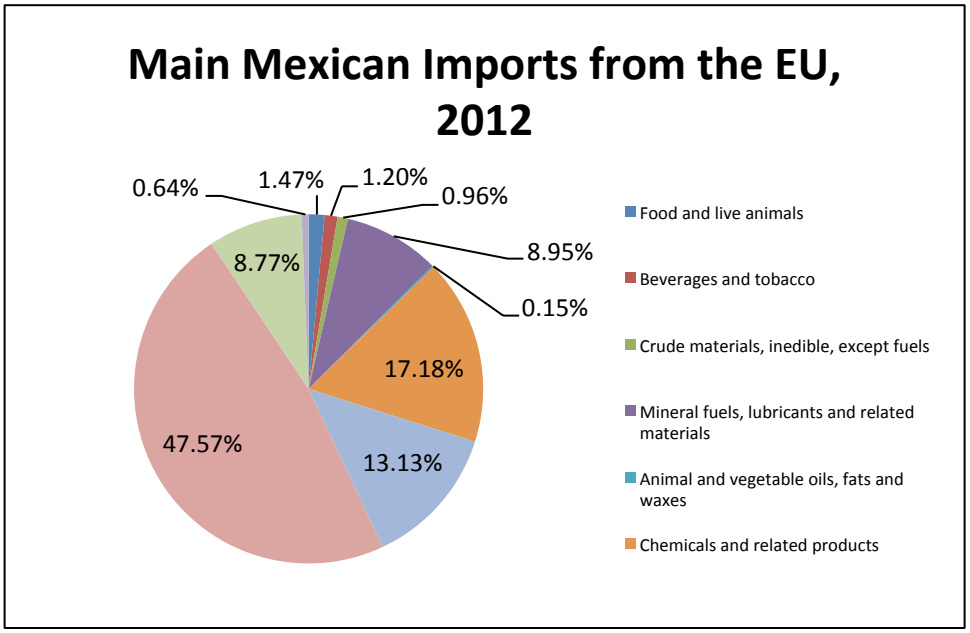
Mexican imports from the EU

Nonetheless, a careful review of the sectors in which Mexican purchases of European products have concentrated reveals that, excluding automobiles and pharmaceutical products, Mexico mainly buys parts and accessories and intermediate products from the EU. This means that Mexico has become a transformation and assembly centre for semi-elaborated products that are then re-exported. That is, Mexico has become a platform for the production and export not only to the North American market but also to Latin American countries with which it has signed free trade agreements.

In other words, large European companies operating in Mexico participate in intra-corporate trade importing parts and intermediate European goods, transforming them into final goods and, in many cases, exporting them to the U.S. and Latin America. In turn, this production process generates greater investment in Mexico and contributes to the creation of new and better jobs.

Thus, in fact, a close review of Mexican main imports from the EU reveals that these are mainly in the machinery and transport equipment, chemicals and related products, mineral fuels, lubricants and related materials, and miscellaneous manufactured articles sectors (Graph 5). To the extent that companies established in Mexico can count on inputs from the EU in the most favorable terms, their competitiveness is strengthened and their potential to penetrate other markets increases.

Graph 5



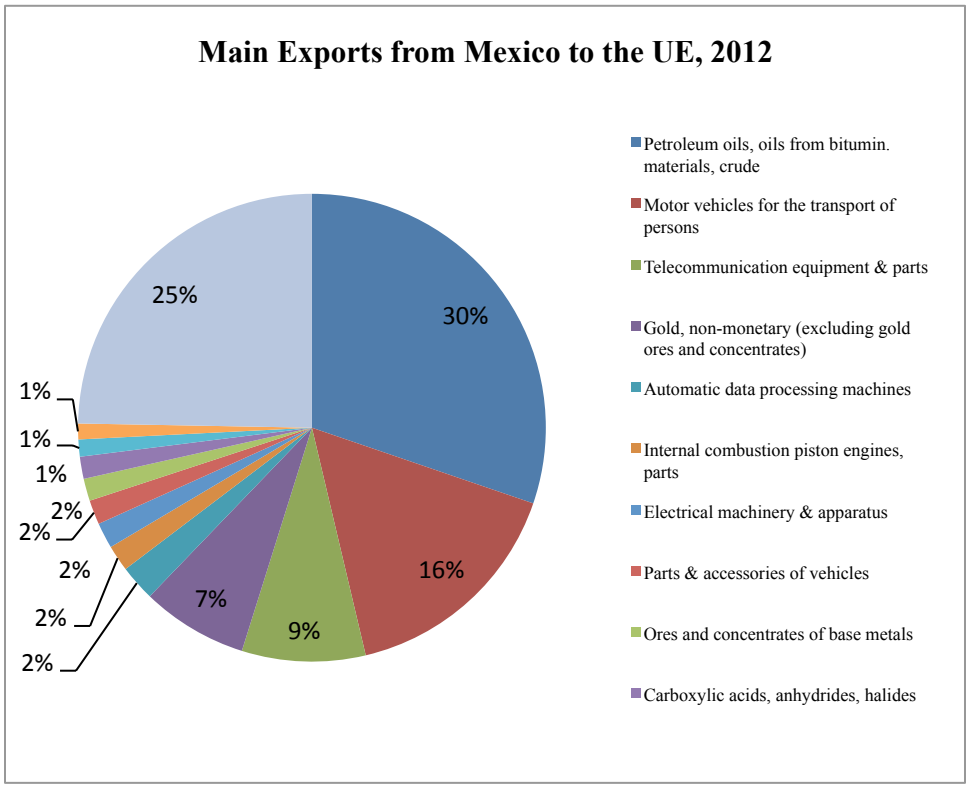
Source: Data from the European Commission, Eurostat Database.

Mexican Exports to the UE

As for Mexican exports to the EU, it has been said that these expanded more than those destined to any other region. However, and in contrast to imports, Mexican exports to the EU concentrate in a limited number of sectors.

Some of the sectors in which Mexican exports to the EU have shown greatest dynamism since MEXEUFTA's entry into force are: petroleum oils, automobiles, electrical parts for telephone and telegraph devices, medical instruments and appliances, parts and components for data processing machines, among others. As for products, oil is the main Mexican export to the EU, followed by other industrial products in the automotive, telecommunications, electronics, medical equipment, and chemical sectors (Graph 6). Among these we find final goods such as the New Beetle, for which Mexico serves as a production and input platform before its final exportation to Germany, or Mexican sales of telephone components which are then used in the production of telephones in Finland. Both of these cases reveal the economic integration process promoted by transnational European companies operating on Mexico.

Graph 6



Source: Data from the UNCTAD.

Despite all this, the case of Mexican products that did not have any presence in the EU market before the signing and entry into force of MEXEUFTA is worth mentioning. The evolution of the sales of these products demonstrates that it is possible to take advantage of MEXEUFTA in order to advance the sales of Mexican products in the EU (Table 4).

Table 4

Mexican Exports to the EU, 2008		
Main products (product category)	*Millions of U.S. dollars*	*%*
Total	*20,307*	*100*
Petroleum oils and oils obtained from bituminous minerals, crude	*4,494.60*	*22.1*
Motor cars and motor vehicles principally designed for the transport of persons	*3524.9*	*17.4*
Electrical apparatus for line telephony or line telegraphy; videophones	*1,655.40*	*8.2*
Products and devices used for human medicine, dentistry or veterinary medicine	*1,285.40*	*6.3*
Automatic data-processing machines	*640.10*	*3.2*
Intermediate products of iron or non-alloy steel	*537.00*	*2.6*
Petroleum oils and oils obtained from bituminous minerals	*241.70*	*1.2*
Parts and accessories of vehicles under headings 87.01 to 87.05.	*225.80*	*1.1*
Parts suitable for use solely or principally with motors under headings 84.07 u 84.08.	*200.30*	*1*
Molybdenum ores and concentrates	*177.80*	*0.9*

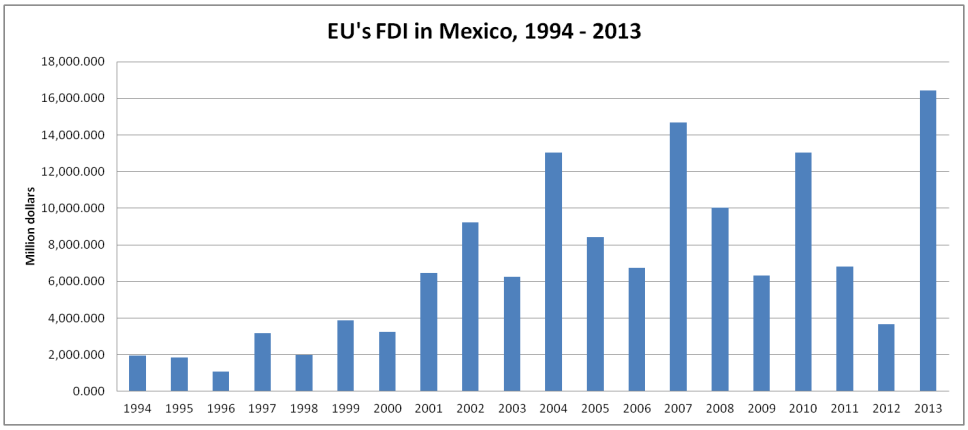
Source: Mexican Mission to the EU. "Mexico – EU relations under MEXEUFTA", May 2009.

Yet, the concentration of Mexican exports in a reduced number of products, and the growing trade deficit for Mexico in its relationship with the EU, reveal that Mexican entrepreneurs have been incapable of harnessing to the fullest the opportunities arising from MEXEUFTA and that only a few selected Mexican companies have benefited. There has not been a significant increase of the number of Mexican exporting companies to the EU; rather, the most benefited have been big transnationals and a few Mexican companies.

Evolution of the EU's FDI

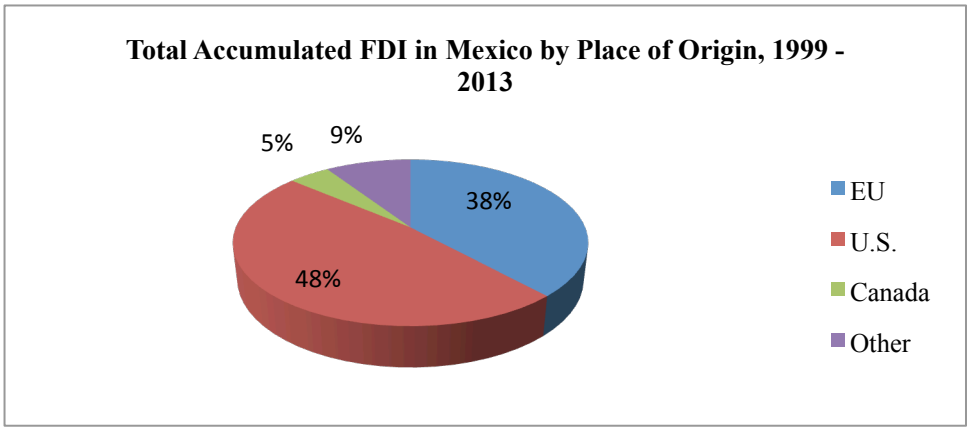
MEXEUFTA is an agreement directed towards the promotion of foreign investment, especially FDI. In this area, the results of MEXEUFTA have been, without a doubt, very positive. Mexico has attracted European FDI not only from big companies, which operated in Mexico even before the signing of MEXEUFTA, but also of small and medium enterprises seeking an entry into the U.S. market, interested in taking advantage of the free trade agreements that Mexico holds with Latin American countries, and looking to gain a share of the Mexican market as well (Graph 7).

Graph 7



*Data for 2013 only covers the period from January to June.
Source: Information of the Mexican Ministry of the Economy

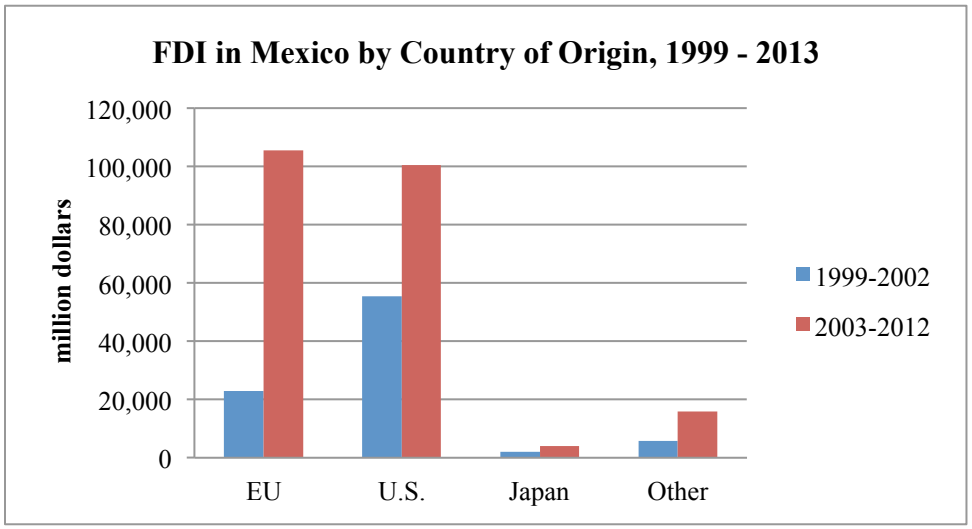
Graph 8



*Data for 2013 only covers the period from January to June.
Source: Data of the Mexican Ministry of the Economy.

Between 1999 and 2013, companies of European capital invested 128.2 billion dollars in Mexico, accounting for 38% of total FDI attracted by Mexico in that period (Graph 8).[5] This turned the EU into the second main source of FDI for Mexico, only after the U.S. The annual average flow of FDI from the EU arriving into Mexico for that period is of $8.55 billion dollars. This means that the EU has become the most dynamic investor in Mexico, taking away part of the Mexican market to American and Japanese investment (Graph 9).

Graph 9



Source: Data from the Mexican Ministry of the Economy

The main EU investing countries in Mexico from 1999 to 2012 were: the Netherlands (13.8% of the total), Spain (12.5%), Belgium (4.3%), the United Kingdom (2.63%), Switzerland (2.33%) and Germany (2.13%).[6] These investments are primarily distributed in the manufacturing sector (38%) and in financial services (28%), and concentrated mainly in Mexico City and the states of Nuevo León and Jalisco.[7] The chief motivation leading European transnational companies to locate their operations in the aforementioned regions within Mexico is their search of densely populated areas. In that sense, it is possible to appreciate that European investment going into Mexico is significantly oriented towards its internal market and not only towards the exporting sector. Between

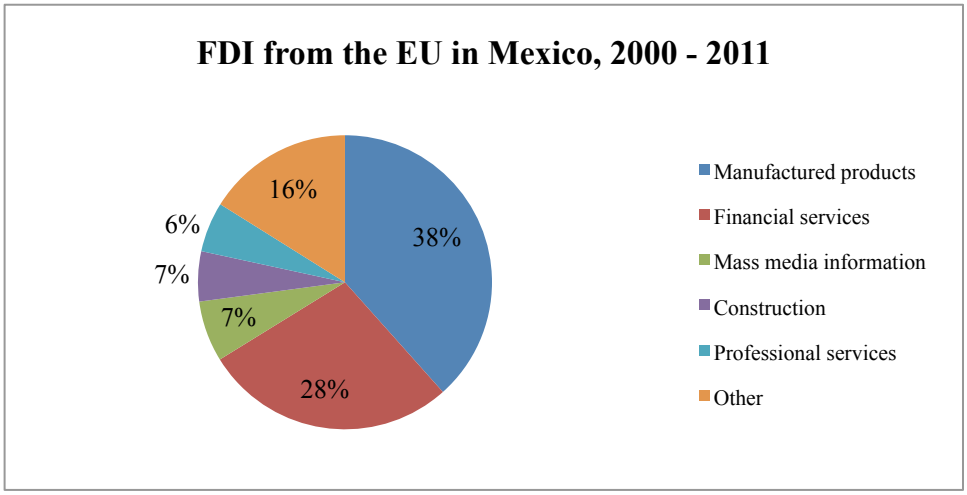
[5] FDI flows into Mexico in 2013 were oddly high due to the sale of Grupo Modelo –a large Mexican brewery– to the Belgian-Brazilian transnational Anheuser-Busch InBev. The transaction was estimated in over 20 billion dollars.

[6] Mexican Ministry of the Economy. Data for 2013 only covers the period between January and June.

[7] Mexican Ministry of Foreign Affairs with data from the General-Directorate for Foreign Investment.

2000 and 2011, most European investments in Mexico concentrated on the manufacturing, financial services, mass media, construction and professional services sectors (Graph 10).

Graph 10



Source: Data from the Office of the Mexican Ministry of the Economy in Europe.

In comparison to the FDI channeled from the U.S. into Mexico, FDI originated in the EU is more dispersed, especially concerning the transportation, telecommunications, construction, hospitality and banking sectors, in all of which Spanish investment has been the most notable. The preference for investing in these sectors is closely related to the presence of big European transnational companies and consortiums in those markets, a phenomenon dating back to the import-substitution industrialization period in Mexico.

Among the numerous cases of big European companies deeply-rooted in Mexico are some German chemical and pharmaceutical companies: Basf, Hoechts Chemical, Bayer, Siemens and Volkswagen. Among French companies, those that dominate in the Mexican market are Danone, Renault and AXXA. Among the Swiss there are Nestlé, Ciba, Geigy and Novartis. The main British companies in Mexico are the British American Tabacco, Glaxo and Shell (the latter two also composed partly by Dutch capital). Regarding companies of Dutch origin, Phillips and Unilever are the most important, with the latter two also composed partly by British capital. To all of the above, one should also add the recent acquisition by Heineken of the largest fraction of shares of the beer sector of FEMSA.

One of the European countries whose FDI has gained an increasing presence in the Mexican market is Spain. Spanish FDI is one of the most important in Mexico due to the extent of capital transferred into the financial sector and to the mounting importance of investments directed into the touristic and real estate

sectors, besides those investments from other European countries and channeled through Spain, as is the case of France. Spanish banks in Mexico have also been a factor of attraction for new Spanish investments in that country.

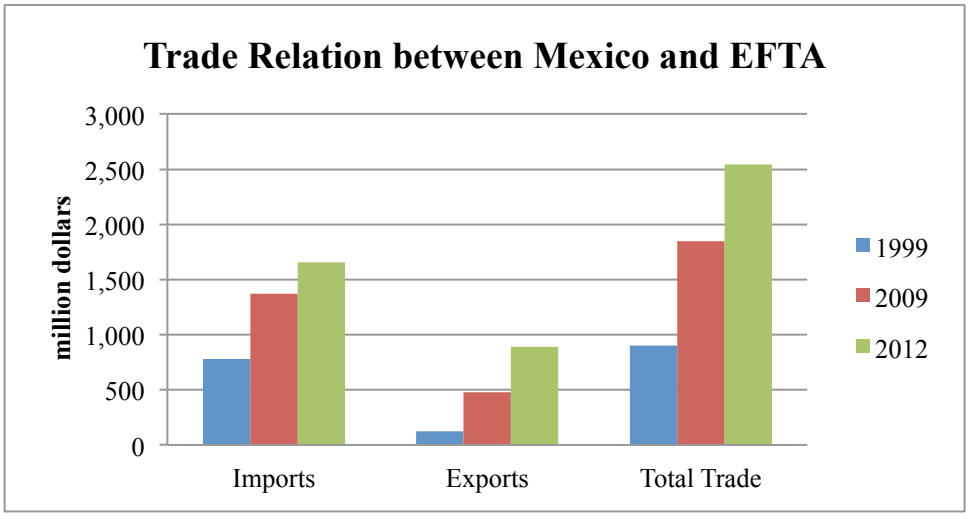
Implications of MEXEUFTA for trade liberalization policies in Mexico and the EU

MEXEUFTA also constituted itself as a tool to promote the liberalization of the Mexican economy vis-à-vis other commercial partners beyond the EU, particularly to the member countries of the EFTA and Japan. Aimed at avoiding the discrimination of its exporters and investors in favor of those of the EU, the EFTA has adopted a policy of negotiating free trade agreements with those partners with which the EU does so.

A year after the signing of the MEXEUFTA, Mexico signed a free trade agreement with the EFTA. With this agreement, Mexico obtained preferential trade access to the European Economic Area integrated by the EU member countries, in addition to Island, Liechtenstein, Norway and Switzerland.

Trade between Mexico and the EFTA has grown 182% between 1999 and 2012, registering an annual average growth of 14% per year (Graph 11). The main exchanged goods in that trade relationship are automatic data-processing machines, coloring matters, cell and battery carbon, semi-finished iron products, medicines, wrist watches, pocket watches and other watches, among many others.

Graph 11



Source: Data from the Mexican Ministry of the Economy

In regard to Japan, the interest of that country's government in signing a free trade agreement with Mexico did not constitute a surprise, once European

and American investors enjoyed preferential conditions in the Mexican market. Just as NAFTA was a key point in the negotiations of MEXEUFTA, the conclusion of the latter served as a strong incentive for Japan to modify the terms of its commercial ties with Mexico and, thus, contributed to furthering the liberalization process of the Mexican economy.[8]

Besides its contribution to the liberalization process of the Mexican economy, MEXEUFTA has a strategic value at least from two different standpoints. Firstly, it contributed to the strengthening of the Mexican negotiating position in the World Trade Organization. The combination of NAFTA, MEXEUFTA, and the rest of the free trade agreements signed by Mexico throughout the last decade, has meant that Mexico has established institutionalized commercial relations with 34 countries that represent half of the world's trade, and among which are the most important actors in the Mexican trade agenda.

The second strategic consideration relates to the widening process that has experimented the EU. The incorporation of eleven additional countries to the European Economic Area meant an increased commercial access for Mexico to markets totaling 74 million people and a joint Gross Domestic Product (GDP) that exceeds 400 billion dollars.

Finally, MEXEUFTA had a positive impact in the EU's relations with other Latin American countries. Shortly after the conclusion of the negotiation of MEXEUFTA, Chile was able to conclude a similar agreement in 2004, followed by Colombia, Peru and Central America in 2013, and, although fraught with difficulties due to the agricultural dimension, MERCOSUR is also negotiating a free trade agreement with the EU. These initiatives would have been hard to conceive in absence of MEXEUFTA.

Conclusions

Mexico, thanks to the MEXEUFTA, signed in the year 2000, and despite the global financial crisis that erupted in 2007-2008, has been able to maintain a close economic relationship with the EU. Even though the MEXEUFTA created enormous expectations which never materialized in terms of the amounts of trade and financial flows it would bring about, these flows have been considerable and have grown with the passage of time.

The MEXEUFTA, it must be recognized, has been harshly criticized in Mexico by different sectors on account of the slow growth of bilateral trade and the increasing trade deficit that Mexico has experimented with the EU since the year 2000, in spite of the strong euro which should have made Mexican products more competitive. Even though these criticisms are partly true, they forget that the EU continues to be a strategic partner of Mexico and a region second in importance to North America despite the strong economic and financial crisis that has prevailed in Europe in the last few years. The EU is, in particular, a very im-

[8] On September 17, 2004, Mexico and Japan signed an Agreement for the Strengthening of the Economic Partnership between them.

portant source of diversification for Mexican imports, but the real concern is with Mexican exports to Europe which are small in terms of the proportion of our total trade (less than 5%) and less than half of our imports from Europe which has meant a growing trade deficit.

Even though the trade deficit should be a source of concern especially because it shows the incapacity of Mexican entrepreneurs to take advantage of the enormous EU market, it must be recognized that the trade deficit can be explained in great part by the structure of Mexican imports from the EU, namely, parts and intermediate European goods, which are then transformed into final goods in Mexico and, in many cases, exported to the U.S. and Latin America. This process, in turn, has two positive effects for Mexico; first it generates greater investment and contributes to the creation of new and better jobs and, secondly, it nurtures our trade surplus with the USA.

But not only that, thanks to the MEXEUFTA Mexico has attracted European FDI not only from big companies, but also from small and medium enterprises seeking an entry into the U.S. market, and looking to gain a share of the Mexican market as well. In the last 14 years European capital invested 128.2 billion dollars in Mexico, accounting for 38% of total FDI attracted by Mexico in that period (Graph 8). This turned the EU into the second main source of FDI for Mexico, only after the U.S. The annual average flow of FDI from the EU arriving into Mexico for that period is of $8.55 billion dollars, turning the EU in the most dynamic investor in Mexico. In sum, the EU is clearly an important investment partner and source for Mexican exports for the future, and given this situation the question arises as of what are the likely implications that the TTIP may have for Mexico´s relations with the EU.

The TPP, the TTIP and NAFTA in the Mega-Regional era

Given the failure of the WTO to make progress at the multilateral level through the Doha Round, and the current economic problems at the international level, it is not surprising that the world has turned to mega-regional trade and investment agreements. A similar trend took place during the 1980´s when as a result of the energy and debt crisis and the lack of progress of the Uruguay Round, Canada and the US decided to negotiate a free trade agreement, which was followed a few years later by the NAFTA, an agreement which at the time was so ambitious that it helped to propel the Uruguay Round and became the direct and indirect model of the more than 250 free trade agreements that have been negotiated within the realm of the WTO since 1994.

Currently, mega-regional trade agreements are under negotiation across the Pacific and Atlantic oceans, with the TPP, RCEP, and TTIP in various stages of development. Between members of the mega-regional compacts, several bilateral and regional agreements are already in place, and of these NAFTA is the largest, with combined member nation GDP of almost $19 trillion. Second is the European Union, with combined GDP of almost $17 trillion. The ASEAN Free Trade Area (AFTA), with six members, has combined GDP of $2 trillion, while

the Pacific Alliance, comprising Colombia, Chile, Mexico, and Peru, comes in at around $2 trillion. Coexisting with these regional agreements are several bilateral agreements, for example the Japan-Singapore FTA.

Neither TPP nor TTIP are a done deal. Let us remember how the Free Trade Agreement of the Americas (FTAA), launched with hope and fanfare in Miami in 1994 crashed and burned in the same city in 1998. Representative Alan Grayson (D-FL) claims an "enormous amount of negative sentiment" to TPP from both Democrats and Republicans.[9]

But if it overcomes the skeptics, TPP will break all precedents in terms of economic size, with 2015 estimates indicating the bloc will have a GDP of $28 trillion in GDP, around 40% of the global total. Combining the US and the EU, TTIP would still be larger, at GDP of $32 trillion in 2015, some 45% of the world total. RCEP, which includes both India and China, promises to be the largest trading bloc by population with over 3.4 billion people, with GDP of $21.2 trillion. Respectively, the three mega-regional pacts would have internal merchandise trade of over $4.5 trillion, including $2 trillion within the TPP, $645 billion in TTIP, and $2.1 trillion within RCEP.

What are the implications these mega-regional trade agreements will have for the different member countries of the WTO in case they ever come into force? In the case of Mexico, and given the importance that the Mexico-U.S. economic relation has, the discussion has focused on the impacts of the TPP and TTIP on NAFTA. This is understandable since the U.S. is Mexico's most important trading partner and its main source of FDI.[10] In Mexico the view is that the TPP may foster dramatic changes to NAFTA, as it engages all three members plus nine additional countries, and has a very ambitious agenda.[11] TPP can potentially update NAFTA in a number of ways:

- in the merchandise trade realm, the TPP might liberalize rules of origin by allowing for accumulation between member countries for the purpose of satisfying value added percentages and change of tariff heading requirements;

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[9] *Inside U.S. Trade*, October 4, 2013, p. 15. It is also worth noting that TPP and TTIP negotiations are lagging in absence of Trade Promotion Authority (otherwise known as "fast track") in the U.S. In that sense, Senate Majority Leader Harry Reid declared after President Obama's 2014 State of the Union Address that he "is against fast track" and that "everyone will be well-advised just to not push this [fast track] right now".

[10] In 2012, Mexico exported merchandise worth $288 billion to the United States, and imported merchandise worth $216 billion. The stock of US FDI in Mexico totaled $148 billion in 2012, up from just $5 billion in 1994.

[11] The 12 TPP members are Malaysia, Vietnam, Australia, New Zealand, Japan, Canada, Mexico, United States, Brunei, Chile, Peru and Singapore. For a comprehensive view on TPP, view: Jeffrey J. Schott, Barbara Kotschwar and Julia Mir, "Understanding the Trans-Pacific Partnership", Peterson Institute for International Economics, Policy Analyses in International Economics, no. 99, January 2013; C.L. Lim, Deborah Elms and Patrick Low, *The Trans-Pacific Partnership: a Quest for a Twenty – First Century Agreement*, United Kingdom: Cambridge University Press, 2012.

- it may establish new disciplines for state-owned enterprises (SOEs) and state-supported enterprises (SSEs);
- it may cover sub-federal procurement in states, prefectures and large cities;
- in labor and environmental questions, the TPP may include the same dispute settlement procedures and remedies as commercial obligations, where methods of enforcement include fines and sanctions;
- the TPP may broadly expand the areas covered by recognized intellectual property rights (IPR).

What about the TTIP?

Since these are early days in the TTIP negotiating agenda it is hard to forecast the subject areas where TTIP coverage will surpass the TPP. But one subject where greater ambition seems likely is the convergence of regulatory standards.[12] Mexico and Canada have yet to be invited to TTIP talks. Whether invited or not, what happens on regulatory convergence will be of paramount concern for their exporters in the years ahead. At least two models of regulatory convergence are currently under consideration. One model would entail mutual recognition, by the United States and the European Union, of the *equivalence* of their standards, issue-by-issue and sector-by-sector. A second model would entail the development of *common standards*, especially on new products and processes. Both models envisage deep engagement between US and EU regulatory authorities.

To the extent the *equivalence* model prevails, Mexico and Canada will, to some extent, be left in the cold. Even if these countries adopt, word-for-word, the regulatory standards of the United States, automatic acceptance of their products by the European Union would not be assured. However, to the extent the *common standards* model prevails, if Mexico and Canada subscribe to those standards, presumably their products will be accepted in US and EU markets. But in either case, Mexican and Canadian regulators will find deep engagement with US and EU regulators difficult as long as they are outside the TTIP.

[12] Given that the average tariff rate between the U.S. and the EU is under 3%, TTIP negotiations have mainly focused on advancing regulatory convergence and tackling non-tariff barriers.

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The TTIP Negotiations and their Impact on the EU-Mercosur Accord

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Abstract

The opening of mega regional free trade negotiations (TPP and TTIP), along with the emergence of the Pacific Alliance, are having a significant impact on the Latin American integration processes and, especially, on the immediate and future development of Mercosur. In this respect, one of the most important consequences in the recent past –to the surprise of almost everyone– has been the resumption of the negotiation of an Association Agreement between the EU and Mercosur. For the first time in the hazardous and lengthy history of the negotiation process, there are reasonable chances of reaching a wide-ranging agreement between the parties involved, which could be either bi-regional (Mercosur and the EU) or partial (Brazil plus Uruguay and Paraguay with the EU), given the reluctance of Argentina and also of Venezuela –the latter having recently joined the bloc although it does not officially take part in the negotiations–. On the basis of these circumstances, this paper suggests that the TTIP, along with some other factors, has convinced the government and certain economic elites in Brazil of the need for a greater openness and of a deeper relationship with a globalised world and, therefore of the necessity to conclude an agreement with the EU. For that reason, and given the divergence between Brazil and Argentina, one of the main uncertainties to be dispelled before the negotiations are completed is the identity of those who will negotiate on the American side and what stance Brazil will finally adopt in relation to Argentina and the future of Mercosur itself.

The scenario

The new dynamics set in motion by the various regional free trade mega agreements (which in some cases include investments) currently being negotiated in different international spheres, along with the emergence of the Pacific Alliance in Latin America, seem to have awakened the excessively prolonged negotiations between the EU and Mercosur from their slumber. To this has been added the ending of the generalised preference applied by the EU to the Mercosur countries –except Paraguay–, which has to be in force as of the beginning of 2014. The

trend has been further strengthened by the change in the international situation (with a deceleration in Chinese growth and a drop in commodities prices) and the conviction of both the government and some economic elites in Brazil that the potential for growth based on domestic market expansion is close to being exhausted.

The emergence of the Pacific Alliance has introduced a number of significant changes in the Latin American integration process, which is subject to a prolonged crisis that has now lasted for too long and has been aggravated by the more autarkical and protectionist proposals made by the countries forming the *Alianza Bolivariana de los Pueblos de Nuestra América* (ALBA, or Bolivarian Alliance for the Peoples of Our America). The creation of new bodies such as the *Unión de Naciones del Sur* (Unasur, or Union of South American Nations) and the *Comunidad de Estados Latinoamericanos y Caribeños* (CELAC, or Community of Latin American and Caribbean States) has not only failed to reverse the crisis but further deepened it.

One of the most visible consequences of the serious problems encountered by Latin American integration is the practical dissolution of the *Comunidad Andina* (CAN, or Andean Community), which received a death blow in 2006 following Venezuela's abrupt withdrawal from the subregional integration bloc (Malamud 2006). Another is the forced cohabitation of two clearly antagonistic projects, Unasur and CELAC, despite the insistence by many politicians and academics that they are, in fact, complementary. Ultimately, if the aim is for Latin American integration to have a successful outcome, one of the two regional integration processes will have to be jettisoned, and the best for Latin America as a whole is the elimination of Unasur.

The appearance of the Pacific Alliance led to several significant changes in the prevailing views about regional integration, starting with one of the most important for the latest stage of the Latin American process, the reintroduction of the centrality of the economy and free trade, which since the beginning of the 21st century had been displaced by political considerations. This was still evident at the last CELAC meeting, held in January 2014 in Havana. The aims and influence of Hugo Chávez, frequently with Brazil's tacit or explicit complicity, explain better than anything else this political deviation, which instead of fostering regional integration has ended by calling it into question. Thus, it could be said that Latin America is currently far more fragmented than it has ever been in its two centuries of independent life.

While not disdain political issues, the Pacific Alliance has at the same time brought back to the fore the economy and trade as essential factors to achieve regional integration. All of its member countries have signed Free Trade Agreements (FTAs) with both the US and the EU and with many other countries. This contrasts with the far more inward-looking Mercosur, which has so far only signed –beyond its regional accords– three FTAs, with Israel, Egypt and the Palestinian Authority.

This favourable stance towards free trade has led to opposition from the ALBA countries, more vehemently in some cases than in others, since at least

rhetorically they advocate the so called 'trade of the people' (*comercio de los pueblos*), a concept they have never adequately defined or explained, and are avowed foes of neoliberalism. The split between the ALBA and the Pacific Alliance countries was already noticeable in previous attempts to build a regional area focused on the Pacific. Contrary to other regional and subregional integration processes in Latin America, the Alliance is fully open to the globalised world, transcending the purely Latin American sphere.

The Alliance's creation also goes far beyond the conceptual debate between Latin America and South America or, in other words: which of the two should be the subject of regional integration? The *fait accompli* of Mexico's presence in the Alliance appears to have resolved the issue, since the bloc includes three countries from South America (Chile, Colombia and Peru) and one from North America (Mexico), while the three observers whose entry is most likely in the near future are from Central America (Costa Rica, Panama and Guatemala). At the same time, the mere fact of the Alliance's existence implies a significant challenge to Brazil and its South American project. The latter is frequently questioned in Brazil itself, as shown by its growing interest in Cuba (the Mariel harbour construction project) and its increased presence in the Caribbean (new embassies and increased public and private investment), alongside the precedents of its participation in Minustah in Haiti and its backing of the deposed President Manuel Zelaya in Honduras.

The Pacific Alliance can also influence the nature of Brazil's leadership –or non-leadership– in South America. Thus, the question now is what the Brazilian government and its Ministry of Foreign Affairs (Itamaraty) in view of the new circumstances in Latin America. It is obvious that Brazil has to make a move, but it is also clear that it will not do so until the Alliance proves to be feasible. In this respect, some of the declarations by high-level Brazilian policymakers –discrediting the Alliance itself– are a telling indication (Malamud 2013).

At an academic congress reviewing Brazil's action abroad over the past decade, President Dilma Rousseff's main foreign policy advisor, Marco Aurelio García, conclusively noted that the Pacific Alliance has 'no economic importance and is no competition for Mercosur'. The same line was followed by the former Minister of Foreign Affairs, Antonio Patriota, while still at his post, when he commented at a meeting with foreign correspondents that the Alliance was 'an effort that gathers countries together that have similar characteristics, but it is an alliance, not a free-trade zone or a customs union and much less a deep-seated integration project like Mercosur'.

On occasion, the criticisms levelled by both went even further. Following an Alliance summit meeting in Cali, Patriota described it as an excellent marketing and advertising ploy, but with little substance: 'when I say the Pacific Alliance is marketing or that it is a new wrapper on an old product, I do not mean to diminish anything, since they are countries that are important to Brazil. And Brazil hopes that its efforts help to invigorate those economies and raise their standard of living'.

For his part, García further stressed the point: 'the Pacific Alliance

should in no way lead us to abandon our dream. Its regional GDP is far lower than Mercosur's (US$200 billion compared with US$ 330 billion). The bloc does not seem to be made up by countries with dynamic economies and it emerged from a system of tariff reductions that had been in existence for some time. The Pacific Alliance had a very great advertising impact, but had little results to show for it, except for those who were already convinced before it was created'.

Brazil's stance, reinforced by the criticisms noted above, again leads to the question –complex in itself– of whether a regional leadership shared by the two major Latin American powers –Brazil and Mexico– is possible, in a way comparable –despite all the differences– to what the Franco-German axis meant for European integration (Malamud 2012). Undoubtedly, if significant progress is made in this respect, Latin American integration will be all that closer.

The emergence of the Pacific Alliance, along with its first steps towards an early consolidation, have coincided with the start of mega regional free-trade negotiations, in which China, either by commission or omission, is not an irrelevant player in the process. The list of Free Trade Agreements (FTAs) currently under negotiation includes, first and foremost, both the Trans Pacific Partnership (TPP) and the Trans Atlantic Trade and Investment Partnership (TTIP) (Steinberg 2013; Largentaye 2013; and Felbermayr *et al*. 2013) –the latter between the EU and the US–, without forgetting the accord already signed between the UE and Canada and the treaty being negotiated between the EU and South Korea.

The impact of the TTIP in Latin America

If in the Pacific axis the conversations on the TPP are still at a very early stage –despite having started in 2010–, the opening of negotiations to sign the TTIP between the EU and the US have gained rather more momentum, without significant resistance on either side. In fact, the negotiating rounds held so far have progressed at a reasonably steady pace, with the prime object of completing the process by 2015. But while the TPP includes Chile, Mexico and Peru, for the time being the TTIP includes no Latin American country, which is important to consider when assessing its impact on the region. This does not mean that some countries, primarily Mexico, might subsequently join the negotiations.

The decision to forge ahead in the liberalisation of trade and investment on the basis of the TTIP is essentially due to geoeconomic reasons (Steinberg 2013). The stagnation of the European and US economies and their resulting loss of economic and political leadership to emerging nations, especially China, have made possible what had until recently been unthinkable: a wide-ranging liberalisation in the circulation of goods and services between the US and the EU through an accord that, if all goes as it has so far, might be completed as planned by 2015. The two parties are conscious that it is vital to take advantage of the window of opportunity afforded by the US election calendar.

If the negotiating round is successfully completed, the TTIP would become the biggest free trade area the world has yet seen, made up by the two of the greatest international economic powers, the US and the EU. Jointly they ac-

count for 40% of the world's GDP/purchasing power and a third of its trade flows. The two blocs are strongly interlinked in both trade and investments, to the extent that they each receive a third of the other's FDI, which makes negotiations easier rather than more difficult. But, more importantly, the two share institutions and legal systems that are relatively similar, which ultimately makes trade convergence that much easier.

Contrary to their relations with other regional blocs, the trade relations between the EU and the US are already very open: tariffs are applied to less than 4% of trade (a weighted average of 2.8%) and are, generally, relatively low. The elimination of a major part of these barriers would therefore have an extremely limited effect on any increases in economic growth and employment that might be generated following the signing of the TTIP. Thus, if the negotiations come to a successful conclusion, it is estimated that the EU would record a 0.27% rise in its per capita GDP, while Spain might see a 0.31% increase.

Nevertheless, it is the non-tariff barriers, such as differences in regulations and technical standards, that are the main obstacle to exploiting the full potential of integration between the US and the EU. This is the vital issue and, therefore, if an agreement is reached, the impact on per capita growth would be 23 times greater than in the case of tariff removal. For that reason also, this will be one of the most complex elements of the negotiation.

Convergence, which would essentially come about through the mutual recognition of respective regulations and not through the adoption of new rules, would be especially important for the sectors with the greatest potential for growth and for generating added value. It would also provide the framework for coordinated action of their respective regulators to confront new situations linked to, for instance, technological progress (Estrella & Malamud 2013).

Therefore, it would not be a case of a general deregulation but of the EU and the US moving on from a culture of regulatory competition (or covert protectionism) to regulatory cooperation. The recent agreements reached by the WTO in Bali, as far as facilitating trade goes, had the same object in mind.

It is evident to all that an agreement between the EU and the US focusing on liberalisation would have a highly significant impact. Especially because it would end by defining a new international trade infrastructure that would be very different from the current framework, in which China and other Asian countries can compete comfortably with Europeans and Americans and with many other countries.

From our perspective the question now is to try to analyse the possible consequences of the signing of the TTIP for Latin America, many of which will also be applicable to the TPP. Of course, at this point it is impossible to generalise about the Latin American region, which could be affected differently and in diverse quantitative and qualitative ways. Nevertheless, for an adequate analysis it will be necessary to wait for the characteristics and details of the accord to be available, starting with the small print, and to see whether the accord basically affects tariffs, non-tariff barriers or all simultaneously.

First, it is important to distinguish between countries that have FTAs with the US and the EU, which is the case of all the members of the Pacific Alliance (Chile, Colombia, Mexico and Peru) and the Central American countries, and those that have not, such as the Bolivarian nations (Bolivia, Cuba, Ecuador and Venezuela) plus the Mercosur. It will obviously be easier for the former to join in some way or other to whatever is achieved, while the latter will be increasingly marginalised and continue to depend for their exports to Europe and the US on their governments' discretion and on the existence of generalised and non-reciprocal preferential tariff systems.[1]

As noted by Rosales & Herreros (2014: 5), 'All of these non-reciprocal preferential programs share important shortcomings. First, several products of interest to Latin American countries, including many agricultural and apparel items, are excluded from the coverage. Second, these programs usually carry safeguards to limit the impact of increased imports on domestic producers. The safeguards, which include quantitative limits on goods entering under preferential terms, tend to apply to products for which the exporting countries have comparative advantage. Third, countries can be removed from the list of beneficiaries for a number of reasons, including alleged violations of worker or intellectual property rights or if they reach a certain level of income per capita or export competitiveness'.

Secondly, it is important to look not only at the production structure of the various countries but also, very especially, at the characteristics of their foreign trade with the US and the EU: that is, which are their main markets and what type of products they export, the greater or lesser ease with which they can find alternatives to their exports and whether there are among the signatories to the TTIP sectors that can compete openly with the products they export. Some of the products exported by Latin American countries, such as 'petroleum, coffee, frozen shrimp, bananas, and honey in the US and of copper and iron ores, soya beans, petroleum, and pulpwood in the EU' (Rosales & Herreros 2014: 6) pay no tariffs, which means that their sales will not be affected by the TTIP's signing. The final result of the impact on each country will ultimately depend on the type of products that are exported and imported, considering the unequal effects on each of them in a situation such as that described.

While the US is the main market for exports from Mexico, Central America, Colombia, Ecuador and Venezuela, China is the main market for Brazil, Chile and Peru, as well as for a major part of the commodities exported from the region.

Neither must it be forgotten that the consequences of the TTIP will not be exclusively commercial. Everything suggests that it will be in setting production standards where the impact might be greater, which leads us to consider the position of Latin America's various national economies in the international value

[1] This is the case of the Generalised Scheme of Preferences (GSP) in the EU and the Generalised System of Preferences (GSP) and the Andean Trade Preference Act (ATPA) in the US.

chains, which are highly diverse and very different from one country to another. Everything suggests that, from this perspective, it will be the most open countries, those most closely linked to globalisation that will be the least hurt by the signing of the TTIP.

The Bertelsmann Foundation report 'Transatlantic Trade and Investment Partnership (TTIP): Who benefits from a free trade deal?' (Felbermayr *et al*. 2013) includes an econometric forecast, based on a series of simulations, that studies the Treaty's impact on different international economies, including all the Latin American countries. In order to do so, it establishes two possible scenarios once the TTIP is signed. The first assumes that the accord basically covers tariffs –the tariff scenario–, while the second assumes a far greater degree of liberalisation –the deep liberalisation scenario–.

In the first case –the tariff scenario– the main winners, in terms of an altered per capita income, are essentially in the US and the EU. Other than them, there are very few countries that would record an increase in their per capita GDP as a result of the TTIP. The most prominent would be Brazil, Kazakhstan and Indonesia, which are important suppliers of raw materials to Europe and the US, and for which there are very few alternative sources. Strangely enough, the increase for Brazil (0.5%) would be greater than for the EU as a whole (0.27%). The very low figure for the latter is due to the extremely reduced level of duties currently applicable between the US and Europe. Nonetheless, in general terms, the TTIP would raise the world's per capita GDP by 0.1%.

The same can be said for the US, which would register a 0.8% rise. Nevertheless, its two trading partners in the North America Free Trade Agreement (NAFTA) would be penalised: while Canada would decline by -0.7%, Mexico would be down by -1.1%. All South American countries would suffer losses: Argentina -2%, Ecuador -1,5%, Venezuela and Perú -1,1%, Paraguay -0,9%, Chile -0,4% and Colombia -0,2%, while Uruguay would remain unchanged.

Nevertheless, as noted in the Bertelsmann report: 'Under certain circumstances, it is even realistic for countries that already have free-trade agreements with the EU or USA to indirectly participate in negotiations between the EU and USA, so that their concerns are taken into account. This does not show up in the calculations, so the negative welfare effects may be exaggerated' (Felbermayr *et al*. 2013: 29). This affects the countries of Central America and those of the Pacific Alliance, whose position would be substantially improved, with Mexico and Chile at the forefront.

For their part, Rosales & Herreros (2014: 5) claim that of the seven Latin American countries that do not have FTAs with either the US or the EU, the most penalised would be Ecuador and Venezuela. In 2012 the US market accounted for 45% and 41% of their exports, respectively. They would be followed by Bolivia and Brazil, with 15% and 11% of their exports.

The main losers from the elimination of tariffs would be the developing countries, which would experience a significant loss in their market share in Europe and the US, due to tougher competition. The situation would be aggravated because if as a result of the accord the duties between the US and the EU were to

be reduced, there would be relative tariff increases in the trade with developing countries, which would ultimately affect the poorest countries. Nevertheless, the sharp boost in the main economies would, in turn, have a substantial effect on the demand for commodities from the emerging countries.

The consequences for Latin America, and in general for the emerging nations as a whole, would be far more dramatic in the deep liberalisation scenario than in the tariff scenario, although as noted in the report the increase in income would be of 3.27%, allowing the losers to be clearly compensated. In the deep liberalisation scenario, Brazil is the only country in the region that would increase its per capita income by 2.1%. Conversely, the countries with the closest links to the US would have the most to lose, at -7.2% and -5.6%, respectively. In turn, Venezuela would be down -2.7%, Colombia -2.6%, Peru -2.2%, Argentina -1.8%, Bolivia -1.7% and Paraguay -1.6%.

Brazil, absent for purely geographical reasons from the great free trade axis arising in the Pacific through the TPP, would also have to confront the creation in the Transatlantic axis of a reinforced and deeper free-trade area. To this should be added the initiative of US Secretary of State John Kerry of relaunching the ALCA project (*Área de Libre Comercio de las Américas*), to which the Brazilians are more resistant than to the negotiation of an accord with Europe. It is clear that the re-opining of ALCA would be the best solution for Latin America in the event of the TPP and TTIP being successfully completed, although this is unthinkable at present given the deep divisions at present in Latin America and the strong opposition to free trade and the US in the ALBA countries.

The negotiations between the EU and Mercosur

The negotiations between the EU and Mercosur are currently progressing with firm Brazilian support, aided by Uruguay and Paraguay which, because of their size, would benefit the most in relative terms from an agreement being signed. The negotiations, formally opened in 2000 and subsequently brought to a standstill in 2004, were re-started at the EU-LAC (European Union, Latin America and the Caribbean) summit in Madrid, in May 2010, thanks to the political leadership of Argentina and Spain (which respectively presided over Mercosur and the UE).

In any case, it should be borne in mind that the major boost for re-opining negotiations was provided by Spain, which was determined to gain the best results from the EU-LAC summit and to restore Latin America to the EU's radar, following its loss of presence as a result of the 2008 international economic crisis. Subsequently, and despite some negotiating rounds, the talks languished amidst technical discussions and little concrete progress, especially as regards trade, the agreement's most contentious issue.

The new international and Latin American situation (negotiation of mega regional free trade agreements and the emergence of the Pacific Alliance) was reinforced by the fact that in 2014 the EU suspended the application of the Gen-

eralised Scheme of Preferences (GSP) for the Mercosur countries, with the exception of Paraguay. This situation led to the reconsideration of certain positions and finally the EU and Mercosur made the commitment in January 2013 of presenting their negotiating proposals before the end of the year, which were to lead to a tariff reduction of around 90%. In due course, Brazil and Uruguay announced that their proposals were ready, as did Paraguay, which simultaneously accelerated the parliamentary approval of Venezuela's entry to Mercosur to normalise its participation in the bloc and allow it to fully take part in the negotiations.

Until almost the end of 2013 there was no news from the Buenos Aires government, whose lack of interest in progressing towards an accord including a free trade chapter was evident. With Brazil clearly determined to promote a treaty with or without Argentina (which was Dilma Rousseff's commitment to the Brazilian business class), Itamaraty began to work on a possible 'two-speed' agreement, with negotiations starting in early 2014 and which the Argentine government could sign later on.

The two-speed option remained unchanged when the Argentine Foreign Minister Héctor Timerman presented to his Mercosur partners in Caracas an offer limited to only the chapter on goods, with no reference to public procurement, services and investments. Following the changes in the government due to the defeat of officialism in the parliamentary elections in October 2013, Argentina seems to have revised its proposals. In only a few days it announced that it willing to accept 'somewhat more than 70%' of a tariff reduction, to then raise the percentage to 80%, but still far from the 90% that the other Mercosur countries and the EU are willing to reach.

Everything suggests that Argentina does not want to be sidelined from its main Mercosur partner, especially as Cristina Fernández's government faces increasing economic difficulties. Finally, in January 2014 Mercosur presented its negotiating offer as a bloc, but the EU insisted on knowing who would be negotiating, either Mercosur as a whole or only three countries, in order to continue the process.

The Argentine decision to join the negotiations modified the scenario originally expected by the Brazilians. Once the Argentine government presented its proposition, the bloc's other members had to rule out, for the time being, the option of moving ahead, at least for the time being, without the Argentines. Thus, the four Mercosur countries involved –Venezuela did not take part– had to forge a common position. This also affected the EU's position, since it had assumed that there would be a two-speed negotiation as communicated by Brazil. Hence, the EU also had to re-formulate its proposals.

Given the Argentine government's change of position, the parties decided to delay by one month the presentation of their negotiating proposals. Both sides needed that times to achieve their aims: Brazil to build a common Mercosur position following Argentina's new interest; the EU to accommodate the Mercosur as a whole in its proposals, which had initially been prepared for a two-speed agreement limited to Brazil, Paraguay and Uruguay. This caused a certain

annoyance to the Argentine authorities, which reminded the EU that negotiations should be carried out through the appropriate channels, involving Venezuela, which held the Mercosur's *pro tempore* Presidency in the second half of 2013.

The Brazilians were perplexed and somewhat dubious of the Argentines' last-minute decision. Their main doubts revolved around whether Argentina would join the talks with the EU on a constructive basis and with the aim of reaching a successful outcome or whether, on the contrary, with the object of not remaining on the sidelines of a negotiation that would ultimately penalise them. For that reason they remain seriously wary of the intentions and determination of Cristina Fernández's government of building an ambitious common position and fear that momentum will be lost and the process derailed as it was in 2004, which would be disastrous from a Brazilian point of view.

To avoid another halt in the negotiations, Brazil appears to be willing to again exercise its 'strategic patience' with its southern neighbour, but this time in a more limited manner as to degree and time-frame. For Dilma Rousseff's government the accord with the EU is today a matter of both geopolitical and economic strategic interest, contrary to 2004, since the developments in international trade make it important to avoid the considerable risk of becoming increasingly isolated. And, undoubtedly, this would require that patience with Argentina be reconverted into leadership.

The risk of isolation is looked upon with concern by some of Brazil's main economic and business players, who have started to abandon their entrenched protectionist position. This is not as clearly apparent among Argentina's business leaders, who have far less capacity to exert pressure on the government than their Brazilian counterparts.

In view of the situation, finding an accommodation with the EU through a wide-ranging (and balanced) agreement on trade and investment would appear to be full of opportunities and advantages for Brazil and all the Mercosur countries. To renounce such an option or delay it further would simply lead to lost opportunities and isolation... solely in the company of the other Mercosur companies. The memory of the opportunities lost in 2004 is not a precedent that should be welcome to anyone.

Conclusions

The start up of the talks on the TTIP between the EU and the US has set alarm bells ringing in certain Latin American governments, especially in those that have so far favoured a greater degree of protectionism. Perhaps Brazil is the most noticeable case, since the announcement of the TTIP coincided with a particularly significant moment, when its domestic market growth seemed to have come to an end, the Chinese economy was decelerating and commodities prices were also slowing down.

One of the most noticeable effects was the impact this had on some of the country's powerful economic groups, which had so far been noted for their protectionist and 'developmental' policies. One of the most important cases is

that of the industrialists of São Paulo gathered in the FIESP (*Federação das Indústrias do Estado de São Paulo*). To this should be added the emergence of the Pacific Alliance which, beyond some dismissive declarations by high-level Brazilian officials, has been seen with significant concern within the country.

It is in this context, seen from a global perspective, that one must analyse the reasons that have led Brazil to determinedly resume the negotiations with the EU to sign a treaty of association with Mercosur. Given Argentina's reluctance, the big novelty has been the decision of Dilma Rousseff's government to move ahead with or without Argentina. This has not been made explicit, even at the risk of Mercosur being split up, but has always been denied by the Brazilian authorities.

From Brazil's point of view, and from Paraguay's and Uruguay's, the attachment to the EU through an accord that includes a free trade treaty would allow the potential risks implicit in the TTIP to be reduced. Despite the growing role of China in the Mercosur countries' foreign trade, the EU and US markets are still important, to which should be added the desire of all of them to not be isolated from the international context. Argentina is a case apart on account of the high degree of ideological content in its public policies, which has led it to increasingly rely on Bolivarian Venezuela and an anticapitalist discourse, making it become increasingly isolated from its traditional Western friends and allies.

To Brazil, increasingly concerned about its industry's future, the possibility of the TTIP setting the standards for the production of a large part of the industrial goods in the international markets is not satisfactory. It is also concerned, like the rest of the Mercosur countries –except Venezuela– of the impact on agricultural exports, especially to the European markets. The signing of the TTIP would not only increase the competition from US products but, in all likelihood, from Canada also. And the latter, adding to the concern, has just signed an FTA with the EU.

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A Preliminary View of the Negotiation of the TTIP: a Step toward the Fragmentation of the International Trading System?

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Abstract

It is too soon yet to make any serious appraisal of the impact that an eventual *Transatlantic Trade and Investment Partnership* (TTIP)–as well as the *Trans-Pacific Partnership* (TTP)–could have on the multilateral global trading system and in those countries that are full members of Mercosur, or that share the idea of a South American integration process. To a great extent, the impact will depend on the situation of both the WTO and Mercosur at the moment that the actual negotiations are concluded. Also, it will depend on the results of the bi-regional EU-Mercosur negotiations. What is clear is that, if concluded and effectively implemented, both the TTIP and the TPP could eventually have a strong impact–even a negative one–on the global multilateral trading system and that this impact should be carefully appraised by Mercosur and other South American countries. The impact will particularly depend on some of the chapters of the agreements that could be concluded and especially of the commitments related, among others, with agriculture and intellectual property. But for the time being it is possible to sustain that the perception of a positive conclusion of both negotiations will, without doubt, stimulate the current debate about the future of Mercosur and of South American integration.

The multilateral trading system in the transition to a new global economic order

There seems to be a certain consensus about the gradual erosion of the global multilateral trading system institutionalized by the WTO that could be the result, on the one hand, of the cumulative effects of the standstill of the Doha Round (Evenett & Jara 2013) and, on the other hand, of new initiatives that would lead to accentuate the proliferation of interregional mega- preferential trade agreements such as the TPP and the TTIP.

Due to the eventual fragmentation effects on the institutional framework of world trade, said erosion may not only affect the transnational flows of goods, services and productive investments but may have geopolitical connotations as well. The debate surrounding the geopolitical dimension of the TPP is proof of

this (Lim, Elms & Low 2012). If this were the case, it could also affect the already compromised global governance in terms of the prevalence of conditions for peace and stability in the world and in the different regions. Global governance was, we must recall, one of the main driving forces that accounted for the origin of the multilateral global trading system through the creation of GATT and then of WTO (Van Grasstek 2013).

This is the reason why the adaptation of the global multilateral trading system to the profound transformations that are currently taking place in world power and in global economic competition is regarded as one of the main challenges for the international agenda of the upcoming years. This adaptation could be even more necessary if we consider the perception that many countries have–especially the emerging and re-emerging protagonists–that, in great measure, the existing institutions and rules reflect a reality of world power that is being rapidly overcome (Peña 2013c). Unlike the world in which the global multilateral trading system was born, where few countries had the sufficient power to adopt decisions and generate rules that penetrated reality, the present one is much more diverse, complex and dynamic. It is a world of many protagonists and clubs. However, there is not a dominant club such as the 'oligarchic condominium' referred to by some analysts in the sixties and seventies during last century.

It seems difficult to imagine that in the short or even in the medium term it will be feasible to agree on re-founding schemes that entail an in-depth revision of the WTO system, assuming that this were eventually advisable. The difficulty of bringing together the sufficient critical mass of world power that is needed to revise or to create new institutions and relevant rules would indicate that the initiated transition will require some time before we can enter a new stage of the global multilateral trading system. Therefore, the idea of metamorphosis would seem more advisable. It would imply opening a debate on the revision of some of the mechanisms and instruments of the current multilateral trading system that, if introduced, could help improve its effectiveness, efficiency and social legitimacy. At the very least, this could help stop the current trend of gradual deterioration of these three systemic qualities that are essential for the relevance of those institutions and rules.

Among the relevant issues that have an impact on the systemic deterioration that was mentioned above, there are two that deserve attention. First is the issue of how WTO members can address trade emergency measures through safety valves that imply greater flexibility than what is tolerated by the present rules. Second, how to strengthen collective disciplines on preferential trade agreements to prevent them from contributing to a greater fragmentation of the world trading system and even to its fracture.

Given the potential of preferential trade agreements to fragment the global multilateral trading system, especially those that involve several countries from different regions, or that include commitments that transcend those made within the WTO, it would seem advisable to analyze new collective disciplines. These should ensure effective transparency regarding any preferential measures–that could be discriminatory for those countries that are not members of a par-

ticular agreement–and a periodic independent technical assessment of their effects on trade and investment flows originating in third countries and on the cohesiveness of the global multilateral trading system.

Trends towards the fragmentation of the global multilateral trading system

A common ground today is that all member countries agree that the global multilateral trading system must be preserved and strengthened. But at the same time all signs indicate that it will take time to articulate the required consensus, either to conclude the current multilateral negotiations, to suspend them for good–nobody seems to be interested in having the responsibility of accounting for a failure in the inevitable blame game that would follow–, or to agree new negotiation modalities that allow to soften the rigidity of the single undertaking such as, for example, those that do not require the participation of all member countries and that are agreed within the WTO framework (different variations of plurilateral agreements). There are certain factors that show an influence on this regard.

The first factor is the high number of participating countries, with evident differences in relative power, cultural traditions and degree of economic development. After the addition of Russia and other countries the number of WTO members has currently grown to 159. It is quite a difficult task to find an agreement among all of them regarding agendas that are filled with the most diverse and sensitive issues, both for political and economic reasons. The most relevant fact is that the scattering of relative power among the relevant players in world trade has increased since the creation of the WTO.

A second factor that anticipates a period of uncertainties in the WTO is the low intensity of the present incentives to conclude the Doha Round. This may be explained by the effects of the current international financial and economic turbulence, which have accentuated political reflexes against innovation in all the non-urgent issues. Concretely, if the domestic political costs are high the tendency of the protagonists is to favor inertia, even when this could mean risking eventual long term benefits.

A third factor is a growing trend towards favoring alternative paths to those offered by the global multilateral trading system. The difficulties to move forward in the successful conclusion of the Doha Round feed this trend. It is then understandable that the alternatives proposed by different types of restricted preferential mega-clubs might prove more functional to the aim of facilitating the expansion of trade and investment flows among the participating nations. Additionally, these allow for the creation of *WTO plus* agreements. Said clubs are not limited to countries from neighboring geographic spaces, where preferential agreements are regarded as instruments of the strategies for regional governance and may have deep economic integration purposes.

With the prospect of a weakening of the WTO multilateral framework the proliferation of preferential agreements between large markets could contribute to a fragmentation, even a chaotic one, of the world trading system. However, the main problem could derive from the fact that the relevant players of the world

political scenario eventually perceive that some of these agreements pursue geopolitical objectives that go far beyond trade and investment flows. This could imply the beginning of a dangerous game that may contribute to a greater fragmentation of the international political system. The epicenter of such game could result from the competition between great powers, both longstanding and re-emerging, in geopolitical spaces with a high potential for conflict. On this regard, the perception that countries such as China, the US and the EU (still trying to manage its own identity crisis) may have of the intentions of each one of them at the time of promoting preferential and *WTO plus* mega-agreements should be watched closely.

Even after the Ninth Ministerial Conference of last December in Bali, the WTO and especially the Doha Round still raise questions regarding their future (Peña 2013e). However, certain positive events should be highlighted, such as the acknowledgement that the Doha Round is at an *impasse* that generates the need to explore different negotiation approaches that are compatible with the principles of inclusion and transparency.

At the multilateral level, the non-discrimination principle expressed by the most-favored-nation treatment of article I of the GATT is one of the key elements of the trading system. Together with the consolidation of what each country grants to all other countries, it provides the system, at least in the regulatory aspect, with the expectation of a relative potential for stability and a relevant insurance against discrimination and protectionism. With the evolution experienced after the Uruguay Round by the mechanism of dispute settlement within the WTO, the global multilateral trading system has reinforced its tendency to be rule-oriented increasing thus its political and economic value and its standing as an international public asset.

The other level is that of the different preferential trade spaces. These result either from regional governance strategies, as are the cases of the EU and Mercosur among other relevant examples, or from strategies for the international projection of the trade interests of nations or groups of nations, such as the multiple existing preferential trade agreements that are supposed to be consistent with the GATT and GATS principles and rules.

The proliferation of such agreements of partial scope, in the sense that they do not encompass all WTO members, has intensified during the last years. It has given rise to the creation of different types of preferential agreements. As mentioned previously, some are what can be called regional agreements in the strictest sense, with a clear goal of contributing to the governance of the corresponding regional geographic space. Others, instead, have materialized between distant countries. Two common traits can be noticed in all of them: they answer to explicit or implicit political objectives and they are discriminatory in relation to the main principle of the most-favored-nation treatment institutionalized by the GATT-WTO. Increasingly, they also include non-preferential trade elements that do not imply exceptions to the abovementioned principle of non-discrimination. This proliferation of preferential agreements may even increase if the Doha

Round is not completed or if no reforms to the multilateral global trading system are introduced.

Issues related with the dialectic tension between the global multilateral and the preferential levels are currently relevant for the world trade system and, in particular, for the GATT-WTO. The idea of the predominance of one level– for example, the global–over the others may correspond with theoretical and ideological views. In reality this is not the case and it is unlikely for it to happen unless there is an effective centralization of world power, something that seems highly improbable, at least from what can be anticipated from the current international situation.

What is customary presented as a dichotomy between global multilateralism and preferential regionalism is a relation viewed as complementary by some analysts and as antagonist by others. In this regard, it is important to identify the factors that can have the strongest impact, either positive or negative, on the predominance of complementarily or antagonism in order to achieve a reasonable balance between them.

Time is one of the main factors that could explain the trend to develop preferential trade agreements, particularly when these are unrelated to governance strategies of regional geographic spaces. In this sense, it has been observed in the case of the Doha Round that the main costs at the global multilateral level, especially the local political ones, are incurred in the short term, whereas the benefits only begin to show in the mid and long term. This fact has caused a growing number of countries –and its businesses– to attempt to move forward through agreements of partial scope, thus conforming at times preferential trading networks in connection with a particular country.

But it is necessary to remember that, for most analysts, international trade regimes are just one of the components that determine the dynamics of world trade. Others are the transition from the industrial to the knowledge society; technological developments in the areas of transportation, communication and logistics; the intensification of the globalization of financial markets, and the proliferation and strengthening of transnational productive chains.

Relevance of regional governance for stability at the global level

The attention of protagonists and analysts is increasingly focusing on the impact of the global crisis on their corresponding regional geographic areas. History reminds us that the scenarios for political collapse and even for its most negative consequences in terms of armed confrontations have, in general, started out as regional conflicts (MacMillan 2013).

Attention to the adjacent contexts is especially relevant in those integration processes aiming to ensure reasonable governance conditions, such as peace and stability, for the respective region. They also offer the potential for strengthening the ability of each of the member countries to achieve their own goals in terms of productive transformation and insertion in the global economy. This is the case of the EU, ASEAN and Mercosur. These processes usually have a politi-

cal origin which, if the fundamental motivations are preserved or renewed, may account for the long- term vitality of their economic content.

It is well known that regional integration processes are constantly submitted to the dialectic tension between factors that drive towards fragmentation and those required as conditions for greater cooperation and integration, at least among the respective economic systems. It is also a known fact that there is not a unique model to preserve and strengthen the political will of sovereign states to work together. This means that each regional geographic space needs to develop its own methods to articulate national interests. This task is often a complex one when trying to reconcile the sometimes very deep differences in relative power, economic dimensions and level of development among participating countries. As a result of the current global crisis, such methods of regional integration are now being tested in at least three fronts. The first is the protectionist trend in the mutual relations of participating countries, the second relates to the ability to articulate common positions in response to the effects of the crisis and the third is the exercise of an effective collective leadership in the corresponding regional space.

Ultimately, the issue of an effective collective leadership within Mercosur or South America is reflected in the foreign perception of the role of Brazil (Peña 2013d). Due to its economic dimensions and its increasing institutional strength, Brazil is perceived as a country able to assume the leadership of the South American region as well as of Mercosur. This was previously shown in the strategic partnership that was agreed between Brazil and the EU. However the experiences of other regional geographic spaces indicate that efficient leaderships are those that result in the creation of shared positions among different countries that are perceived as having the capacity, at the same time, to be relevant protagonists and leaders themselves.

Looking into the future the challenge for Mercosur countries and for the South American region is still to achieve what other regions, in particular Europe, have already accomplished: to provide an institutional framework for collective leaderships based on mechanisms that may prove relatively efficient to build consensus and coordinate positions in times such as the current global economic crisis.

Toward an era of interregional mega-preferential trade agreements?

After the experience with the failure of the hemispheric FTAA negotiations, it seems premature to venture a prediction on the possibility that the negotiations of the TPP (Lim, Elms & Low 2012) and the TTIP (Madariaga 2013; Seshadri 2013) are concluded in a reasonable period of time. But given the fact that it is difficult to imagine that the Doha Round will be concluded anytime soon, it would seem advisable to work under the assumption that we are entering an era of interregional mega-preferential trade agreements with strong geopolitical connotations. This could be a period with multilateral disciplines and large 'private clubs' of a discriminatory trade nature towards the non-participating countries,

not so much by means of tariffs but through other measures affecting trade flows and investments, especially those resulting from the various regulatory frameworks.

A vision of the future of the negotiations between Mercosur countries and the EU with the aim of concluding a bi-regional association agreement should be placed with such framework (Kegel & Amal 2012; Messerlin 2013; Peña 2013a). Years have passed since the idea of this interregional preferential agreement was launched. Dreams were diluted. Negotiations lost their dynamism. At times they stagnated. And one of the factors that gave initial momentum disappeared after the explicit wreck of the FTAA at the Summit of the Americas in Mar del Plata (2005). At the same time, the fact that the Doha Round also entered a state of starvation contributed to cool down the negotiating mood on both sides of the Atlantic. We should keep in mind that the WTO negotiations were perceived as the ambit that would eventually help untie one of the most complex knots in the bi-regional Mercosur-EU relations which is agriculture, especially for the distorting effects that are rightly attributed to the Community's agricultural policy. In turn, in European eyes, Mercosur has been losing credibility and, therefore, its appeal. Today, the changes in the global economic environment find both protagonists of this relationship going through their own identity crises (Van Middelaar 2013).

In Santiago de Chile, in January 2013, Mercosur and the EU reaffirmed once again their political will to conclude a bi-regional association. They had done this before on occasion of the Madrid Summit in 2010. They have been negotiating for thirteen years now. Finally they agreed that in the last quarter of last year 'at the latest' they would make the delayed exchange of offers. They still seem to maintain the idea that such offers should lead to the release of substantially all the trade, conceived from a dogmatic interpretation but without a solid legal foundation in GATT-WTO rules and according to which coverage of at least 90% of the bi-regional trade should be ensured. At the beginning of 2014 (January) the exchange of offers is still a commitment, not a fact. And the blame game is actively promoted in both sides of the Atlantic.

The signs of life manifested in Santiago do not exclude the strong questioning posed by the future of these negotiations. At times they lead to options that are reflected in proposals aimed at materializing some form of agreement of bi-lateral scope, for example, between the E.U. and individual Mercosur countries. It has even been suggested that it could be within the framework of a multi speed bi-regional agreement.

However the above scenario also has sensitive political rough edges. It could weaken to a dangerous extent the distinction between 'us and them' that since the Alfonsin-Sarney agreements in 1985-86 has been a key feature of the strategic relation between Argentina and Brazil, with all the unfoldings that it has had since its origins and that still has today. These certainly transcend the bilateral political and economic level. They contribute to something that is of great value for each of the two countries and that can be called the '*quality of the neighborhood'* in terms of peace, democracy, political stability and social and

economic development of all South America. Most notably, this includes the existing bilateral agreements in the nuclear field that are undoubtedly an example of understanding between neighboring nations in a more than sensitive issue which transcends the regional scope.

The foreign trade agenda of Mercosur: some requirements posed by future international negotiations.

As with individuals, firms or institutions, a group of countries that are linked together in an integration process, especially if it includes a common external tariff as a central element of its collective disciplines, must have an agenda of external trade relations. Or at least this would be convenient. This agenda usually defines priorities, fronts of action, steps to be taken and, when possible, a timetable. Nowadays it should even be possible for such agenda to be consulted by citizens online. Of course, this is not always the case. If it is an association of countries such as Mercosur, the external agenda defines the roadmap for its possible, necessary or desired trade insertion in the world and its region. This implies sending signals to other countries, especially to those with which it aspires to negotiate, regarding its preferences and priorities. It is meant, above all, to provide a guide for local and foreign investors of the future that it envisions for the trade of its goods and services and for productive investments that create jobs and prosperity. It is an element of predictability. This also is evident when we see that many current and potential partners or competitors of Mercosur and its member countries tend to rethink their own agendas of external trade negotiations, especially as a result of international changes taking place at the following three closely interrelated levels.

As we mentioned earlier, the first of these three levels is the global multilateral trading system. On this regard, the standstill of the Doha Round is a clear evidence of the difficulties in relation to one of the WTO main roles which is precisely to facilitate trade negotiations comprising all member countries.

The second level is that of the negotiations of mega preferential trade agreements, including those of interregional scope such as the abovementioned TTIP and TPP as well as the *Regional Comprehensive Economic Partnership* (RECEP). Due to their size and commercial importance we should also include those being developed by the EU with India and Mercosur, assuming that in both cases the current uncertainties are eventually overcome. These are trade negotiations which on the whole will mean that a substantial part of the world's population, gross product and trade will be covered under preferential rules.

It is still difficult to predict if these negotiations will culminate in agreements signed and ratified by the participating countries. The precedent of the failed FTAA negotiations proves that, beyond the expectations that may be generated, even resorting to a good dose of 'media diplomacy' with all kinds of 'special effects' they will not always conclude in the signing of an agreement. And the precedent of the Havana Charter of 1948, which originated the International Trade Organization (ITO), is also a reminder that even when negotiations

conclude successfully they may later fail to pass the test of parliamentary approval and thus of ratification and entry into force. The fact that, at least by the end of January 2014, it was yet difficult to predict when the Trade Promotion Authority (TPA) would be approved by the US Congress (if that effectively occurs within a reasonable period of time) contributes to the doubts about the future evolution of the TPP and TTIP interregional negotiations.

But if the corresponding agreements were finally concluded and took effect, they could produce two types of results that could even be sequential. One result would be the emptying of the global multilateral trading system, with the possible consequences that this could have in terms of the erosion of the WTO as a relevant institution for global governance. In this case, the impact would transcend the more limited level of world trade. The other possible result would be that these agreements generate commitment standards in terms of the regulation of the global trade of goods and services as well as, among others, investments, intellectual property and government procurement, which could later be extended to the multilateral level. In practice, it could imply excluding those countries not participating in such agreements from the process of defining rules and institutions which in the future could govern world trade. And it is hard to imagine that the excluded countries, especially if they have or aspire to have a relevant participation in global trade and in world power, will passively accept such marginalization.

And the third level is that of the multiple forms of transnational production chains of global, regional or inter-regional scope (Baumann 2013; Ferrando 2013; Valls Pereira 2013; Altenberg 2013; Gunnarsson Ljungkvist 2013; Jenks & Persson 2013). In the glossary of current commercial diplomacy they are encompassed under the concept of global value chains. Sometimes they are the result of the fragmentation of the production processes of large transnational corporations in different countries, with the ensuing impact on investment flows, distribution services, transportation and logistics. But they are also the result of the cross-border linkages of groups of enterprises–often small and medium sized–with specialization niches and strong complementation potential.

Recent developments in these three levels have had repercussions in Latin America and particularly in the South American regional space. An example of this is the debate installed in Mercosur countries on how to address the new realities of trade and international trade negotiations. The fact that the idea of Mercosur as a joint strategic project of a group of South American countries has not been questioned yet becomes much more relevant when we note the frequency with which different analysts and protagonists suggest that countries such as Brazil should rethink their relation in view of other approaches considered more appropriate. In particular, the model which is in contrast with that of Mercosur is that of the Pacific Alliance (Peña 2013b). In doing so, it is assumed that the partnership has already produced the results announced by its four member countries. But still it is difficult to determine the real practical extent of the progress that would be taking place in its development.

Conclusion

In the near future the evolution of Mercosur and of the integration ideas in Latin America and in the South American regional space will be strongly influenced by the developments both at the multilateral level of the WTO and at the interregional preferential level, particularly as a result, among others, of the actual negotiations of TTIP and TPP. Both levels are at this moment characterized by several uncertainties originated in a highly dynamic and complex international environment and, particularly, in the deep changes in the distribution of political and economic power among the main protagonists of global economic competition. It is possible to anticipate that these uncertainties will prevail for some years still.

What is clear is that, if concluded and effectively implemented, both the TTIP and the TPP could eventually have a strong impact–even a negative one–on the global multilateral trading system and that this impact should be carefully evaluated by Mercosur and other South American countries. The scope of the impact will depend, in particular, of some of the chapters of the agreements that could be concluded and especially of the commitments related, among others, with agriculture and intellectual property. But for the moment it is possible to sustain that the perception of a positive conclusion of both negotiations will, without doubt, stimulate the current debate about the future of Mercosur and of South American integration.

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IV. The Wider World

US-EU Trade Negotiations: What is at stake?

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Abstract

Closing an ambitious accord on trade and investments could imply for the European Union and the United States both a boost to their economic growth and a recovery of their economic and geopolitical leadership, which has been increasingly questioned by the surge of the emerging powers. But it will not be easy going. It will be necessary not only to overcome domestic obstacles, linked to protectionist interests on both sides of the Atlantic, but also convince the emerging countries to accept the regulatory standards agreed upon by the European Union and the United States, something which is far from being assured.

Introduction

Over the past 200 years the world economy has been dominated by the North Atlantic countries, First by Europe alone and then by Europe and the US (with a marked American leadership after WWII). However, over the next few years the loss of relative weight of the transatlantic axis in the world economy, which started two decades ago, is expected to speed up. The winners will be the new emerging powers, especially in Asia, but also in Latin America and Africa.

In view of this scenario, to which should be added that the Western economies are highly indebted and burdened by low economic growth, the EU and the US have opened negotiations to create a free trade and investment area (the TTIP) that will be the world's largest, covering more than 40% of global GDP, a third of global trade flows (around US$ 650 billion per year) and almost 60% of global accumulated investment stocks (over US$3.7 trillion).

The aim of the negotiations is to create by 2015 a tariff-free integrated economic zone for manufactured and agricultural goods with a significant degree of regulatory harmonisation to facilitate cross-investment and the provision of services. It is not that tariffs are excessively high at present, but rather that the regulatory differences on the two sides of the Atlantic –which especially affect the trade in high added-value services– place significant hindrances to trade.

Although the EU and US authorities have emphasised the significant economic benefits such an agreement would give rise to, in this paper we main-

tain that the TTIP's true purpose is geopolitical. On the one hand, it attempts to revitalise the transatlantic relation to counter the increasingly dominant narrative in international relations according to which the future belongs to the emerging nations and will be located in the Pacific basin. On the other hand, it aims to restore to the US and EU the power to establish the ground rules for the world economy which they enjoyed after WWII and which has steadily been eroded since then.

Nevertheless, the going will not be easy. First, it is necessary for the US and the EU to agree on the new rules for trade, which is difficult considering the different regulatory traditions on each side of the Atlantic. Secondly, even if they are able to negotiate an ambitious TTIP, there is no certainty that the emerging countries will conform to the rules, which might cause the world market to split into rival trade blocs and kill off an already weakened World Trade Organisation (WTO)

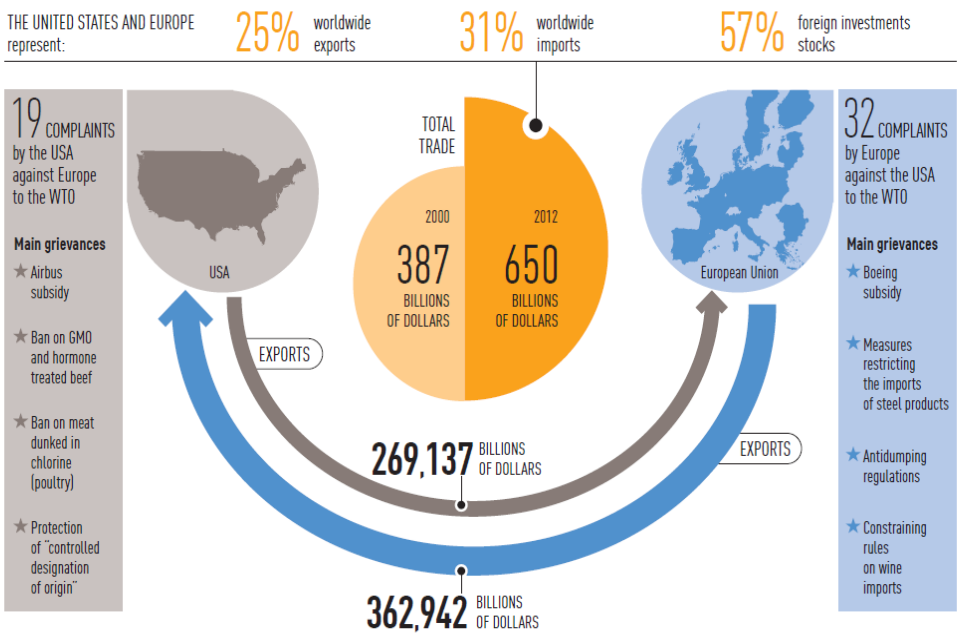
The Transatlantic Economic Relationship

The economic relations between the EU and the US are the world's most intense and important. Although this close link was forged during the Cold War, the current phase of globalisation that began in the 1980s, along with the technological revolution that allowed the expansion of the trade in services, has intensified both trade and capital flows, leading to the (partial) integration of markets that until recent decades had been closed off to the outside.

After decades of successive rounds of trade liberalisation under the aegis of the GATT, today the transatlantic trade in goods is more open than ever, with applied tariffs below 4% on most manufactured goods, average waited tariffs of 2.8% and some higher tariffs in the agricultural and textile sectors. This has allowed the US to be the EU's main trading partner and vice-versa. According to Eurostat data, in 2012 11.5% of European imported goods were from the US while 17.3% of the EU's exports were directed at the US. For the US, the comparable figures are 15.8% and 16.5%, resulting in a trade balance favourable to Europe.

Furthermore, in the services markets, although incomplete on account of the regulatory barriers, the EU and the US have the world's highest degree of integration between two economic blocs. Given the high allocation of capital per worker, the consumers' high level of income and the legal certainty on both sides of the Atlantic, its natural that the trade in services is dominated by the higher value-added segments (financial, judicial and consultancy services, insurance, telecoms, etc) and supported by high levels of cross-investments. Thus, according to Eurostat data, in 2012 35% of the stock of US investments abroad were in the EU and 33% of European countries' investments outside the EU were in the US, with the UK, Germany and France in the lead and Spain registering a significant growth.

Graph 1
Economic Relations between the EU and the US



Source: Bertrand Largentaye .2013. 'Challenges and prospects of a transatlantic free trade area', Policy Paper nr 99, Notre Europe, p. 9.

In summary, despite the economic surge of the emerging economies, the US and the EU are still the big players in the international economic system, in addition to having the most fluid, intense and open bilateral trading and investment relations.

A friendly relation with limited integration

In general, the transatlantic economic relation has been relatively conflict-free. Beyond sporadic disputes (see Graphic 1), economic relations are easy. This is because both sides share the same ideas about how markets should operate, have liberalised and open economies and have fairly compatible interests, something which is not so evident between the West and the emerging nations.

Despite their strong economic links, the integration of the transatlantic market is far from complete. There is no single market with the free movement of goods, services and factors of production, which is the case both within the EU and between the states of the US. There remain significant non-tariff barriers because each side maintains its own regulatory autonomy on issues such as intellec-

tual property, food safety, taxes, immigration, health and plant-health measures, audiovisual services, labour, accounting and financial legislation, and competition, energy and environmental policies. Examples of existing barriers are the auto and public procurement sectors. In the former, despite none too excessive tariffs, norms and standards (especially as regards security) on both sides of the Atlantic are very different, which effectively acts as a protectionist barrier. In the latter case, local or state rules, which are particularly important in the US, mean that an enormous market is practically closed to international competition.

The absence of harmonisation in the economic legislation and institutions of the two sides of the Atlantic is due to the continuing difference between the European and American economic models, a product of the difference in their citizens' values and preferences, although this has not prevented a large volume of cross investments. Until a few years ago, the existence of these barriers, which naturally increase transaction costs and reduce economic efficiency but serve to preserve institutional sovereignty and the most entrenched social values, were never questioned. It was assumed that economic integration would not be complete because certain social costs had to be avoided; hence, no attempt was made to reduce the barriers, which for some were a case of unjustifiable 'economic nationalism' but to others a legitimate way of preserving national identity.

Nonetheless, as explained below, the new international economic and geopolitical scenario, with the swift rise of the emerging powers and a Western economy that is highly indebted, increasingly old, less dynamic and in clearly relative decline, has prompted the launching of the TTIP precisely to reduce the barriers to trade and investment that had so far had been considered acceptable or even desirable.

Thus, negotiations began in July 2013. The TTIP's aim is to achieve a an ambitious accord based on tariff reduction and the convergence of standards to be closed during the course of 2015, which is the window of opportunity opening up after the elections in 2014 (both to the European Parliament and the US *mid-term* congressionals) and before the US presidentials in 2016. In fact, even if it proves to be impossible to reach an ambitious accord in the appointed time, the negotiators are well aware that for the TTIP to have a future it is essential to sign some sort of agreement in 2016 and to build on it after 2017.

The justification for the TTIP: it's not the economy, it's geopolitics

The main justification provided by the European and US authorities to launch the agreement is that it will generate growth and employment. According to a study by CEPR, commissioned by the European Commission, a broad and ambitious accord could generate €119 billion per year for the EU and €95 for the US, which would imply an average additional disposable income for each four-member family of €545 in the EU and €655 in the US (assuming its benefits are evenly spread over the total population and/or that the losers are compensated, which is most unlikely).

This increased income in Europe would be the result of a 28% rise in the

export of goods and services from the EU to the US (equivalent to €187 billion annually), generating a total increase in trade volumes of 6% in the EU and of 8% in the US. Since tariffs are already low, 80% of the increase would derive from progress towards a transatlantic common market; ie, from the reduction of non-tariff barriers, especially the liberalisation of the trade in services and public procurement, as well as from simplifying administrative processes and homogenising regulations. This means that the TTIP is essentially about what is known in economics as positive integration (establishing new common rules) rather than negative integration (removing barriers to trade). It is therefore not an exercise in deregulation but rather the complete opposite. This is because the areas which stand to gain the most (services, investments and public procurement, for instance) are highly regulated on both sides of the Atlantic because they tend to have market faults that require public intervention, as in the case of the financial system or the food and pharmaceutical sectors.

Finally, the report predicts that the agreement's impact on the rest of the world will be positive to the tune of €100 billion (trade generation will be greater than the diversion of trade), and that only between 0.2% and 0.5% of European workers will have to change jobs, while a large number of employment opportunities will be generated in a wide variety of sectors.

Although assessing the impact by country is even more difficult, according to a study by the Bertelsmann Stiftung, if a broad-based agreement is achieved the countries to benefoit most (in terms of an increase in per capita income) would be the UK, Sweden, Finland, Ireland and Spain, while France would benefit the least.

Beyond these forecasts being overoptimistic or falling short, they are not at all surprising: all international trade models predict that a reduction in trade barriers increases the consumer surplus, although they also highlight that a greater openness has a significant redistributive impact by giving rise to winners and losers, and the losers are hardly ever compensated. Furthermore, once countries attain a high income level and the weight of services in their GDP rises, the greatest trade gains precisely require the opening up of the services sector, which is one of the fundamental points of the TTIP. In summary, in a context of low transatlantic economic growth andlittle scope for increases in public expenditure to boost growth, trade liberalisation appears to be a good initiative. Although signing the TTIP will certainly not be sufficient to make the Great Recession something of the past or to resolve the problems of the European monetary union, the agreement can generate income gains at zero cost for the public treasury. And that, in itself, makes the TTIP a desirable initiative.

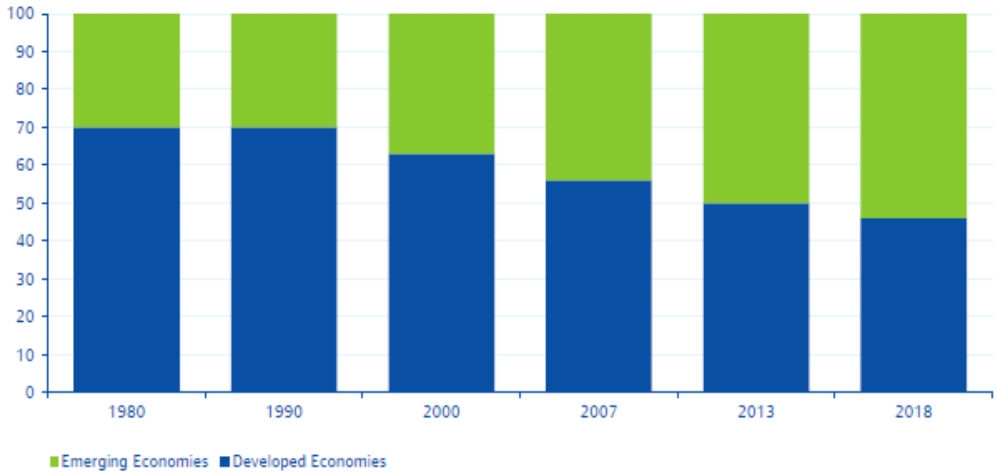
However, all these potential trade gains were also there 10 years ago and will likely be there in the future. Hence, the key question is: why the TTIP now? The answer is geopolitics.

The TTIP as a response to the emerging powers

Over the past few decades, as economic globalisation spread and the emerging

countries (especially the Asian ones) opened up to the world economy, the focal point of the international economy has slowly shifted from the Atlantic to the Pacific. At first these changes did not pose a challenge to the West's political, economic and intellectual leadership: the newcomers were simply to adopt the rules imposed by the older powers. But, since the outbreak of the global financial crisis in 2007, and of the Great Recession that followed it, the process of convergence between the main emerging economies and the advanced countries has speeded up. While the former withstood the crisis quite well, the latter have become enmeshed in vicious circles of low growth and high debt, which hinder them (especially the Euro Zone) from retrieving the leadership they had in the past (Graph 2).

Graph 2
Contribution to world growth of the advanced and emerging countries (1980-2018)



Source: BBVA Research with IMF data.

Even the US, whose relative decline is far less than in most European countries and which could maintain its position as sole world superpower for decades due to its military hegemony, capacity for innovation and its recent energy revolution, has opted for starting a strategic withdrawal from international affairs. Thus, in the space of a few years the US and the EU have seen the legitimacy of their economic model questioned, their leadership in the world economy weakened, the international economic order they had designed contested and, more importantly in symbolic terms, a new narrative appearing, in which the future belongs to the emerging nations.

The TTIP, therefore, can be seen as part of the European and US reaction to their relative decline; ie, as an instrument to regain leadership and, therefore, acquire a greater influence in world affairs. The idea is to revitalise their power in an indirect way, without causing a conflict with the emerging countries, by

establishing new ground rules in the economic sphere. As they did at the time of the GATT, the target is to redefine the world economic structure in accordance with their own rules, reflecting their own values and interests.

Nonetheless, they can no longer do so through their dominance over multilateral institutions like the WTO, whose Doha Round negotiations have stalled precisely because the emerging countries are no longer willing to accept the dictates of the advanced countries. The latter have therefore decided to attempt to forge common regulations for the sectors with the highest future growth potential, giving rise to a new and appetising transatlantic market that will simultaneously generate growth in their battered economies and, especially, become the most coveted market for exporters from the emerging nations, whose growth still depends to a significant degree on their sales to the rich countries. If the TTIP goes according to plan, the message for the emerging countries is clear: if you want to sell your products to my rich consumers you will have to accept my rules; if not, you will remain outside and your growth will be lower.

In fact, this geopolitical reading of the TTIP becomes even clearer bearing in mind that both the US and the EU have signed or are negotiating a large number of free trade agreements focused on services and investment with third countries. The most recent is the one the EU concluded with Canada in November 2013, which could be considered a precursos to the TTIP since Canada is already an advanced economy that already has a free trade agreement with the US (NAFTA, also including Mexico). But, furthermore, the EU has also signed an agreement with South Korea and is negotiating others with Japan and India, in addition to having a wide-ranging network of free trade agreements with emerging countries, particularly in Latin America (although in general these agreements do not cover many of the non-tariff barriers that are intended to be included in the TTIP).

For its part, the US, which also completed an agreement with South Korea in 2012 and has a large number of accords with Latin American and Arab countries, opened –a year before the TTIP– the negotiations for a Trans Pacific Partnership (TPP), which includes the major economies on both sides of the Pacific, including Japan but excluding China.

In sum, the US and the EU are at present leading a number of bilateral or regional mega agreements, both with advanced countries and with emerging nations that are sufficiently open to foreign direct investment and that are well established in the new global value chains, which today determine the patterns of world trade. All these accords aspire to a deep-seated integration, beyond merely tariffs, but always under the regulatory leadership of the US and the EU, which will always have a privileged position in the negotiations since in all cases the cost of non-agreement will be lighter for them than for their counterparts, given the appeal of their rich internal market.

If all the agreements are finally signed, and if they share more or less similar regulations and standards, it would not be difficult to multilateralise them in the WTO, since there would *de facto* be new rules for practically all world trade, whose model would be the TTIP. There would therefore be a WTO 2.0 that

would have created new rules by mulilateralising the new regionalism under transatlantic leadership, thereby breaking the deadlock in which the organisation has been immersed for years precisely on account of the emerging countries' refusal to accept this type of rules.

The Plan could misfire

Using the TTIP as a lever to regain world economic leadership, and incidentally reviving the WTO, is no doubt an attractive proposition. However, the strategy could misfire, either because of an unsuccessful outcome to the negotiations on the TTIP itself, or because the reaction of the emerging economies is not what the transatlantic axis wishes for.

For the plan to be successful, it is necessary for the US and the EU to agree on new rules for trade and investment. Since the negotiation of the most intractable issues has been side-lined (the cultural industries, agricultural subsidies and part of the weapons industry), the achievement of an ambitious TTIP is feasible. Nevertheless, as the regulatory traditions on the two sides of the Atlantic are different, such a feat will be by no means automatic. In fact, since in economic terms the balance of power between the EU and the US is fairly even, neither will be able to force the other to adopt his own standards, mutual recognition is probably the best formula in order to make progress. But the EU well knows that even opting for mutual recognition rather than regulatory harmonisation, several decades were necessary to build its internal market. And, in services, this has still not yet been achieved.

Difficulties will put in an appearance at several levels. First, the resistance of the protectionist interest groups will have to be overcome in order to reduce tariffs to zero, which is likely to be more difficult for products that have high peak tariffs, such as dairy produce, sugar and cereals. Secondly, an unprecedented exercise in mutual trust will be indispensable to move forwards through mutual recognition, by which each party accepts as appropriate the control the other has over goods to protect the consumer. Only in that way will it be possible to liberalise sectors with complex safety rules such as the automotive and food industries. Additionally, in areas which still require regulations to be established (especially high value-added services, which will grow exponentially in future), it is vital for regulators to cooperate in forging new common –or at least compatible– rules. And, finally, the political commitment to reach an accord should be maintained at the highest level, although it might waver if incidents like the espionage case undermine the trust between the two parties and poison the bilateral relation.

But even if the TTIP is completed, nothing guarantees that the accord will open up a new era of globalisation under Western leadership. The emerging powers, especially China, India and the Latin American countries, have refused for years to accept rules at the WTO that restricted their scope for manoeuvre as regards industrial policies, which are precisely those that the TTIP will try to establish. Therefore, if by the time the TTIP is signed and up and running, their

own markets are a major and growing portion of the world market, they may decide not to adopt the TTIP's standards in order not to relinquish regulatory sovereignty, trusting that the opportunity cost of such a decision is not too high because their potential export growth in the transatlantic market is on the decrease. If such were the case, the TTIP would not become the model for new rules in world trade and would not be multilateralised through the WTO, but would be the beginning of a scenario of fragmentation in the international markets between large-scale rival trade blocs that would condemn the WTO –the institution that has so far best functioned tpo regulate globalisation– to irrelevance.

Conclusion

Closing an ambitious trade and investment accord could provide the EU and the US with a double dividend. On the one hand, and this matches the official discourse of both powers, the treaty could boost economic growth on both sides of the Atlantic. And, furthermore, at zero cost, which is especially important in the current scenario budgetary cuts. For this reason alone, the TTIP is a good idea. However, as shown in this paper, there is an unspoken reason why the transatlantic authorities have decided to launch the initiative at this moment: to restore economic and geopolitical leadership to a Western World that is increasingly concerned by the prevailing narrative in international relations according to which the future belongs to the emerging nations. And this can furthermore be achieved without a direct confrontation with the emerging powers but rather by re-writing the rules of international trade and investment, which are the infrastructure on which globalisation is built.

Thus, in as far as the TTIP manages to set the regulatory standards for the areas of trade and investment with the greatest potential for growth and only weakly regulated by the WTO, such as services, the protection of investments and technical and health standards, the emerging nations will be pressured to adopt them also in order to ensure their access to the transatlantic market. This would additionally allow a weather-beaten WTO to be revitalised but with a clear Western regulatory dominance.

The going, however, will not be easy. First, it will be necessary to overcome domestic transatlantic resistance to an ambitious accord and ensure all goes according to plan in 2015, before the US presidential elections. Secondly, once the agreement starts coming into force, it remains to be seen what the relative strengths of the advanced and emerging countries will be in the world economy, which will reveal how much elbow room the emerging nations will have to be able to turn their backs on the TTIP if they consider they can go it alone.

Implications of the TTIP on the Global Economic Integration of Central and Eastern Europe

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Abstract

Impact analyses and empirical results of existing studies on the economic impacts of the TTIP (Transatlantic Trade and Investment Partnership) show significant benefits for the participating countries. 11 out of the 28 members of the European Union (EU) are from Central Europe ("new" member states) and they are mostly small countries with open economies. The impact on less developed member states of the Central European region can be double. It can contribute to their deeper integration into the global economic networks through investments, but their underdevelopment rightly calls for caution. The implications and the direction of potential policy responses are even less clear in the rest of Eastern Europe. According to some studies, third countries would be facing losses and little has been said about the potential impacts on Eastern Europe. Russia, one of the largest emerging countries, has formulated very ambitious foreign economic and policy objectives. It is trying to restore its economic and political sphere of influence. Russia and other countries from the region might forcefully respond to possible trade diversion effects and worsening competitiveness if the agreement was to contain significant changes.

Introduction

Central and Eastern Europe (CEE) has started integrating into the global markets only recently after the breakup of planned economic systems. This region has been compared to Latin American countries several times from the early seventies in terms of its international economic integration pattern. Latin-America and Eastern Europe shared important macroeconomic characteristics in the final third of the twentieth century. In this period, both regions displayed similar economic performances, although their economic and political systems were vastly different. A common feature of the two regions was that they were at the periphery of the international economy and were facing comparable structural challenges while international economic developments exerted identical external pressures

on them. Economic growth subdued, the terms of trade deteriorated, trade balances worsened. All these had led to dynamically increasing foreign debt and its servicing consumed large parts of the export revenues. Rising indebtedness did not serve to speed up structural change (Berend 1994). In both regions the nineties had brought about significant transformation, deep economic changes, and renewed efforts to achieve quicker economic growth. On average, Latin America and Eastern Europe went through significant transformation, Russia and Brazil and other countries have been considered as rapidly growing large emerging markets. At the same time, regional integration efforts as well as WTO membership became important drivers of international economic integration for several countries in both regions. Despite the remarkable growth performance in international comparison and the major advances in catching up with developed countries, their peripheral/semi peripheral position has not changed significantly. In many respects, they are facing the same challenges of globalization, regional integration, closing the gap and economic sovereignty.

After the collapse of the planned economic system, most advanced Central European countries managed to adopt the key institutions of a market economy and liberal democracy. The European Union has become the most important trading partner for all of them, but policy orientations, economic growth and democratic transformation showed big differences across the region. Today, there are two fundamentally different and distinct country groups in Eastern Europe. The first group consists of countries that have either become members of the European Union, or were intending to enter the EU and are already negotiating membership. Some other countries in this group have association agreements with the EU.[1] These countries have chosen the path of global integration through integration into a large single market by giving up several instruments of their external economic policy. The other group mostly comprises countries that do not possess a realistic perspective of EU membership, or nations that do not intend to join at all (Novak 2014: 1).[2]

EU member Central European countries may be viewed as a broadly coherent group that shares similar interests although their economic and political strategies may vary from time to time. Russia, after more than a decade long decline, is the largest emerging economic and political power in Eastern Europe today, and has a clear intention to shape the future of the region. This country is gaining more and more importance in the Eurasian space and pursues a dissimilar strategy to what is followed by the EU members. In recent years Russia has initiated an ambitious integration project with the final objective of creating a Eura-

[1] In the region, negotiations are currently underway with Serbia and Montenegro. Candidate or potential candidate countries are Former Yugoslav Republic of Macedonia, Albania, Bosnia and Herzegovina, and Kosovo.

[2] The European Union has its Eastern Partnership (EAP) policy aimed at creating deep free trade with post-Soviet states: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine.

sian Economic Union.[3] In addition, it has also sought to expand its influence westwards by using its natural resources and capital investments.

Impacts of the TTIP and Economic Theories

Advantages of this agreement are supposed to be similar to those that were forecast before the creation of the European Single Market (SM). The internal market in a simple form is based on the neo-classical approach: eliminating trade and investment barriers = increasing trade and investment activity because of bigger expected returns, efficient labor market, etc. These advantages are supposed to come from eliminating the distortions of competition. In theory, consumers in each country gain from lower prices and any losses to the local producers will be more than compensated by the gains from greater competition. Increased competition and enlarged market opportunities stimulate the development and use of new technologies that improve productivity, decrease costs, increase living standards, etc. By doing so economic growth rates will be higher and new jobs will be created (Vetter 2013: 4).

This strong belief in market forces and the positive sum game of liberalization for each participant seems to be a bit strange at first sight soon after an economic crisis when more cautious approaches of economic thinking are on the rise. The benefits of market forces and external liberalization have been questioned weakening the unconditional mainstream belief in them.[4] As far as the benefits of single market type integration are concerned, we may argue from the opposite perspective as well in terms of costs: the single market idea involves channeling the negative implications of globalization, including (1) loss of jobs, because of increased competition; (2) disappearing industries because of weaker, smaller domestic economic actors; (3) negative impact on structurally weak regions. This last impact was expected to be eased by regional and structural policies, though these are seemingly without success as reflected in intensifying regional differences within the EU.

The objective of the EU Single Market was to deliver higher growth rates to keep up the pace and successfully compete with fast growing emerging regions. Its impacts are not entirely about success and assessments are only superficially addressing these problems (Straathof et al. 2008; Boltho, Eichengreen 2008; Copenhagen Economics 2012). Even if there are arguments to support that the current problems of the EU have not all been caused by the operation of the

[3] The EurAsEC Customs Union became increasingly important for Russia since the launch of EAP. Its members: Russia, Kazakhstan, Belarus. Armenia and Kirgizstan is expected to join the Union soon.

[4] As Joseph Stieglitz writes: "Neo-liberal market fundamentalism was always a political doctrine serving certain interests. It was never supported by economic theory. Nor, it should now be clear, is it supported by historical experience. Learning this lesson may be the silver lining in the cloud now hanging over the global economy." accessed at: http://www.project-syndicate.org/commentary/the-end-of-neo-liberalism-

SM, several politicians and the public perceive the SM as a failure.[5] During the past two decades, in relative terms, in comparison with the rest of the world, the EU's economic performance has deteriorated, which may suggest that the primary objective of the SM has not been fulfilled. It is clear that all of the *ex-ante* assessments were unrealistically optimistic about the positive impacts of the Single Market (Cecchini, Catinat, Jacquemin 1988)[6] and were unable to properly address the negative impacts the less developed members would face.

Impact assessments to date generally show that each country participating in the TTIP gets benefits; the only question left to answer is the extent of such benefits as they may vary from country to country and be largely a function of the content of the agreement (CEPR 2013; Felbermayr, Heid, Lehwald 2013; Felbermayr, Larch 2013). If problem areas (agriculture, culture, etc.) were taken out of the deal, most of the benefits could not be felt and the advantages would be significantly lower (CEPR 2013: 2). Disregarding the fact that none of the impact assessments is capable of grasping the implications entirely, and even less able to calculate with unexpected political and economic changes, not to mention unpredictability of the reactions of third countries, the case of the EU internal market – and experiences of other FTAs (Free Trade Agreements) – prove that less developed countries may loose with the liberalization and the opening up of markets. The case of Greece and other southern countries of the EU clearly prove that problems with FTAs and other integration initiatives can be numerous. Less developed countries of the European Union, or those that are not competitive enough, would not gain as much as is forecasted; what is more, the risk of losing is not negligible, especially if inappropriate economic policies are pursued. The prospect of gaining less or even sustaining losses by underdeveloped countries is in line with economic theories that do not believe in positive sum impacts of international economic liberalization.[7]

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[5] According to Commission calculations, between 1992 and 2008 an additional 2.13% GDP growth and 2.77 million jobs were created (European Commission 2012). It would be interesting to see how much more jobs and GDP was lost because of the deep integration among the countries. "The Single Market (...) is less popular than ever, while Europe needs it more than ever.... The Single Market is seen as 'yesterday's business' compared to other policy priorities." (Monti 2010: 6)

[6] The Cecchini Report calculated a potential wealth effect of 4.25-6.5% of GDP for the twelve member states in the Single Market. None of the ex-post assessments proves more than 2 percent, and "…an economic assessment of the Single Market…brings with it the conceptual difficulty of separating the impact of the Single Market not only from the consequences of globalization, but also from the introduction of the euro." (Vetter 2013: 3)

[7] This strategy proved successful for example in the US and Germany (when they were less developed than their trading partners), and much later in some of the emerging far Eastern regions. "In the first stage they must adopt free trade with the more advanced nations as a means of raising themselves from a state of barbarism and of making advances in agriculture. In the second stage they must resort to commercial restrictions to promote the growth of manufactures, fisheries, navigation, and foreign trade. In the last stage, after reaching the highest degree of wealth and power, they must gradually revert to the principle of free trade and of unrestricted competition in the home as well as in foreign

EU Members from CEE

The potential benefits of small, open economies that deeply integrated into the international division of labor, such as the "new EU members" that joined the EU in 2004, 2007, and 2013 are believed to be significant. Some of them have export openness indicators above the 75-80% range (export/GDP) and their import activities are also significant because of the high import intensity of their export production. This integration into the international division of labor and openness to trade explains why the calculations on the effects of TTIP indicate above average benefits for them. Apparently, they are interested in liberalization and trade facilitation that helps to further expand their exports. Increasing foreign sales are essentially important for their sustainable growth. Because of the small domestic market and the limited local purchasing power, if firms in these countries aim at increasing sales and creating more jobs, they simply have no alternatives to internationalization. Their exports are mostly based on the performance of FDI-related manufacturing and services firms, and they need to elaborate strategies that preserve and strengthen export orientation. (This should not mean the negligence of domestic demand factors – consumption and investment – but their primary role is to balance the growth pattern, rather than replace export orientation with domestic demand driven strategy, at least at the current level of economic development). The success of export-led growth strategy depends on several factors and there are a number of risks and challenges of such a strategy as well (Inotai 2013: 5). But the countries that implement strategies which attempt to disregard export orientation will soon face sustainability problems.

Because Central European countries cannot compete with really low wage countries from the Far East (though their wages are still low in international comparison), long-term sustainable strategies cannot avoid upgrading technological capabilities by attracting more FDI. If the conditions of doing business are improved, the rule of law is upheld, productivity is increased, they could count on increasing investment from US firms already before the TTIP enters into force (Hamilton 2013: 308). Increased FDI from US production and services firms is the most important source of possible benefit of the TTIP in the Central European member states. The realistic and sustainable economic strategy of these countries should focus on the further modernization of their export structure and the upgrading of technology. This, however, would require large investments in human and physical infrastructure and the improvement of the business environment. If these conditions are fulfilled, theoretically, TTIP would again open a window of opportunity for several countries to utilize the agreement for the purpose of accelerating economic growth.

An additional benefit may be related to investments made by third countries. Participation in integration initiatives influences transaction costs for third

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markets, so that their agriculturists, manufacturers, and merchants may be preserved from indolence and stimulated to retain the supremacy which they have acquired." (List 1916: XX)

countries that raise the question of production within the integration area or export there. Integration initiatives (even in their simplest form, i.e. free trade area) are creating incentives for third countries to invest within integrated areas in order to avoid trade-related costs. Theoretically, they can encourage firms – that may eventually want to export to the USA – to invest in Central Europe (Hamilton, Quinlan 2013: VI). An investment boom of this kind was evident prior to the EU accession of the Central European countries. The impact of FDI was largely tangible before the accession took place, not least because of the extra-EU investments (Bevan, Estrin 2004: 777). The volume of such investments would not be too large, but it is potentially reckoned with.

On the other hand, however, the risk of smaller than expected impacts is high, which makes the picture for "new members" and other peripheral EU countries a little more obscure (CEED 2013: 5). The problem is that in several countries the economy has a dual structure; a few large transnational firms are integrated into the international production chains, while the rest of the economy is unable to participate in international trade, because it lacks exportable, competitive products. In addition, not least because of the internal problems of the European Union and the increasing Russian influence in the region, the regional political commitment to liberal economic order and democracy is not at all guaranteed. And this is an increasingly serious issue in a region, where economic and political transformation was thought to firmly integrate countries into the system of western institutions and values. The changes in political and economic policy strategies may increase business risks in certain countries. All factors taken into consideration, benefits for the less developed Central European countries in terms of export, FDI and GDP growth is probably larger than the disadvantages (CEPA 2013: 6). It is explained by their pattern of division of labor that is based on export orientation of foreign owned firms. All these favorable impacts, however, can be utilized only if the business environment is favorable enough. There is, however a substantial risk that policies in the region may become inward looking and more protectionist. This risk is strengthened by the weak performance of the European economy and the unfulfilled expectations of the EU membership in terms of catching up.

The choice of economic and political models of Central European governments may be influenced by the economic performance of advanced and emerging countries. There is a danger that regional governments and politicians see the EU as a weak economic center whose economic and political model is inadequate to respond to current and future global challenges. The increasing skepticism may lead to the conclusion that, instead of the European model, they should follow potentially more successful strategies. Anti-EU economic and political strategies in the countries shattered by economic difficulties, characterized by relatively poor economic outlook, and declining standards of living, however, are on the increase. Developments over the past few years could easily lead to the introduction of measures that are shockingly different from European traditions and that would probably weaken the ties that have developed over the past more than two decades. Economic integration can be considered "too deep" because

the original objective of economic and political transformation has not been achieved[8] and, instead of convergence on the living standards of more developed countries, a more complicated balance has been experienced. The situation could easily worsen. Tempted by the almost unlimited power of leaders in some post-Soviet countries, democratic systems could morph into something "new", into very destructive, obsolete structures in which country identity is defined in opposition to the European development model. If that happens, the possible favorable implications of TTIP will not be felt in the affected countries.

Russia

The original idea that the TTIP agreement can be beneficial for each country in the long run relies on the presumption that "the economic importance of the EU and the US will mean that their partners will also have an incentive to move towards the new transatlantic standards" (European Commission 2013). In other worlds, third countries would face such immense losses that it would be their very interest to join the TTIP. This is an overly optimistic forecast of the prospective developments. Turning to the third countries in Central and Eastern Europe, the key question is Russia, which would definitely take the TTIP for what it really means for this country – a geopolitical aspiration that may threaten Russia's positions in Europe. The important political objective behind the TTIP is that this large-scale bilateral agreement increases the incentives of third parties to achieve further liberalization steps at the multilateral level. This way the TTIP (the advanced countries) becomes a rule setter in international trade for third countries. It would lead the EU and the USA to regain a leading position in international trade and economic development. This expectation is realistic only if third countries feel that it is in their interest to accept the rules elaborated by developed economies. This situation would be similar to the decades preceding the economic rise of large emerging countries, when developing or less developed countries were not able to defend their interests against the advanced countries in international economic organizations. This is also the fundamental issue concerning countries such as China, Russia, India and Brazil or other large emerging markets.

None of the scenarios in the existing analyses calculate openly with potential counter steps taken by third countries. A more realistic approach is to count with three scenarios: (1) large emerging countries may think that they will not lose too much if the agreement finally remains limited in scope; (2) the TTIP may be a strong incentive for new agreements and instruments within the framework of WTO negotiations with the objective of reducing the negative implications; (3) third countries will increasingly look for countermeasures. The first two alternatives are clearly far more beneficial for the advanced world. Regarding the third choice, this would result in the intensification of creating trade blocks (that

[8] The argument of too deep integration is not only a way of thinking of Central Europe, but similar dilemmas are worded in more developed EU members too.

may lead to the increasing disruption of global trade) and/or instruments which make export and investment from advanced countries more difficult. In addition, more concerted efforts and steps from large emerging countries cannot be ruled out if international economic relations are aggravated. Closer cooperation between large emerging countries regarding international trade would suffice to establish a common ground for asserting similar interests. Should that eventuate, it will probably disrupt global trade and its currently existing institutional system.

Russia has been able to strengthen its position in international relations and become strong enough to try to regain and increase its influence in some parts of the CIS (Commonwealth of Independent States). Russia's efforts to reintegrate a part of the CIS will continue and strengthen as a number one priority in its foreign policy. Regarding economic issues, Russia is becoming an increasingly important player in the eastern part of Europe and in Asia (Berman 2013). In recent years, the country has become one of the most important capital investors in the world, mostly through state-owned enterprises, though obviously not independently from politics, and it has become the number one investor in the East European region (UNCTAD 2013: 8; 13). In the coming years its efforts to be involved in European business will most likely further strengthen. In addition to achieving economic penetration, it is also more and more in its interest to stop the spread of Western-style democracy, perhaps even in countries where it seemed to be solidly rooted. [9]

In addition to geopolitical considerations, the most important issue for Russia relates to the energy sector. If TTIP eases access to US gas, it will benefit both European consumers and the industry. (On the other hand, the cheap gas exports to Europe would erode the competitive advantage of US firms over European competitors.) At the same time, this new source of natural gas would substantially diminish the Europe's dependence on Russian gas, which is disadvantageous to Russia from macroeconomic and geopolitical perspectives. As European demand decreases, Russia will be increasingly forced to reorient its energy exports to other markets, and gain influence mostly through investments in the European energy and financial sectors. There are clear signs that Russia seeks to put its hand on as much European assets as possible. The biggest opportunity for Russia to do that is in the Central European region with which it can partly substitute its losses in natural gas exports provided that US gas is imported more easily. In addition, Russia can restrict its imports from Europe in response, since this country uses trade policy as a political tool, despite its recent WTO membership. If Russia considers that its loss is too big in Europe and it is not possible to regain a share of it in other parts of the globe, then it can use its imports from Europe as a bargaining power.

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[9] See for example the citation from an interview with Francis Fukuyama: "I think that's right, that Russia doesn't have an interest in having a healthy democracy on its borders because that's going to give the wrong signals to its own people. So I think it's probably right that Russia would prefer to have other authoritarian neighbors around it." (Fukuyama 2013)

To sum up, energy is a sensitive issue for the Russian economy and the danger of worsening Russian positions in the European market may cause Russia to control as many countries as it is possible through oil, gas, nuclear power generation or financial sector investments. The TTIP could be an important element in the changes of the global energy landscape. After the conclusion of the TTIP, sooner or later US natural gas exports will definitely and significantly increase. It could have serious geopolitical implications for Europe's own relationship with Russia.

Table 1
Geographical pattern of Russian merchandise trade
(% of total export or import)

	Export			Import	
	2005	2012		2005	2012
Total	100.00	100.00	Total	100.00	100.00
EU	53.63	48.96	EU	42.79	40.34
Germany	8.17	6.79	Germany	13.45	12.11
Netherlands	10.19	14.63	Italy	4.47	4.24
Italy	7.89	6.18	France	3.72	4.36
CEE6*	10.59	8,41	CEE6*	5.91	6.98
CIS	13.51	14.94	CIS	19.24	13.77
China	5.40	6.81	China	7,36	16,39
USA	2.62	2.47	USA	4,62	4,85
Rest of the	24.84	26.82	Rest of the	25.99	24.65

Source: Own calculation, Central Bank of Russia
*Bulgaria, Czech Republic, Hungary, Poland, Slovakia, Romania

Table 2
Russia' trade with the EU by SITC section 2012 (% of total export or import)

		Export	Import
0	Food and live animals	0.6	6.7
1	Beverages and tobacco	0.0	1.3
2	Crude materials, inedible, except	0.9	1.4
3	Mineral fuels, lubricants and related	76.3	1.1
4	Animal and vegetable oils, fats and	0.2	0.4
5	Chemicals and related products,	3.0	15.8
6	Manufactured goods classified	6.4	10.3
7	Machinery and transport equipment	0.9	49.6
8	Miscellaneous manufactured articles	0.2	11.9
9	Commodities and transactions n.e.c	2.8	0.8

Source: European Commission, Directorate-General for Trade

Conclusion

Impacts of the TTIP on Central and Eastern Europe depend on the details of the final agreement. There are three scenarios; each has very different implications both for members and third countries.

(1) Since the aim of the TTIP is political, the discussion will concentrate on regulations and standards (trade, consumer safety, environment, etc.), but because of the conflicts between the EU and the US concerning the underlying principles, without achieving sizeable results.

(2) The TTIP breaks away with international trade because it leads to new standards that are protectionist against third countries such as China, India, Russia, etc. Global trade becomes fragmented with intensifying role of regional blocks.

(3) The third alternative is an open TTIP that encourages third countries to join. As a result, the TTIP would become the core of a new global trading system where the rule setters are once again the most advanced economies.

It is impossible to see today which of these alternatives will become a reality. If it develops into a deep, comprehensive agreement, the impacts will be far bigger. In this case Central European member countries of the EU would theoretically gain a lot due to their integration into the division of labor mostly through transnational firms at different levels of their supplier chain. Had the governments of these countries pursued outward looking economic policies and improved business environment, this would attract additional foreign direct investments from mostly US firms, but an increase in investment from third countries can also not be ruled out entirely. However, the risk of inward looking policies in this region is intensifying, which would render the utilization of opportunities even more difficult.

Regarding third countries from the region, the strategy Russia chooses to adopt seems to be the most important. The negative implications of a deep TTIP would be intense. The first impact would be related to trade diversion in the short run. The long term implication is, however, much more serious and relates to Russian energy exports that make up around 75% of Russian sales to the EU. As the TTIP would improve the market access of US energy to Europe, Russian energy exports would be seriously hit. To counterbalance these negative implications, in addition to export reorientation towards other countries, this country may want to increase its influence in other sectors through investments into European assets. In an extreme case, the TTIP may trigger stronger cooperation among large emerging countries to formulate concerted efforts to neutralize negative consequences of the agreement.

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Short- and Long Term Implications of TTIP for Southeast Asia

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Abstract

Clearly, the effects of TTIP will be felt beyond Europe and the U.S. What specific impact the partnership will have on different regions of the world, presently, is largely subject to speculation. Will TTIP set higher standards of trade liberalization globally and provide a new impetus for the development of global rules on intellectual property rights, the environment, etc? Or, will it undermine multilateral rules, weaken the WTO, and cause emerging markets to contract? Taking a closer look at TTIP, this paper seeks to investigate how this trade agreement is likely to affect Southeast Asia. The paper argues that, in the short-run, TTIP will have little effect on the region but that, within ten to twenty years, Southeast Asian countries will have a difficult time competing, unless they can find ways to be included in bilateral and/or regional negotiations that will improve their own competitiveness, or a multilateral trade breakthrough can be achieved. Given the great heterogeneity of the region as well as significant differences of view between developed countries and developing ones, a global trade deal—as was sought during the Doha round of the WTO talks—the paper concludes, appears elusive at best, thus forcing the ASEAN countries to search for viable alternatives.

Introduction

In an ideal world, multilateralism is preferable to regional or bilateral agreements, since "it gives all nations an equal chance to benefit from globalization" (Fratzscher 2013: 1). However, as history has shown time and again, multilateral trade talks often get stalled and in these situations states have been known to press on via regional and/or bilateral agreements, that is, they settle for "the second or third-best outcome" (Yueh 2013: 2-3). For example, when the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) failed to make progress, the US turned its attention to the North American Free Trade Agree-

ment (NAFTA). Following the impasse of the Doha Round in the World Trade Organization (WTO), the US is now focusing on two regional trade agreements: the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP) (Donnan 2013: 1). Clearly, the effects of these partnerships will be felt beyond the regions for which they are intended. What specific impact the partnerships will have on different regions of the world, at this point in time, is largely subject to speculation. Will these regional trade agreements set higher standards of trade liberalization globally and provide a new impetus for the development of global rules on intellectual property rights, the environment, and labor standards? Or, will they undermine multilateral rules, weaken the WTO, and cause emerging markets to experience trade contraction and a decline in GDP?

Taking a closer look at TTIP, this paper seeks to investigate how this trade agreement between the US and the European Union (EU) is likely to affect Southeast Asia. The paper argues that, in the short-run, TTIP will have little effect on the region. Within ten to twenty years, however, Southeast Asian countries will have a difficult time competing, unless they can find ways to be included in bilateral and/or regional negotiations that will improve their own competitiveness, or a multilateral trade breakthrough can be achieved. Given the great heterogeneity of the region as well as significant differences of view between developed countries and developing ones, a global trade deal—as was sought during the Doha round of the WTO talks—the paper concludes, appears elusive at best, thus forcing the ASEAN (Association of Southeast Asian Nations) countries to search for viable alternatives.

In the following, I will discuss the pros and cons of TTIP for Southeast Asia. Since the real impact of TTIP on the region cannot be ascertained in isolation, I then look at two further regional economic arrangements, the TPP—which includes four ASEAN members—and the Regional Comprehensive Economic Partnership (RCEP)—in which all ten ASEAN members are represented—to ascertain whether they may be able to offset some of the negative consequences of TTIP. I briefly examine the EU's economic relations with Southeast Asia to investigate whether they may be able to counter some of TTIP's fallout. I conclude by summarizing the Southeast Asian countries' strategy moving forward.

The Pros of TTIP

Hit hard by the recent economic crisis, policymakers on both sides of the Atlantic have come to conclude that their economies are in need of a boost. TTIP, many of these policymakers seem to think, "could work at least partly as a substitute for globalization and a new engine for prosperity" (Straubhaar 2013: 1). As US President Barack Obama, European Commission President José Manuel Barroso, and European Council President Herman Van Rompuy make clear in a joint statement (MEMO/13/94) on 13 February 2013, "[i]n today's transatlantic trade relationship, the most significant trade barrier is not the tariff paid at the customs, but so-called 'behind-the-border' obstacles to trade, such as ... different safety or

environmental standards for cars." By negotiating TTIP, they go on to explain, the United States and the EU "will have the opportunity not only to expand trade and investment across the Atlantic, but also to contribute to the development of global rules that can strengthen the multilateral trading system" (ibid.). Or, put differently, by removing remaining tariff and regulatory barriers, the transatlantic partnership is expected to create new customers for exporters, cheaper components for producers, new jobs for workers on both continents, and thereby boost economic recovery (EU Business 2013).

Recognizing the difficulties inherent in operationalizing TTIP, as Pollet-Fort (2013: 3), drawing on a Commission Memorandum of 13 February 2013, explains, "[t]he agreement may take the form of a so-called 'living agreement' allowing for 'progressively greater regulatory convergence over time against defined targets and deadlines.'" Moreover, it is hoped that TTIP will provide impetus to address regulatory barriers, competition policy, energy, etc., with emerging trade partners too (ibid.).

Over time, this could lead to trade liberalization on a global scale. Or, in the words of Straubhaar (2013: 1), TTIP might "become the nucleus of a new Western liberal order" and as such "serve as a role model for future trade agreements, perhaps even giving the needed impulse to break deadlocked trade negotiations such as the Doha Round" (Hubner 2013: 2). Felbermayr (2013) appears to be persuaded by such logic suggesting that, if TTIP were to lead to adverse effects for particular regions, they then might pursue multilateralism more vigorously.

Despite the many accolades bestowed upon TTIP, as will be seen below, it seems unlikely to have a positive impact on Southeast Asia, thus causing the ASEAN countries to take active steps (join regional and/or bilateral trade agreements) to enhance their competitiveness and minimize their exposure to the negative consequences of TTIP.

The Cons of TTIP

There can be no doubt that the effects of TTIP will be felt beyond the US and Europe. Although, it is not really clear at this point what the consequences of a comprehensive transatlantic trade partnership will be for other trade partners, it is certain that, if other countries are not invited to join the negotiations, they will have no say and "can't share the benefits" (Yueh 2013: 3). Even though negotiations between the US and the EU are still ongoing, many trade experts and scholars appear to be convinced already that the negative effects of TTIP on regions like Southeast Asia will outweigh the positive ones.

In general, five main reasons can be identified as to why TTIP is likely to hurt Southeast Asia. First, we are told that a lowering of tariffs and the further reduction of non-tariff barriers in the transatlantic region will lead to trade diversion which is likely to spill over to third countries and make it more difficult for them to compete (Hubner 2013: 2). "Countries not participating in TTIP, especially emerging markets that are traditional trade partners of the US and EU," so

the argument goes, "would face trade contraction that would result in decreases to real income and employment" (Islam 2013: 1). Petersen (2013: 1) concurs with this line of reasoning, maintaining that TTIP means "welfare loss" for most other countries, while the US and the EU are clear beneficiaries.

Drawing on simulation calculations by the ifo Institut[e] that seek to ascertain how international trade flows would change in the event of a comprehensive transatlantic free-trade agreement, Petersen paints a fairly bleak picture of the presumed economic consequences of TTIP for Asia. In a nutshell, it is assumed that the removal of existing impediments to trade would reduce the costs of trade between the US and the EU, thereby intensifying trade across the Atlantic. Diminished trade costs between the US and the EU, however, would "also cause a reduction in trade activities between the contracting economies and the rest of the world," thus forcing other countries to deal with the effects of trade diversion (Petersen 2013: 1).[1] As Petersen (2013: 5) goes on to explain, "a comprehensive transatlantic free-trade agreement would result in the reduction of the real gross domestic product of all the 15 Asian economies under consideration [in the study][2] with the exception of South Korea where the welfare-increasing effect resulting from the import of cheaper products from the US and the EU would be predominant." To make matters worse, "[w]elfare gains in the US and the EU would ... be partially countered by considerable loss of real income in third countries, including most of the Asian economies" (ibid: 6).

Second, although agreements on regulatory standards such as food safety (GMOs), auto emissions, intellectual property rights, etc., "may result in deeper integration at the regional level, they may at the same time complicate the completion of genuine global agreements on regulatory convergence and in fact erect new barriers to trade" (Hubner 2013: 3). Or, in other words, although bilateral and regional agreements, at times, have been "stepping stones" towards larger multilateral agreements, "the growing importance of non-tariff barriers ... might

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[1] Note that the simulation looks at two main scenarios. "In the first scenario (tariff scenario) the economic consequences of the total abolition of import duties between the EU and the US are examined. In the second scenario (liberalization scenario), non-tariff barriers to trade are abolished along with customs duties. Both scenarios are compared with a situation where there is no transatlantic free-trade agreement. The effects resulting from the removal of barriers to trade are calculated using a model for the analysis of free-trade agreements developed by the ifo Institut. This model uses existing free-trade agreements to evaluate the resultant effects on export and import flows. These empirically estimated values for trade effects are then integrated into a simulation model that calculates the trade creating and trade diverting effects of a transatlantic free-trade agreement for 126 economies under consideration" (see Petersen 2013, pp. 1-2).

[2] The 15 Asian economies included in the study are: Bangladesh, Brunei Darussalam, China, India, Indonesia, Japan, Malaysia, Nepal, Pakistan, Papua New Guinea, Philippines, Singapore, South Korea, Sri Lanka, and Thailand (see Petersen 2013, p. 6, Figure 5).

lead to a more tedious completion of such agreements" (ibid.). Pollet-Fort (2013: 5) goes even further, suggesting that agreements like TTIP might actually undermine trade multilateralism, thereby leaving regions like Southeast Asia out in the cold.

Third, many of the differences between developed and developing countries which led to the failure of the Doha Round continue to exist. In fact, the differences in regulatory approaches between the two groups with respect to energy, the environment, or the health sector, to name but a few, are vast and Southeast Asian countries are unlikely to desire common standards any time soon. Given that regulatory divergence often reflects cultural differences (Pollet-Fort 2013: 5), as in the case of food safety or the protection of intellectual property rights, Southeast Asians can be expected to remain protective of their culture and, at best, agree to incremental change. But even then they may not be able to agree on common standards due to their heterogeneity when it comes to development status, democratic orientation, etc. (Felbermayr 2013). A further complicating factor, mentioned by Hubner (2013: 4), is that the removal of non-tariff barriers "might require constitutional, legislative or technical changes" and that, at present, the "political will" to make such changes may be missing among all or a subset of Southeast Asian countries. Furthermore there is a possibility that these countries may value other domestic policy objectives more than trade liberalization (Felbermayr 2013).

Fourth, TTIP will benefit US corporations at the expense of developing countries. Since "hundreds of lobbyists and corporate board members from the US have been given clearance to … serve as consultants in the drafting of [TTIP]," according to Skuse (2013: 2), ... "the deals are actually weighted heavily toward the interests of corporations, particularly those from the US, and aimed at giving them further access to developing markets on terms that are hugely advantageous to them." Viewed from this perspective, a comprehensive transatlantic trade agreement then may seem to represent another form of western imperialism.

Fifth, and related to points three and four, there is concern that TTIP could bring with it a "rules-based system of global economic governance that reflects the shared values and interests of the Atlantic area" (Straubhaar 2013: 1) —values and interests that many Asians do not necessarily share or easily identify with.

In sum, TTIP is likely to produce clear winners and losers, and it therefore is not surprising that many countries are leery of a comprehensive transatlantic trade agreement. Since the effects of such an agreement on a region like Southeast Asia cannot be ascertained in isolation, however, the next two sections discuss regional economic arrangements that ASEAN countries are members of—TPP and RCEP respectively—to obtain a better understanding of whether these arrangements may be able to diminish some of the negative effects of TTIP.

The Trans-Pacific Partnership

On 3 June 2005, four small APEC members—Singapore, Chile, New Zealand and Brunei Darussalam—gave rise to the Trans-Pacific Strategic Economic Partnership (TPSEP)[3], a comprehensive agreement dealing with trade in goods, sanitary and phytosanitary measures, technical barriers to trade, intellectual property rights, and competition policy, among other things. TPSEP, moreover, called for a 90 percent tariff reduction among its members by 1 January 2006, and a reduction to zero trade tariffs by 2015.

Since 2010, negotiations for the Trans-Pacific Partnership (TPP) have been taking place, a greatly expanded version of TPSEP. Presently, twelve countries around the Pacific Rim—Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam—are involved in the TPP negotiations which aim to enhance trade and investment among the partner countries. Although only four ASEAN members have joined to date, the Philippines, Laos, Cambodia, Indonesia, and Thailand have expressed an interest in joining some time in the future.

As Frost (2013: 1) explains, to date, the TPP is the "most comprehensive and far-reaching trade and investment agreement ever negotiated among Asia-Pacific states." Taken together, the twelve countries negotiating TPP "represent about 40% of global GDP" (Baker, Hughes 2013: 2). Predictably, many free-trade advocates, both in Asian-Pacific countries and the US, therefore, are strong proponents of the TPP, forecasting that it will bring much needed economic growth to the region (Frost 2013: 1).

Since the TPP is based on "open regionalism", any country in Asia-Pacific that credibly commits to reaching the partnership's high standards is invited to apply to join the others (ibid.). This is precisely what the Obama Administration has done via its much talked about Asia "pivot". In fact, the TPP appears to be "central to [the President's] plans for boosting America's presence in Asia" (Dyer, Politi, Donnan 2013: 1), and some critics have gone as far as to suggest that the US joined the Trans-Pacific Partnership to "break the so-called 'string of pearls' of China's influence in the Pacific" (Yueh 2013: 2).

This makes it all the more curious why China, the biggest economy in Asia, is not part of the TPP at present. What one finds is that, much like in the case of TTIP, the TPP has its fair share of critics. Some object to the secrecy of the negotiations, others find the sheer scope of the partnership troublesome, and still others fear the "loss of jobs stemming from unfair or unethical competition" (Frost 2013: 1). Given that many Chinese view the partnership as "directed against China" and are convinced that the US seeks to use it to adjust the balance of power in Asia-Pacific (ibid.), one would, however, expect the Chinese to revisit the membership question in the not too distant future. After all, "an effort

[3] For the stipulations codified in the agreement, see http://www.mfat.govt.nz/downloads/trade-agreement/transpacific/main-agreement.pdf.

[by the US] to contain China", it seems, is best countered by joining the club (Steinbock 2013: 3).

While China is reevaluating the pros and cons of the TPP, others worry that the specific composition of the partnership could undermine the "ASEAN-centered ... diplomacy" (ASEAN+3, ASEAN+6, etc.)[4] that has been the foundation of Asian regionalism to date or, even worse, make ASEAN obsolete (Frost 2013: 1). Herrera-Lim, communicating ASEAN's perspective on the TPP during a roundtable at the Wilson Center on 19 June 2013, for example, argued that Southeast Asian leaders, recognizing that ASEAN (due to varying political and economic views) is incapable of solving trade problems among its members, "must now deal with crucial political realities" and "[a]s production chains in Southeast Asia continue to change", be willing to make trade relations among countries in the region more "seamless" (Baker, Hughes 2013: 4). Whether this goal would be accomplished via the TPP or some other trade agreement remained unanswered.

There are others like Malaysia's former Prime Minister Mahathir Mohamad and opposition leader Anwar Ibrahim who, although they have not agreed on much, are convinced that the TPP is "a US plot to impose its economic model on Asia" (Grudgings 2013: 1). "[B]y seeking unprecedented access to domestic markets", as Grudgings (ibid.) explains, in developing countries like Malaysia or Vietnam, the TPP could upset political systems "by intru[ding] in areas such as government procurement and state-owned enterprises." It is precisely fears like this that have prompted former Malaysian Finance Minister Anwar to label the TPP "a secretive push for modern-day American hegemony" (ibid: 2).

To sum up, as one finds in the case of TTIP, the TPP has its supporters as well as staunch opponents. If, as codified in the Trans-Pacific Partnership Agreement, Southeast Asian countries by joining will "gain easier access to the US market and preferential treatment when dealing with the US and other signatories" (Skuse 2013: 2), the TPP appears to offset some of the negative consequences of TTIP. As to whether the TPP, as many Asians fear, will undermine Asian regionalism or "merely add a new overlay" (Frost 2013: 2), the matter is debatable. What can be said for sure is that the TPP and, to a lesser degree, TTIP were instrumental in bringing about further economic negotiations between ASEAN and its FTA partners which are addressed next.

Regional Comprehensive Economic Partnership

The idea of the RCEP was first mentioned at the ASEAN Summit in Bali in November 2011 (Hiebert, Hanlon 2012: 2). During the ASEAN Economic Minis-

[4] ASEAN+3 consists of the 10 ASEAN members plus China, Japan, and South Korea. ASEAN+6 adds China, Japan, South Korea, Australia, New Zealand, and India to the 10 ASEAN members.

ters' Meeting in Cambodia on 30 August 2012, the ministers then endorsed the *Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership*. On 20 November 2012, at the East Asia Summit in Phnom Penh, the ASEAN countries plus their FTA partners—China, Japan, South Korea, Australia, New Zealand and India—agreed to issue a *Joint Declaration on the Launch of Negotiations for the RCEP*, specifying that negotiations were to begin in early 2013.

As the *Guiding Principles* (ASEAN 2012: 1) make clear, "the objective ... is to achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement among the ASEAN Member States and ASEAN's FTA Partners. RCEP will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues." The document further stipulates that negotiations recognize ASEAN centrality, and that the partnership "will have broader and deeper engagement with significant improvements over the existing ASEAN+1 FTAs, while recognizing the individual and diverse circumstances of the participating countries" (ibid.). Given the varying levels of development of the participating countries, the RCEP, moreover, will exercise flexibility, "including provision for special and differential treatment" (ibid.). Or, put differently, the *Guiding Principles* specify that no member will have to adopt any trade policies against its will, and that the RCEP will protect those who otherwise would suffer serious harm, such as sensitive industries that are not yet ready to deal with enhanced competition (Hiebert, Hanlon 2012: 2). Additionally, the RCEP includes "an open accession clause to enable the participation of any ASEAN FTA partner that did not participate in the RCEP negotiations and any other external economic partners after the completion of the RCEP negotiations" (ASEAN 2012: 1).

RCEP members set the end of 2015 as their completion date, yet this seems overly ambitious. As Lim (2012: 1) explains, the negotiations can be expected to be both "tedious and complex". ... "[N]ot only [do] different countries use different tariff schedules, but the same countries also use different schedules for their FTAs with different countries" (ibid.). One must anticipate that there will be "stiff opposition from various interest groups within the participating countries" (Sinha, Nataraj 2013: 1), thereby impeding progress.

Given additional time, however, it is conceivable that "[t]he existing FTAs between ASEAN and China, Japan, South Korea, India, Australia and New Zealand could eventually lead to the creation of an integrated market with a combined market population of more than three billion people, and a combined GDP of about US$19.78 trillion (based on 2011 figures)" (Lim 2012: 1). In that case, the RCEP would certainly be an important economic force which other actors in the international trade and investment environment would have to take seriously.

Does this suggest then that the RCEP is a welcome addition to the TPP and bilateral trade agreements in the region and, by further enhancing trade

among Southeast Asian countries, is likely to make up for some of the lost market share predicted to result from TTIP? Not necessarily.

First of all, since the RCEP is less ambitious than the TPP—it does not include provisions to protect intellectual property, labor rights, environmental standards, etc. —it may not achieve the degree of integration needed to boost regional trade significantly. Second, given that the RCEP is ASEAN-centered (as opposed to US-centered in the case of the TPP) and hence, "guided by the 'ASEAN way'" (Basu Das 2013: 1), i.e., consensus decision-making, it may have a tough time concluding trade negotiations, especially if one factors in the large degree of heterogeneity among ASEAN countries. Moreover, given that the two regional trade pacts have similar objectives—trade liberalization and economic integration—as Pakpahan (2012: 1) points out, competition between the two may eventually divide the ASEAN countries. In this case, "Singapore, Malaysia and Vietnam [and Brunei] may be likely to focus on promoting the TPP..., while the rest of the ASEAN countries will likely aim to develop RCEP" (ibid.).[5] At present, fears of serious competition between the two appear to be unfounded. What we seem to be dealing with, according to Emmerson (2013: 2), is a "benign race between two vastly different models of economic integration: the non-American, loosely declarative RCEP that subsumes existing arrangements, versus the American-promoted, intrusively 'gold-standard' TPP that requires domestic reform." But, of course, this can change over time and it is conceivable that "the TPP and RCEP may come into conflict due to the tension between the US and China, as each wants to shape economic cooperation in the Southeast and East Asian regions in order to secure its economic interests" (Pakpahan 2012: 1).

As stated above already, it is, however, also conceivable that the RCEP will bring significant benefits to the region. Precisely because it is less ambitious than the TPP, developing countries will find it easier to join (Wignaraja 2013: 1). The RCEP (keenly aware of the great heterogeneity of the ASEAN countries), as an ASEAN-centered arrangement, "is likely to be more accommodative to the development differences of the member countries, thus providing flexibility and adjusting mechanisms in reaching the common end-goals" (Basu Das 2013: 1). At this point, whether the "ASEAN way" will bring economic success or failure to the region, the jury is still out. What can be said is that the RCEP negotiations add one further layer of complexity and, thus, deserve to be monitored carefully.

Due to the high degree of uncertainty Southeast Asian countries presently confront with respect to which economic partnership(s) will, ultimately, benefit them the most, many ASEAN countries, as seen above, pursue multiple forms of cooperation simultaneously, including further ties with the European Union which will be examined next.

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[5] Of course, RCEP members can also join the TPP and, as Hiebert and Hanlon (2012: 3) remind us, "Australia, Brunei, Malaysia, New Zealand, Singapore, and Vietnam are already participating in both groupings."

The EU's Engagement with Southeast Asia

Relations between Europe and Southeast Asia, as Petersson (2006: 563) makes clear, have been "long and complex". In the past century alone, Southeast Asians experienced colonialism, then saw de-colonization and, toward the latter part of the century, significant economic aid from the European Community as well as enhanced commercial ties with Europe (ibid.).

Starting in July 1994, the EU codified its Asia policy in a series of Commission documents (see Weber 2013) which it periodically modified until it came up with a master plan for 2007-2012. In a nutshell, these documents recommend that the EU play a pro-active role in regional cooperation via the ASEAN Regional Forum (ARF) and inter-regional dialogues via the Asia-Europe Meeting (ASEM) (Commission 2001: 3). In 2007 the Commission began interregional negotiations with ASEAN, but, "[d]ue to different levels of economic development among the ASEAN members and political difficulties with certain countries, the progress of region-to-region negotiations slowed down" (Muxfeldt 2013: 2-3). As a result, in March 2009, the EU and ASEAN decided to put their FTA negotiations on hold, and the EU members authorized the Commission to pursue bilateral trade deals with individual ASEAN countries instead. To date, the EU has successfully concluded negotiations for the EU-Singapore FTA and is in the process of negotiating similar agreements with Thailand, Vietnam and Malaysia. Moreover, it holds partnership and cooperation agreements with Indonesia and the Philippines which, down the road, are likely to become converted to bilateral FTAs (Muxfeldt 2013: 10).

Given that ASEAN is the EU's third largest trading partner outside Europe, and that the EU is the largest foreign investor in the ASEAN countries (Muxfeldt 2013: 2), the two regions clearly have a big incentive to sustain a high level of engagement with each other. To that purpose, in 2013 several EU leaders visited Southeast Asia, including the EU's High Representative for Foreign and Security Policy, Catherine Ashton, who attended the ARF meeting in Brunei, participated in the ASEM Foreign Ministers Meeting in India, and visited Myanmar in November to launch the EU-Myanmar Task Force (Yeo 2013: 1).

As Muxfeldt (2013: 2-3) emphasizes, in the short-run, the EU envisions continuing its bilateral negotiations with individual ASEAN countries to improve market access. The EU hopes, however, that these bilateral agreements will function as "stepping stones" to bring the EU closer to its long-term objective—a region-to-region agreement (ibid.).

Several ASEAN countries, for now, also appear to see value in bilateral trade relationships with the EU, banking on the fact that these may counter some of the trade contraction likely to result from TTIP. Bilateral agreements, furthermore, make it possible for those ASEAN countries eager to solidify their economic relations with the EU to move ahead without having to wait for the impasse that has stalled region-to-region negotiations to be resolved.

Conclusion

Anticipating that TTIP will impact Southeast Asia negatively in the long-run, and recognizing that a global trade deal which might counter some of TTIP's fallout, at present, seems elusive at best, many Southeast Asian countries, as the above discussion has shown, are hedging their bets by pursuing multiple levels of diplomacy simultaneously. While Brunei, Malaysia, Singapore and Vietnam are negotiating bilateral trade deals with the EU to improve their competitiveness, the latter three, along with Thailand, are also members of the TPP to strengthen their economic ties with the US and other Asia-Pacific countries. Moreover, to make up for reduced trade with the US as well as with individual EU member states, all ASEAN countries, as predicted by Petersen (2013: 3-4), are seeking greater integration with their regional FTA partners via the RCEP.

Whether there will be any coherence to the multi-faceted trade deals presently being negotiated by Southeast Asian countries at multiple levels of diplomacy is unclear. Nor is it clear whether these efforts, ultimately, will be able to make up for the effects of trade diversion expected to go hand in hand with TTIP. What is clear, however, is that inaction by the Southeast Asian governments would be a recipe for economic disaster.

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Implications of the TTIP for Africa: a Conjectural Analysis

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Abstract

This inquiry discusses the implications of the proposed TTIP for Africa. Inter-alia, it focuses primarily on the economic implications, and, secondarily, on political implications of the proposed TTIP on European Union (EU)-Africa and Unites States (U.S.)-Africa relationships within the broad context of existing agreements between the TTIP parties and Africa, such as the U.S.'s Africa Growth Opportunity Act (AGOA) and the EU's Everything But Arms (EBA) and Economic Partnership Agreements (EPAs). Relying on the theoretical literature, the inquiry advances plausible dynamic and static effects arguments as to how the TTIP FTA might adversely impact Africa's trade and investment environments, as well as the aforementioned existing economic relationships.

Introduction

At a joint meeting on February 12, 2013, President Barack Obama of the United States (U.S.) and his European Union (EU) counterparts— President Herman Van Rompuy of the European Council and President Jose Manuel Barroso of the European Commission—announced their intention to commence talks on a new transatlantic economic relationship between the U.S. and the EU. The talks, which were to cover "trade-plus" issues, were to culminate in the creation of a free trade area (FTA) between the two transatlantic partners. Although both entities officially kicked off negotiations of what has been widely dubbed the Transatlantic Trade and Investment Partnership (TTIP) at the June 17 G-8 meeting in Northern Ireland, the first round of negotiations did not get underway until July 8, 2013. When concluded, presumably at the end of 2014, the two parties to the talks expect the TTIP to establish the largest and the most comprehensive economic space through bilateral negotiations.

The resultant agreement will combine the two largest economic entities in the world, because, together, the U.S. and the EU account for roughly half of global gross domestic product (GDP), almost a third of global trade, and about 40

percent of global stocks of FDI.[1] Put differently, the two transatlantic partners account for almost 26 percent of global goods exports, about 44 percent of global service exports, have investments of almost $4 trillion in each other's economies, and almost 7 million combined jobs created by their economic actors in both economies (Akhtar, Jones 2013).

Additionally, the TTIP is expected to enable increased market access for U.S. and EU economic actors through, inter-alia, the removal of trade and investment barriers, the harmonization of existing regulatory rules and standards on both sides of the Atlantic, and the development of new governing rules and standards for foreign direct investment (FDI), intellectual property rights and patents, public procurement, competition policies, labor policies, and environmental policies. Both parties to the negotiations in particular harbor the hope that the TTIP could stimulate economic growth and jobs creation in both partners' economies, reaffirm both partners' commitment to each other, and serve as an impetus for jump-starting the idle Doha Development Round and thereby renew interest in the multilateral liberalization of global trade.

The question that arises from the proposed TTIP, and one that is being asked by academics and other observers alike (Mildner, Schmucker 2013), and one that should be asked, is how the TTIP will impact the rest of the world (ROW). To that end, this inquiry will discuss the implications of the proposed TTIP for Africa. Inter-alia, it will focus mainly on the economic implications of the proposed TTIP on U.S.-Africa and EU-Africa relationships within the broad context of existing agreements between the TTIP partners and Africa, such as the U.S.'s Africa Growth Opportunity Act (AGOA) and the EU's Everything But Arms (EBA) and Economic Partnership Agreements (EPAs). Firstly, the inquiry will provide a cursory overview of the TTIP by discussing what the TTIP is, what it aims to encompass, and why it was initiated in the first place. Secondly, it will examine the plausible implications of the TTIP for Africa economically (trade and FDI) and with regard to some of the existing agreements between the TTIP countries and Africa (AGOA, EBA, EPAs, etc.), if any. The concluding section of the paper will be devoted to some policy recommendations. Given that the TTIP is still being negotiated, the inquiry will be conjectural and speculative, but will deploy applicable theoretical constructs, such as dynamic and static effects of international trade theory, realism, and liberalism.

The TTIP Explained

The TTIP aims to remove trade barriers (tariffs, unnecessary regulations, restrictions on investment etc.) in a wide range of economic sectors in order to enlarge the economic space available to U.S. and EU economic actors and thereby make it easier for them to transact business in each other's markets through trade and investment in goods and services.

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[1] *World Development Indicators Yearbook*, 2012, Washington, D.C.: World Bank.

If and when concluded, the TTIP will amount to the continuation of a resilient and sometimes cantankerous relationship between the world's two largest economic actors that can be traced back to at least the end of the Second World War (Vogel 1997; Woolcock 1992). However, it was not until the end of the Cold War that both signed a Transatlantic Declaration in 1990. It was subsequently followed up by the signing of a New Transatlantic Agenda in 1995. Shortly, thereafter, both entities signed a Transatlantic Economic Partnership in 1998, which did not amount to much, because it was too soon after the entering to force of the North American Free Trade Area (NAFTA) and the conclusion of the Uruguay Round and the concomitant launching of the World Trade Organization (WTO). To pursue the partnership and a Transatlantic Free Trade Area (TAFTA), which had been mooted at the time, might have given the impression that both the U.S. and the EU favored transatlantic bilateral economic relations over a global multilateral economic system (Hindley 1999).

The passage of time between 1998 and 2013, however, has not wished away the angst harbored by many observers that any widening of the economic space linking the EU and the U.S. could be damaging to the WTO and the global trading system as negotiations between the two economic juggernauts would quite likely divert substantial and vital manpower resources away from the stalled Doha Round on Development. This would be indicative of a preference by the two transatlantic economic powers for a bilateral accord over a multilateral one. The perception has again resurfaced and is gaining strength since the announcement of the TTIP initiative, so much so that the EU Commissioner for Trade, Karel De Gucht felt compelled to address it head-on in an April 2013 speech. Whereas he acknowledged the gargantuan magnitude of the combined economic output, trade, and investment sizes of the two transatlantic partners, he emphatically rejected the suggestion that it meant that "Europe and the United States are withdrawing from the rest of the world and pulling away from the multilateral system" (De Gucht 2013). He further argued that if anything, rather than view the TTIP as a threat to the WTO and the global multilateral system it should be seen as a contribution to the liberalization of global trade.

If the angst about a transatlantic economic agreement between the EU and the U.S. has endured notwithstanding the passage of time, and if, as Mr. De Gucht acknowledged, tariffs on imports between the two entities are already low, why, then, are both countries still pursuing a preferential trade agreement? To that end, let us turn now to the following plausible justifications.

Viewed from a neo-realist perspective, perhaps the foremost rationale for the proposed TTIP is the economic security of both entities involved in the FTA, vis-à-vis job creation, economic growth, and being less vulnerable to extraneous developments. In other words, a transatlantic FTA could be the shot in the arm that the sluggish economies of both entities desperately need in order to get their anemic economies moving again. In view of the fact that the economic performances of both entities have not fully rebounded from the financial crisis that engulfed the world, beginning in 2008 and 2009, it makes sense to consider

combining the economic spaces of both entities, because of the benefits that are inherently associated with regional economic agreements (REAs). Put differently, despite massive stimulus spending on both sides of the Atlantic, recovery has been painstakingly slow, unimpressive, and even stunted by the sovereign debt crisis that has compounded the economic challenges of many Eurozone member states of the EU. The argument, therefore, is that perhaps linking the economic spaces of the EU and the U.S. might provide additional impetus for the rejuvenation of the economic fortunes of both entities through new economic opportunities. So, when viewed from the point of view of neo-liberalism, especially given that trade and investment are proven engines of economic growth, an economic partnership between the EU and the U.S. would enable trade creation and economies of scale opportunities for economic actors that operate within the TTIP and with it, which, in turn, would accelerate economic growth on both sides of the Atlantic. Ultimately, therefore, a TTIP agreement would create a mutually beneficial win-win outcome for both the U.S. and the EU.

A second related justification is that a FTA that binds the two entities and eliminates remaining barriers to trade and investment and non-tariff barriers (NTBs), and provides unfettered access to each other's vast markets would enhance both transatlantic partners' global competitiveness, particularly against rising emerging markets (EMs) across the world, including the BRICS—Brazil, Russia, India, China, and South Africa—and hopefully reverse their ebbing shares of global economic output and global trade. Inter-alia, by 2011, the EU's shares of global economic output and global exports had declined precipitously from 34 percent and 23 percent, respectively, in 1980 to 25 percent and 14 percent.[2] Similarly, whereas the U.S.'s share of global economic output remained essentially unchanged at roughly 25 percent between 1980 and 2011, its share of global exports declined from 11 percent in 1980 to 8 percent in 2011.[3] The argument, therefore, is that a FTA that links the two economic giants could enable them to increase their shares of both global trade and global economic output, and thereby regain some of the grounds they had lost to other countries.

A third motivation for the TTIP, it has been suggested in some quarters, is that at least for the EU, there were concerns that the U.S. was perhaps less interested in Europe, its traditional ally, and showing more interest in Asia, especially judging by its leadership role in the Asia-Pacific Economic Community (APEC) and its most recent interest in the region—the plurilateral FTA that it has been negotiating with 11 Asia-Pacific countries, otherwise dubbed the Trans-Pacific Partnership (TPP) initiative. The concern expressed by some in the EU was that in the absence of any new substantive economic initiative between the U.S. and Europe since the 1990s, the EU might be left behind, and that doing nothing was not a rational response, particularly when

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[2] *World Development Indicators Yearbook*, 2012, Washington, D.C.: World Bank.

[3] *World Development Indicators Yearbook*, 2012, Washington, D.C.: World Bank and *International Trade Statistics Yearbook*, 1990, Geneva: United Nations.

viewed through the zero-sum lenses of economic nationalism.[4] Hence, something ought to be done quickly to bring the U.S. back and anchored to Europe, and the TTIP was the likely response that could enhance Europe's economic security and concomitantly assuage European concerns.

A related fourth motivation, at least for the U.S., is that the TTIP could help it negotiate a breakthrough and obtain concessions on some stubbornly thorny and vexing economic issues, such as agriculture, particularly the EU's infamous Common Agricultural Policy (CAP) at the bilateral level than at the multilateral level, especially given that the Doha Round has stalled.

A fifth justification for both the EU and the U.S. is that although tariffs on imports between the two entities are already relatively low, a central focus of the proposed transatlantic FTA is the removal of remaining tariffs and non-tariff barriers through the harmonization of standards and customs protocols. Such a feat, even EU Trade Commissioner De Gucht acknowledged, would benefit not only economic actors that operate within the EU and within the U.S., but also those that deal with the two entities from the outside—a point to which we shall return in the next section.

A sixth plausible motivation for the TTIP that is related to the aforementioned is that with no movement in the Doha Round negotiations for quite a while now, bilateral FTAs may be a viable alternative for the EU and the U.S. to advance liberalized trade between them. Besides, it could be further argued, the TTIP and similar REA schemes, especially among the world's largest economies could provide the impetus for the completion of the stalled Doha Development Round. The argument is that successful negotiations of FTAs like the TTIP might enable renewed interest in the Doha Round, and even make negotiations easier. In fact, according to Goldfarb (2005), for example, what provided the impetus for non-member countries to push for the completion of the Uruguay Round were the completion of the North American Free Trade Agreement (NAFTA) negotiations in 1992 and the inception of the EU's Single European Market (SEM) the following year.

Analysis of the Implications of the TTIP for Africa

In this section, we will examine the plausible implications of the TTIP for Africa. In other words, the discussion in this section will focus on the extent to which the proposed bilateral free trade and investment agreement between the U.S. and the EU might impact the African continent. As the extant literature has long established, REAs create general equilibrium effects for participants and non-participants alike (Venables 2003; Lipsey 1957; Viner 1950). It is, therefore, reasonable to expect that a regional trade agreement of the magnitude of the TTIP is likely to have both beneficial and harmful effects on non-participating or third countries. To help understand the case of the TTIP and Africa, we will first pre-

[4] See, among others, Messerlin (2013) and http://www.iptegrity.com/index.php/internet-threats/763-why-europe-should-worry-about-the-trans-pacific-partnership

sent a cursory overview of Africa's economic relations with the EU and with the U.S. This is necessary in order to establish what the proposed U.S.-EU FTA is likely to impact. This will, then, be followed by some theoretical and empirical arguments that will enable a review of the extant literature and advance qualitative and quantitative arguments.

Context

Relations between the EU and Africa are centuries old dating back to the arrival of European explorers in Africa in the 15th century through the late-19th century when European nation-states scrambled for and partitioned Africa according to their own whims. The entering to force of the Treaties of Rome in 1958 was a watershed in Africa's relationship with Europe, not only because it was the eve of the former's independence decade, but it marked the start of an attempt by the latter to re-define and re-position the relationship between the two continents on a relatively more equal footing as "partners." Between the late-1950s and the late-2000s, African countries, particularly south of the Sahara, enjoyed a privileged relationship with the EU and effectively remained atop the Europeans' pyramid of privileges. Sub-Sahara African (SSA) countries, along with European countries' ex-colonies in the Caribbean and in the Pacific, were granted special trade concessions in a series of mostly negotiated *sui generis* agreements by the EU in the hopes of using them to stimulate the development of the mostly African beneficiaries. The concessions continued in one form or another through a series of conventions and agreements until they were to be replaced by EPAs by the beginning of 2008, in accordance with relevant provisions of the 2000 Cotonou Agreement, in order for the economic relationship to be WTO-compliant (Babarinde, Faber 2005).[5] As reciprocal FTAs, the EPAs are to replace the previously exclusive non-reciprocal preferential trade agreements (PTAs). This was consequent to the outcome of a complaint filed by the U.S. in the late-1990s against the EU that its preferential arrangement for banana growers from its former colonies in the Caribbean contravened the MFN principle of the WTO (Barkham 1999). The European Commission is still busy negotiating EPAs with the different sub-regions of Africa, and has managed to conclude only interim EPAs with them to date. [6]

Besides the interim EPAs, the EU maintains three additional preferential schemes for qualified African countries. They are the Generalized System of Preferences, (GSP), GSP-plus, and Everything But Arms (EBA). The GSP and the GSP-plus are non-reciprocal tariff preferences that lower tariffs or provide duty-free access for imports from many developing countries across the world. The EBA is also non-reciprocal, but is a special concession for the least-developed countries of the world, which allows all non-ammunition products,

[5] See, also http://ec.europa.eu/europeaid/where/acp/overview/cotonou-agreement/index_en.htm

[6] http://trade.ec.europa.eu/doclib/docs/2009/september/tradoc_144912.pdf

grown or manufactured, from qualified countries to enter the EU quota-free and duty-free. Against the background of the foregoing, it is, therefore, noteworthy and not surprising that the EU remains the largest export market and the largest trading partner of African countries. According to Table 1, although its share of Africa's exports has declined from 50 percent in 1996 to 37 percent in 2011, the EU is still by far African countries' most important market. Moreover, the EU also remains the single largest provider of Official Development Assistance (ODA) and FDI in Africa to date. The EU provides thrice the size of the ODA the U.S. gives to Africa.

If Africa's most lucrative exports market is the EU, its second most important is the U.S. Unlike the EU, however, the U.S.'s share of Africa's exports increased slightly from 15 percent to 16 percent between 1996 and 2011, albeit it rose measurably to 19 percent in 2001 and to 23 percent in 2006, per Table 1. One could attribute the respectable exports market share to the U.S.'s age-old engagement in Africa, especially since the 1950s, the start of post-colonial Africa. One of the most significant and enduring trade concessions the U.S. grants to qualified African countries for their exports is AGOA, which was signed into law in May 2000 by President Clinton, and is designed to promote development in Africa. Additionally, and like the EU, the U.S. government established its own GSP scheme in 1974, which allows products from the world's less developed countries (LDCs) to enter the U.S. market duty free. Unlike the EU's EBA, however, the scheme is designed such that eligible SSA countries have to be re-certified every year, in order to ensure that they are working hard to improve their business environment, reduce/eliminate corruption, and so forth.[7] All told, and by one estimate, over 93 percent of exports to the U.S. from qualified SSA countries entered the U.S. market duty-free-and under the auspices of AGOA or the GSP scheme.[8]

Analysis

Having established the scope and the nature of Africa's trade relations with the TTIP negotiating parties, we will now shift the focus of our inquiry in this section to the theoretical and empirical analysis of how the proposed U.S.-EU FTA is likely to impact Africa. Foremost, regional economic agreements (REAs), by definition and by design, discriminate against third countries or the ROW. They are intended to benefit primarily, if not exclusively, the economic actors in participating member countries via economies of scale and economic efficiency—the so-called dynamic effects—and through trade creation and trade diversion for the participating states—the so-called static effects.

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[7] For a comparative analysis of the efficacies of AGOA and EBA, see, inter-alia, Babarinde & Faber (2007).

[8] http://www.ustr.gov/trade-topics/trade-development/preference-programs/african-growth-and-opportunity-act-agoa

Dynamic Effects: Traditional international trade economics theory posits that REAs make it possible for economic actors within their participating member states to avail themselves of economies of large scale production made possible by the enlarged economic space at their disposal. *Ceteris paribus*, REAs are capable of injecting competition into the domestic economies of participating countries, and thereby lower consumer prices and shift production factors to more efficient usage. In other words, the intensified competition that results from the enlarged economic space, as well as improved access to foreign direct investment and foreign technologies, enable production reallocation and economic efficiency gains in the participating member states and among their economic actors. In the context of the focus of this inquiry, if the TTIP yields positive economic results for its two-member states, that could translate into tangible, even if indirect, benefits for the ROW, including Africa— a theme to which we shall return below.

Static Effects: Theoretically, the primary concerns of REAs in general and the TTIP in this instance are the resultant trade creation and trade diversion. Relying on the seminal work of Jacob Viner (1950) and the subsequent works by Lipsey (1960, 1957) and Venables (2003), *trade creation* simply refers to the replacement of higher production cost domestic producers by more cost-efficient producers in a participating REA member state, as a result of the removal of tariff and/or non-tariff barriers to trade. Conversely, *trade diversion* simply means the substitution of imports from a lower-cost non-member state by imports from a less cost-efficient member state, consequent to the formation of a REA and the erection of trade barriers. Whereas trade creation analysis is more internally focused in so far as it is concerned with intra-REA effects, trade diversion is more externally-oriented, because it is preoccupied with the impact of the REA on the ROW. Thus, of the two static effects, it should be obvious that the one that is more pertinent to the analysis here is the latter—trade diversion—given that the focus of our inquiry is the implications of the TTIP for Africa.

Against the backdrop of the foregoing, therefore, one of the questions to address here is the extent to which the TTIP partners will replace imports from Africa with imports from each other. To help answer that question, we offer a diagnostic of Africa's exports portfolio to both the U.S. and the EU. According to the most recent trade data, Africa's key exports to the EU have comprised agriculture, textiles and cloth, transportation equipment, Energy, Automotive, Machinery, and Chemical, while its key exports to the U.S. have included petroleum (83 percent), transportation equipment (8 percent), minerals and metals (3 percent), and textile and apparel (3 percent). At first blush, at least, it seems evident from the two lists that the U.S. and the EU could turn to each other for the supply of virtually all of the products that Africa exports to them, including petroleum, although they might be relatively more expensive in the short-term. However, over time, and as the economies of scale and production efficiency gains that are typically associated with REAs kick in, and as the marginal cost of production comes down, they would be able to turn the trade diversion from African exports to trade creation within the TTIP space. Increased investment in oil exploration,

renewable/alternative energy might enable both the U.S. and the EU to rapidly replace lost African petroleum with TTIP supplies. Notwithstanding the TTIP, many analysts already predict anyway that the U.S.'s consumption of imported petroleum, including from Africa, will steadily decline by 2020 as its investment in oil drilling and renewable energy begin to bear fruits.[9]

A second plausible trade diversion impact of the TTIP on Africa, at least theoretically, is to determine the net effect of the loss of revenue from lost exports to the TTIP countries, relative to the value of the (new) activity to which the freed-up resources are being deployed because they are no longer being used to produce for exports to the TTIP countries. Empirically, what this means is that the impact of the resultant trade diversion for Africa will be significant if it is unable to quickly replace the lost U.S. and EU markets with new market outlets, and of an equivalent or higher monetary value. It will be significant if, on the one hand, it is unable to replace the lost exports markets with new ones, and, on the other hand, the freed-up resources are underutilized or lay fallow. If, however, African countries are able to replace the lost export markets to the U.S. and to the EU in the short- to medium-term, and are able to secure markets that are of comparable or higher value to the lost markets, then, the impact of the TTIP on Africa will be minimal, if not insignificant.

There are two plausible scenarios here. It could be argued, on the one hand, that given the size and the share of their exports that have historically gone to the U.S. and the EU, it is doubtful that African countries will be able to secure new market of equal or superior market value quickly enough to mitigate the adverse effects of the trade diversion from the TTIP. Admittedly, African countries have of recent been diversifying their export markets and shifting them from a North-South orientation towards a South-South one, the fact remains that the U.S. and EU markets are vital to them. On the other hand, and related to the preceding point, one could argue that Africa's exports market diversification is encouraging, especially in light of the increasing share of China as a destination for African products. Specifically, African exports to China leaped measurably from roughly $1 billion in 1996 to over $56 billion in 2011. Similarly, over the same half-a-decade period, Africa's exports to India and Brazil markedly increased from $2 billion and $1 billion, respectively, to $28 billion and $15 billion, much of the growth occurring in the second decade of the 21st century.[10] Hence, if the growth trajectories continue, then, Africa would have succeeded in mitigating the adverse impact the resultant trade diversion from the TTIP might have inflicted on its economy. Two unfolding and related trends are particularly pertinent and encouraging here. The first is China's intensifying trade relations with Africa and its increasing interest in the African (commodities) market. The second is the forecast that China's demand for imported oil will soar by 360 percent between 2005 and 2020. Given that petroleum has accounted for roughly 80 percent of

[9] See, among others, Cruthirds (2013), Crooks (2012), and http://peakoil.com/consumption/us-crude-oil-imports-dependency-to-decline-32-by-2020

[10] *Direction of Trade Statistics Yearbook*, IMF, 2003 & 2012

Africa's exports to the U.S., China may easily fill the void that will be created by the declining American appetite for imported oil.

A third related plausible way the resultant trade diversion from the TTIP could be harmful to Africa is if African countries cannot replace the lost export markets to the U.S. and the EU in the medium- to long-term, thereby causing export prices to fall, and ultimately leading to a decline in their terms of trade. As Schiff and Winters (2003) have also noted, large REAs—a characterization that would befit the TTIP—have the potential to affect world prices, and if, in the case at hand, African exporters have to lower their prices in order to be able to sell to the TTIP (and to other markets for that matter), especially given the preponderance of energy/petroleum products (commodities) in their portfolio of exports, which, by definition, tend to be price inelastic, then, it is logical to expect them to suffer a decline in their terms of trade, assuming the price of imports remain constant. However, and as noted above, and in Table 1, any measurable decline in demand for Africa's exports may be counteracted or mitigated by the fact that African countries have been diversifying their exports markets, and increasing their collective share of global exports. Again, not only have the shares of China, Brazil, and India as destinations of African exports soared, but the collective share of Africa's exports globally has slightly increased from 2.1 percent in 1996 to 3.3 percent in 2011.

A fourth plausible implication of the TTIP for Africa is the potential diversion of FDI from Africa, by (TTIP) investors, particularly if the return on investment (ROI) in the TTIP FTA is higher or comparable to Africa's. With an enlarged TTIP economic space that allows for economies of scale and the rationalization of economic activities through synergies and efficiency gains, it is not impossible to expect economic actors to divert their attention to the TTIP FTA, particularly given the political and economic risks that are often associated with the African continent. Conversely, it is also plausible to expect investors in the TTIP FTA to look toward Africa as they attempt to diversify their portfolio, particularly because of the continent's increasing stability, transparency, economic and political reforms, and improved business climate, among others. After all, according to Table 2, although Africa's shares in global and in Developing countries' FDI are relatively low, one is encouraged by their steady improvements over time, between 1990 and 2010. [11]

As a fifth plausible implication of the TTIP FTA for Africa, we should consider how existing non-reciprocal PTAs between the U.S. and Africa and between the EU and Africa would likely be impacted. Given how long the GSP schemes of both the U.S. and the EU have been in existence, how the GSP initiative came about (courtesy of the United Nations Conference on Trade and Development—UNCTAD—in the late-1960s), and how they have been accommodated by 1979 Enabling Clause, or the "Special and Differential Treatment" provision of the WTO, because they are extended to many developing countries across the globe, it is unlikely that the entering to force of the TTIP will threaten their exist-

[11] See, for example, *World Development Indicators*, WBG, 1992 through 2012

ence. Similarly, the EBA, too, is unlikely to be threatened by the emergence of the TTIP, because it is offered to the least-developed countries around the world, and is thus protected by the permanent waiver of the Enabling Clause of the WTO. The two PTAs that could be susceptible to pressure directly or indirectly as a result of the TTIP coming on-stream are AGOA and the EPAs.

To be sure, AGOA's vulnerability has been a matter of curious speculation for some time, especially every time it comes up for renewal by the U.S. Congress. The prevarication of the U.S. Congress on whether or not to renew the PTA during the past couple of renewals has already damaged potential investment in Africa, It is well-documented, after all, that the duty-free access of qualified exports from qualified SSA countries to the U.S. market encouraged investors and entrepreneurs, especially from China, Taiwan, India, and so forth to build operating textile plants, for example, in Lesotho, Mauritius, and other SSA countries.[12] If AGOA is thus not renewed the next time it comes up for renewal, perhaps because of pressure from vested industry interests on the U.S. Congress to discontinue the preferential trade arrangement for SSA products, then, FDI in SSA will likely take a hit. For instance, those foreign investors whose initial or sole attraction to Africa is to take advantage of the lower or duty-free tariff for most U.S.-bound SSA products will be compelled to reconsider their investment in Africa, and may quite well relocate some or all of their operations elsewhere or scale back their investment there. What's even more worrisome is that as presently designed, AGOA incentivizes SSA governments to, among others, combat abject poverty, establish rule of law, promote human and labor rights, fight corruption, reform their political landscapes, and improve their business environments if they are to be re-certified annually. Thus, if AGOA is discontinued either because of the TTIP entering to force, or for some other reasons, the incentive to continue to reform will likely dissipate, the leverage the U.S. government currently enjoys over SSA governments will ebb or cease, and reforms that have been noticeable lately in Africa may slow down or even go into reverse.

With respect to the EPAs, however, the entering to force of the TTIP FTA might encourage or put pressure on African countries, particularly those that do not qualify for the GSP, GSP-plus, or the EBA, to complete the FTAs, if they wish to continue to gain access to the EU market. After all, the EPAs, like the TTIP, will be WTO-compliant, courtesy of Article XXIV of the General Agreement on Tariffs and Trade (GATT), which exempt FTAs from the MFN clause, so long as they do not create higher trade barriers overall for the non-participating members of the WTO, cover substantially all trade, and are liberalizing trade among the participating countries (Schiff & Winters).

Last but not least, and to be sure, it is not being suggested here that the TTIP is all doom and gloom for Africa. Indeed, the TTIP could potentially be beneficial to Africa, at least indirectly. As noted earlier, while the TTIP is expected to boost the EU's economy by €120 billion and the U.S.'s economy by

[12] For example, see, Abdelal, Abrami, Maurer, and Musacchio (2006)

€90 billion, the ROW is expected to get a €100 billion boost in its economy.[13] If, in fact, the forecast comes true and the proposed FTA translates into rapid economic growth (via the dynamic effects of the TTIP) and a more optimistic consumer outlook on both sides of the Atlantic, this could translate into increased demand for imports from the ROW, including Africa. Additionally, African (ROW) exporters could also benefit from the *positive spillover effects* of the TTIP. That is, if the TTIP is able to achieve mutual recognition or harmonization of U.S. and EU regulations and standards, this will lower costs for TTIP-bound exporters from Africa and elsewhere. Exporters in Africa who target U.S. and EU markets will thus be able to rationalize their production operations and effectively cater to one market instead of two. The magnitude of the cost savings for Africa (ROW), however, will be different, depending on whether the U.S. and the EU adopt a mutual recognition rule or a harmonization rule. If the TTIP adopts a mutual recognition regime, it will suffice for the African exporter to comply with the standards of either the U.S. or the EU, and not both. Moreover, if the African exporter already meets the standards of either of the TTIP contracting partners at the time the mutual recognition is adopted, then, it will be poised to benefit from the mutual recognition regime instantaneously. If, however, the U.S. and the EU agree a harmonization regime instead, the costs burden on the African exporter, in order to meet TTIP standards, may be substantial, especially if they entail the construction of testing and certification facilities for their TTIP-bound products.[14]

Conclusion

This inquiry focused on the broad implications of the proposed TTIP for Africa. It discussed economic and political implications of the proposed TTIP on U.S.-Africa and EU-Africa relationships within the broad context of existing agreements between the TTIP partners and Africa, such as the U.S.'s AGOA and the EU's EBA and EPAs. In addition to providing an overview of what the proposed TTIP entailed, the analysis examined the plausible implications of the TTIP for Africa's economy (trade and FDI) and existing FTAs with Africa.

From the foregoing analysis, it is clear that the TTIP, if and when concluded, could have implications, favorable and otherwise, for Africa. What is unclear is the net effect of the impact the TTIP FTA could have on the African continent. In view of positive developments in Africa during the past decade or so, among them, an average economic growth of 5 percent, business environment reforms, improvement in the investment climate, increasing tranquility, spreading democracy, and increased visibility of civil society, it is imperative that as the two economic powerhouses negotiate the TTIP FTA, they bear in mind Africa's track record and how far it has come. It is, therefore, in the interests of both the TTIP partners and Africa to keep the African economy on a positive growth tra-

[13] http://ec.europa.eu/trade/policy/in-focus/ttip/

[14] This may thus constitute the imposition of a higher barrier, albeit NTBs, by the TTIP countries on African (ROW) countries.

jectory, and prevent the continent from falling off the economic growth wagon and going into reverse. Notwithstanding the economic, societal, and political gains of the past decade or so, daily survival for many Africans is still precarious and susceptible to the vicissitude of the market and of nature. TTIP negotiators should remember an African expression that it is not yet "*uhuru*" (freedom) in Africa. After all, legions of Africans continue to subsist at $1.25 or less daily. Thus, the contracting partners should consider how to make the TTIP sensitive and responsive to the challenges that the most-vulnerable and the most-marginalized in Africa (ROW) routinely face on a daily basis, and how best to liberate them from abject poverty. Trade access, rather than aid dependence may be the better route for Africa. To that end and to the extent possible, African governments should consider mobilizing in order to try to influence U.S. and EU negotiators on the sidelines of the TTIP talks before the two transatlantic partners solidify their positions. Their main agenda in the sideline conversations is to ensure continued and improved access to U.S. and EU markets if and when the TTIP enters to force, by pointing out that the continent has recorded its best overall economic results in its post-colonial history through mainly trade and economic liberalization than through aid.

Table 1: Africa's Exports to the World (Percent of Total)

	1996	2001	2006	2011
EU	50	54	54	37
US	15	19	23	16
China	1	3	8	11
India	2	2	3	5
Brazil	2	3	3	3
Share of World	2.1	2.2	3.2	3.3

Source: *Direction of Trade Statistics Yearbook*, IMF, 2003 & 2012

Table 2: Foreign Direct Investment Flows (Percent of Total)

	1990	1995	2000	2005	2010
Africa	1	1.4	0.6	3.7	4.4
Asia	9.34	22.1	10.52	21.97	28.77
W. Hemisphere	4.16	9.9	7.03	7.9	12.8
Developing Countries	15.04	33.72	18.19	33.82	46.12
Africa's Share of Developing Countries	6.9	4.2	3.5	10.9	9.6

Source: *World Investment Report Yearbook*, UN, 1994, 2000, 2004 & 2011

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