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ANALYSIS AND POLITICAL CONSEQUENCES OF THE FREE TRADE AGREEMENT ON TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP

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§ Introduction. The Transatlantic trade and Investment Partnership (TTIP) is a free trade agreement being negotiated between the United States and the European Union.

The current situation flows from the negotiation to the final report of the *High -level working group on jobs and growth* (HLWG), established after a preliminary summit held in Washington, DC, on November 28, 2011 and directed by U.S. and EU leaders to identify policies and measures to increase transatlantic trade and investement.

Accepting the *HLWG* conclusions that a free trade agreement "would provide the most significant mutual benefits of the various options considered", on February 13, 2013 U.S. and EU leaders announced securities that they would initiate internal preparations to launch the TTIP negotitations, that both sides aim to conclude in two years.

Given this brief summary of the events that lead to the current context of the negotitation, in which U.S. and EU are addressing the Congress and the European Parliamenti relavant preparatory acts, let's start by saying that the TTIP between the United States of America and the European Union is for both parties one of the most important opportunities for development in the coming decades, being part of a historical period of extreme complexity.

Europe is suffering from the ancient evils that go back mainly to the forced outage of the integration process resulting from the non-adoption of the European Constitution, which has slowed the process of political, economic, banking and fiscal union that would instead be needed to address the economic crisis broke out in 2008.

Failing that, however, the responses to the financial and economic crisis that has been prepared by the governments of the European states (especially the Eurozone's one) are often disjointed and not very accurate, producing disturbing consequences.

Unemployment is steadily growing, especially among young people.

Very deep social crisis like that of Greece – likewise Southern Europe generally considered – threaten to undermine from within the capacity of Member States to ensure social peace, as well as being able to proceed, being without the required consent, the structural reforms that would instead need.

The lack of a coordinated and strict control of the sovereign debt of individual Member States, even for the limited powers of an ECB far from being the "Federal Reserve" of Europe, and the subsequent recession (or, in other cases, stagnation) are the result of a decade of little courageous and farsighted choices.

The United States of Europe remain a mirage for now, whereas global agreements such as the TTIP should be traded without the mediation of member States, often focused on their particular interest more than on a strategic vision for the Old Continent.

The U.S., meanwhile, are headed towards an economic recovery rather substantial, thanks to the enormous amount of money that the Federal Reserve injected into the economy (particularly in support of the U.S. banking system) and to new technologies such as fracking (via which to extract shale gas) that will allow the U.S. to be independent – to a long-term perspective – from the energetic point of view.

However, the costs of this encouraging recovery are a very high public debt (of which Bank of China is the largest holder); growing inequalities between different segments of the population who care about economic analysts even in the presence of a dynamic system that provides sufficient social mobility; a loss of consensus on global leadership that is the result of policies initiated by President Bush (see Iraqi War) and continued with President Obama (see NSA scandal).

Ultimately, an agreement of deep trade liberalization – i.e. including also the abolition of the so-called non-tariff barriers, that also means enhancing regulatory coherence and cooperation – could lead to the possibility of a very desirable growth, in particular at a time yet highly critical even with the objective diversity on both sides of the Atlantic.

The aspect that will be discussed on the sidelines of the purely economic considerations about the nature and prospects of TTIP, is the fact that the conclusion of such an agreement would lead to a major restructuring of geopolitical relations globally.

In recent years, the growth of the so- called BRICS has altered significantly the relationships between the most industrialized countries and the emerging forces, altering the long-established balance and placing the actors in front of a global multipolarity unknown until a few years ago.

In such a changing context, then, restituted the commercial and diplomatic relations between U.S. and EU is to be seen with the benefit of those who believes the partnership is a historical fact to be renewed and strengthened.

A new vision of Euro-Atlantic integration would undoubtedly be strategic, also in view of the inevitable – as futuristic at this time – reconsideration of the role of the United Nations.

Awareness is that you can not return – and the recent round of WTO confirms Bali – the ancient practice of concluding bilateral agreements alone, but it is perhaps from these that you can get ideas for a wider involvement of the emerging process of liberalization and harmonization of the global economy and its rules.

Given this brief introduction which will be expanded in the performance of the topic, the discussion will focus on two main aspects from which to derive additional considerations , which will be elaborated in the conclusions:

1) will be reported to Eurostat data on the current relationship between the U.S. and the EU in terms of trade in goods, services and foreign direct investment, in order to contextualize the argument empirically in the contours that served as a basis for the analysis of the HLWG;
2) hope and borrowing forecasts made for a framework of deep liberalization, will be analyzed the potential effects of the successful completion of negotiations on real per capita income, employment and increase of trade between U.S. and EU.

In conclusion, far from wanting to perform an economic analysis that does not have the tools to deal with, the purpose of this dissertation is to outline – thanks to macroeconomic data – a plausible picture of the evolution of political and insitutional relations at a global scale, stressing the differences between U.S. and EU and most industrialized countries, in order to understand what new “Utopias” a policy of global reach can imagine and put in place in the coming decades.

§ 1. EU trade with the U.S.: current status’ analysis. The EU is the largest economy in the world, representing 25.1 % of world GDP and 17% of world trade , while the U.S. is the second largest economy accounting for 21.6 % of world GDP and 13.4 % of world trade.

Together, the EU and the U.S. account for almost half of the world GDP and one third of total world trade.

These data would be enough to understand the scope of a landmark free trade agreement between these two economic realities, but taking into account other aspects allow us to highlight further problems and opportunities.

The free trade area, in fact, involve a population of approx. 800 million people, whose population growth rates are among the lowest in the world (0.4% vs. EU . 0.9% U.S.). The aging of the population (with consequent impact on the welfare systems and the ability to react to technological innovations, more and more crucial for a dynamic economy) adds to the fact that the total GDP is stagnant (0.3% EU , U.S. 2.2%, albeit with growth forecasts in the short term).

Therefore, a “competitive Euro-Atlantic shock” may represent a strategic solution.

EU and U.S. are each other's largest trading partners globally in terms of trade of: 1) goods, 2) services, 3) foreign direct investement. Let us briefly analyze data that Eurostat provides.

§ 1.1. EU trade with the U.S. in goods. The main sectors of the economy which focuses on the import/export of goods between the EU and the U.S. are machinery and transport equipment, chemical and related products, road vehicles, other manufactured goods, mineral fuels and lubricants, for a total amount of € 505 billion of trade in goods.

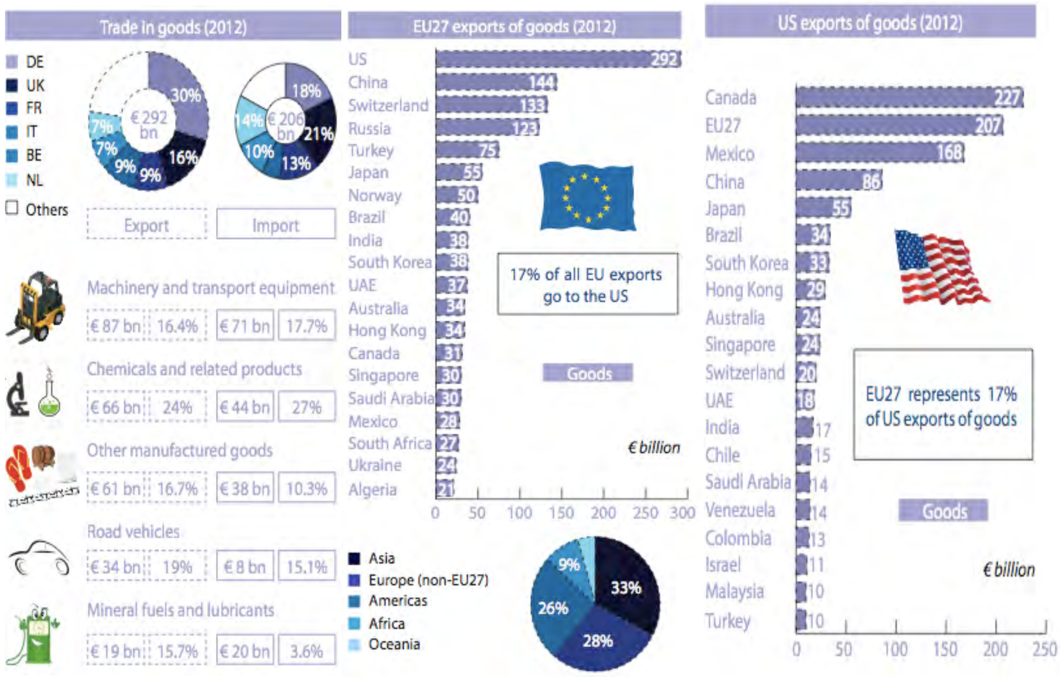
The categories not reported (agricultural , textile and other products not classified elsewhere, but not to be forbidden for their importance, mainly in the european single market) amount to € 50 billion, representing 21% of the total exports of goods from both EU and U.S. to eachother.

Exports from the EU to the U.S. amount to 17% of total goods exported from Europe. The U.S. is the largest global recipient of the goods exported from the productive sector and Germany is the member country that most exports goods to the United States, followed by the UK, Italy and France.

For their part, the U.S. export to the EU 17% of exported goods, resulting that the EU is the second largest export market for U.S. goods, preceded only by

Canada (with whom the U.S. has a long-established business relationship, and with which there are bilateral agreements that facilitate trade relationships, as well as a favorable geographic data).

Particularly interesting is to note that the export of goods from the EU to the U.S. grew by 26 % in the period 2000/2012, while exports from the U.S. to the EU grew by only 3%. The unexplored potential that emerge from this latest figure shows how far you can go with a comprehensive free trade agreement.



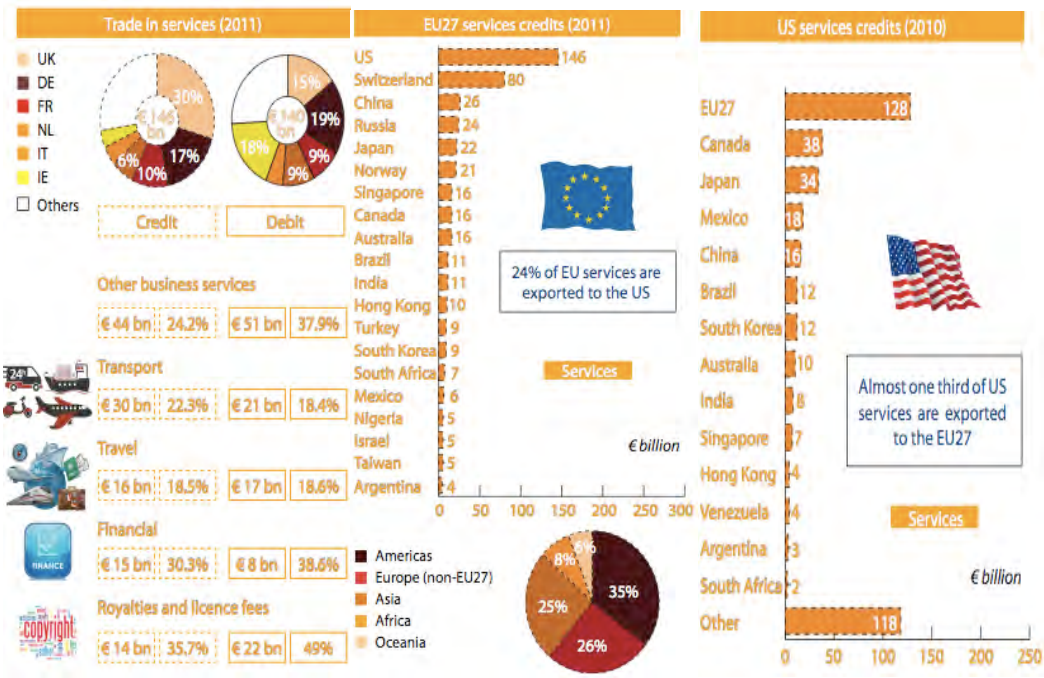
§ 1.2. EU trade with the U.S. in services. The services sector is significantly less effective with regard to trade between the EU and the U.S. , while another major partners globally. Transport, financial and travel services, royalties and license fess, computer and information technology, insurance, communications, culture, government and construction amount to a total of € 286 billion, equally distributed between mutual debts and credits.

The EU services export to the States for a share of 24% of the total services provided. According to statistics, Switzerland is the second prime recipient of services provided by the EU, given the strong presence in the insurance and banking sectors.

Among the Member States, the largest exporter of services to the United States –with a very large share of the European market of about 30% – is the United Kingdom, followed by Germany, France and Holland.

The U.S., on the other hand, is exporting to Europe about 33% of the services provided. Widely posted are Canada and Japan, which – in this specific area and in a context of full liberalization accompanied by the abolition of non-tariff barriers – could suffer major setbacks after the conclusion of the Agreement.

More recipients of exports of U.S. services are Germany and Ireland.



§ 1.3. EU trade with the U.S. in foreign direct investment (FDI).

FDI categories are based on the NACE (Nomenclature générale des Activités économiques dans les Communautés Européennes) categorization and refer to the year 2010. The areas of foreign direct investments are mainly: finance and insurance; manufacturing; professional , scientific and technical; information and communication; retail trade and repair of motor vehicles; mining and quarrying; accommodation and food services; construction; public administration.

The foreign direct investments represent the most significant source of trade between the U.S. and EU.

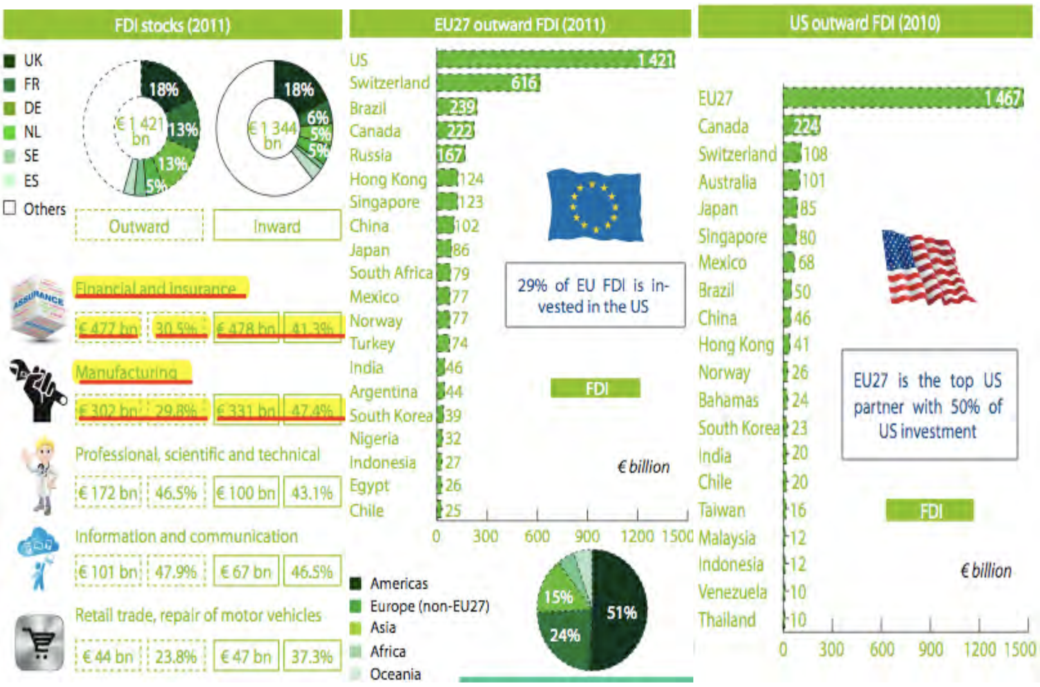
To give absolute terms' proportions, this sector involves a total market of approx. € 2,800 billion, compared to an exchange of goods and services amounting to a total of just under € 800 billion.

The inequality can easily be seen and – in the opinion of the writer – the TTIP would have to steer the plane of liberalization mainly on the first two areas, which are those that have suffered the worst consequences of the economic crisis and that represent –for the EU in particular – the true strategic asset on which to base its recovery.

Of € 2,800 billion of FDI, € 1,421 billion are leaving the EU and € 1,350 billion are incoming from the USA.

The rates of growth of this sector in the period 2000/2012 are incredibly high, with a + 89 % output and a + 139% input.

29% of EU FDI is invested in the U.S. while the EU27 is the top U.S. partner with 50% of U.S. investement.



In conclusion of this brief exposition of the current status of relations between the EU and the U.S., it can be seen as the overall market for the exchange of goods, services and FDI is already highly integrated and involve a very large amount of capital on both sides of the Atlantic Ocean.

The exchange rates are already low at an average applied tariff rate of about 3.5 % *ad valorem* for the United States and about 5.3 % for the European Union, but eliminating them – in conjunction with non-tariff barriers, far more substantial – would open more sectors market to competition, with the benefit of increased trade, of most competitive prices to American and European consumers, of strengthening – in the end – a strategic partnership between the two Continents.

§ 2. TTIP scenarios. Premise. After having analyzed the status quo of trade between the EU and the U.S. and have empirically determined the boundaries of our discussion, let us now consider the two different scenarios that might arise from the process of elimination of tariff barriers and/or non-tariff barriers that is taking place.

In particular, taking into account the one and the other scenario, our attention will focus on two crucial aspects: the expected increase of real per capita income and of employment rate.

In the writer's opinion, these are the indicators that will show us the future success of a free trade agreement such as the one under negotiation.

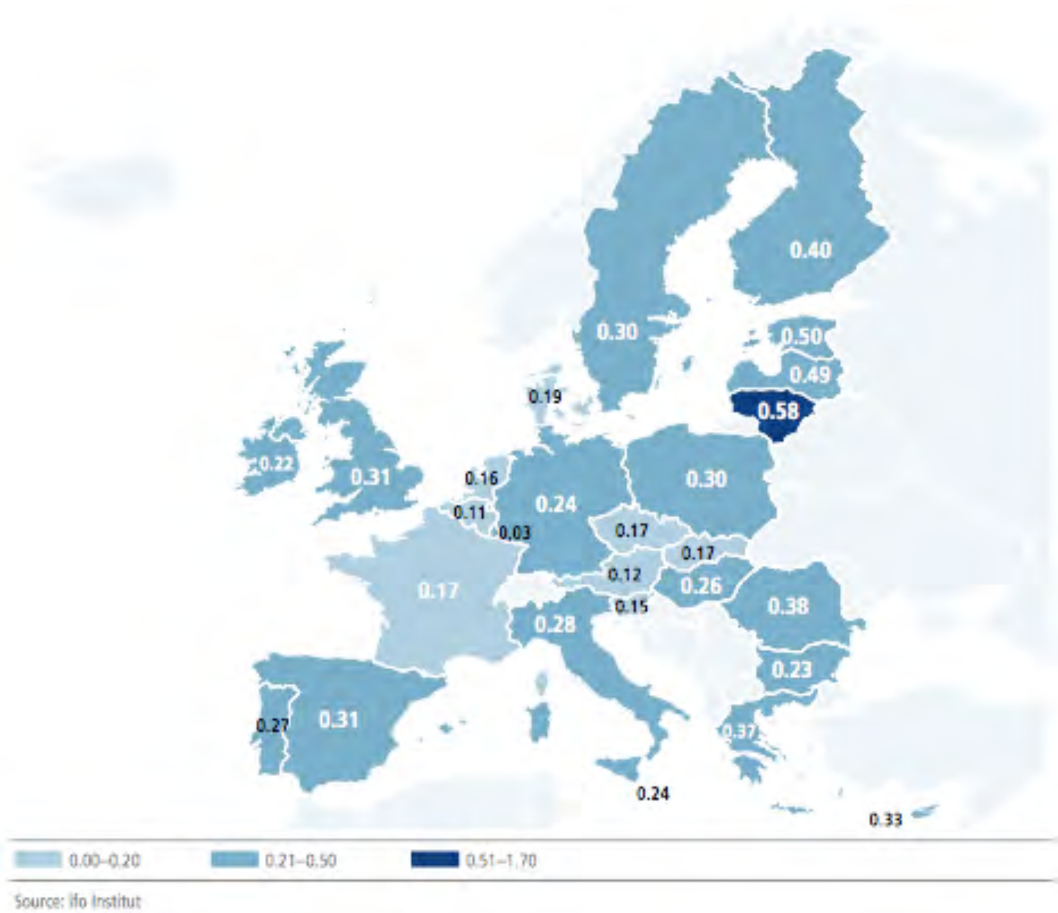
After the current period of low growth and recession, it is plausible they can follow a stabilization and recovery – and we can already see the first signs consistent especially in the States, you should register a growth rate of 4.1% in 2014. A large part of recovery could be determined precisely by TTIP whether the agreement will be reached where it will be sufficiently ambitious.

At the same time, it is also from the same data – IFO Institute also elaborated on the different countries of the world with which the EU and the U.S. have established trade relations and bilateral agreements – that we can bring wider views on the global reach agreement in the conclusions.

§ 2.1. TTIP scenarios. Tariff scenario. The scenario of removing tariff barriers is considered definitely an understatement on both sides of the

Atlantic, and would represent a reduction of the expectations that have been placed by the observers on the TTIP.

In fact, the change in real per capita income ranges between 0,03% of Luxemburg and 0,58 % of Lithuania for European countries, while it would be 0.8% for the U.S.



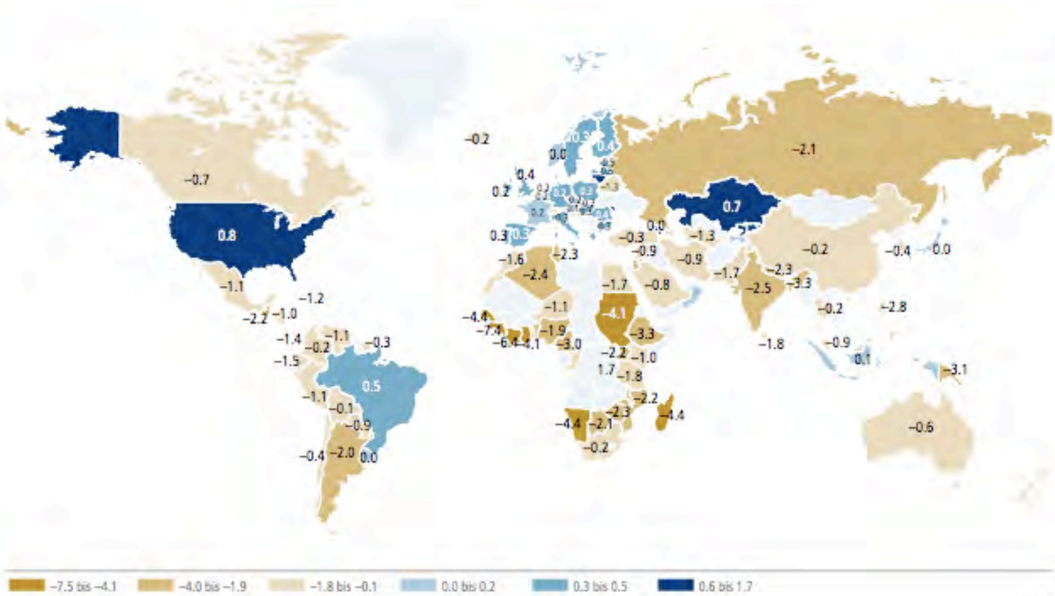
Effects are small because the tariffs that still exist between the EU and the U.S. are already low, as we have previously reported, and therefore does not produce a substantial change in the relations between the two economies.

Even third countries would be less affected by a scenario of mere elimination of tariff barriers, and the consequent decrease of exchange determined by this scenario would be highly more bearable – for third countries – compared to the scenario of full liberalization of markets.

However, focusing our attention on the EU, even from a scenario greatly reduced all of the EU member countries benefit from trade liberalization.

How much economies benefit from a tariff scenario depends on the real trade structure of the individual countries: those that export a large amount obtain relatively higher gains. Also, how these effects are distributed in Europe depends essentially on inner factors, such as the European transport routes and geographical location of the countries.

Finally, it turns out that smaller countries – such as the Baltic countries – tend to gain more than large ones.



Source: Ifo Institut

From the point of view of employment, the graph shows that employment growth scenario considered is so low as to be essentially irrelevant, with the notable exception of the UK and the U.S. which – with an increase in employment of 0.35% each – could boast of even minimal specific effects. In total, it is estimated that about 500,000 jobs would be created in the tariff scenario.[1] Finally, also in this case the third country would not suffer employment consequences of concern. It may, in conclusion, to say that the tariff scenario – even with the partial benefits for both EU and U.S. – would not represent a substantial improvement in the economic conditions of the countries involved and the lives of citizens, being far from the reasons that led the Governments of the Member States of the EU and the U.S. Administration to invest in the free trade negotiations.

§ 2.2. TTIP scenarios. Deep Liberalization scenario. A framework of full market liberalization should not involve only tariff barriers mentioned above, but also – if not in particular – regulatory and legislative issues related to market access and labor policies that would make the deal much more effective and productive of beneficial effects.

This is the position taken by both the European Parliament and the U.S. Congress, according to which, in fact, the agreement should cover market access for trade in goods, services, investment and procurement, regulatory

[1] A table of comparison between the number of jobs created in the deep liberalization and the tariff scenario will be given at the end of the analysis of deep liberalization scenario in the following pages.

issues and non-tariff barriers (NTBs), as well as rules on trade and investment related issues.

Undoubtedly, the agreement must fit in a symmetrical manner the interests of policyholders, and especially from the regulatory point of view must be agreed an high-standard harmonization, in order to achieve an agreement that is suitable not only quantitatively but also qualitatively.

The effort will be led in particular to overcome the obstacle of two different approaches to the regulation of sensitive materials.

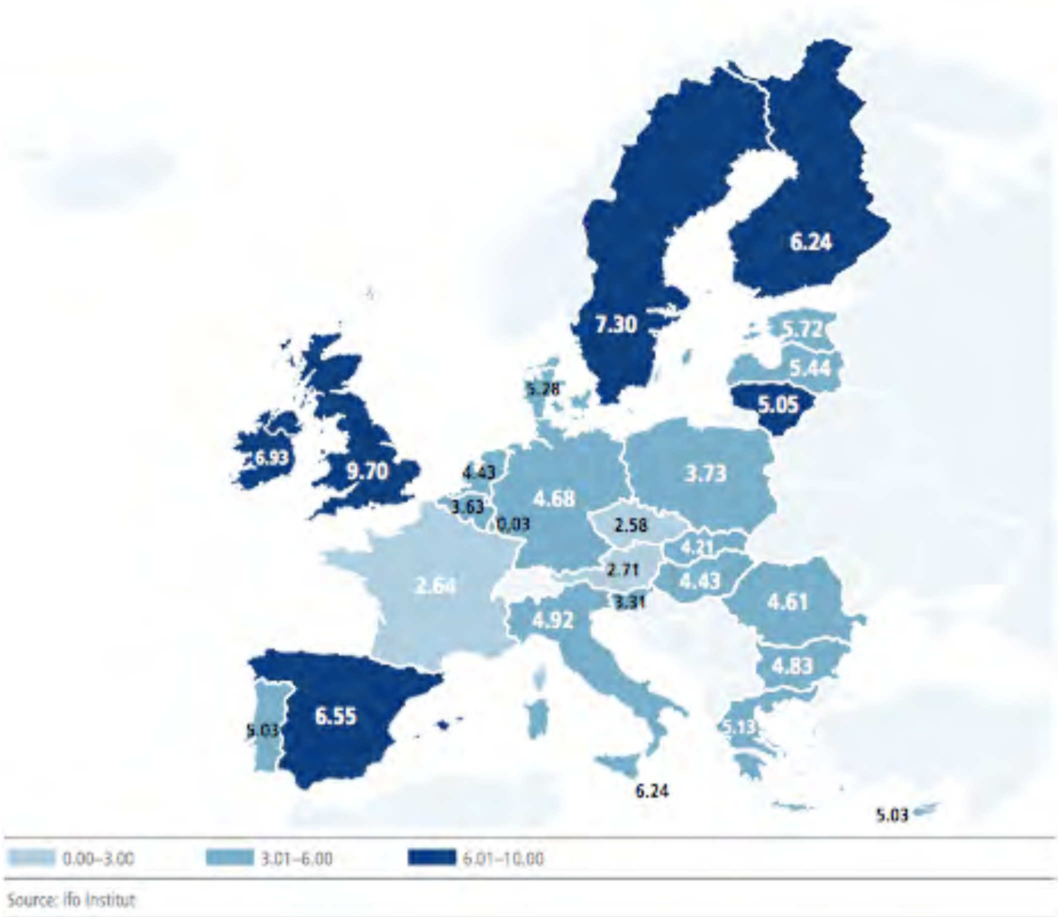
In fact, while the European approach is based on a more restrictive precautionary calculation of the risk, the U.S. is dictated by strategies and scientific analysis of the cost-benefit that we can define more "liberal".

Hoping that a high level summary can be found, is to say that an agreement to decrease on the issues of sustainable development, environmental impact of industry (save where the mutual areas of interest where it is impossible to reach an agreement), protection of personal data (NSA scandal *docet*), protection of the specificity of European agriculture, it would not be a harbinger of good news in the long run, considering that these are the ones that should be of interest in negotiating a landmark agreement as this one.

While not accepting the protectionist spirit of "cultural exception" raised by some countries (France in particular), there is no doubt that we should find a fair balance of mutual interests, because the potential of the full liberalization are considerable.

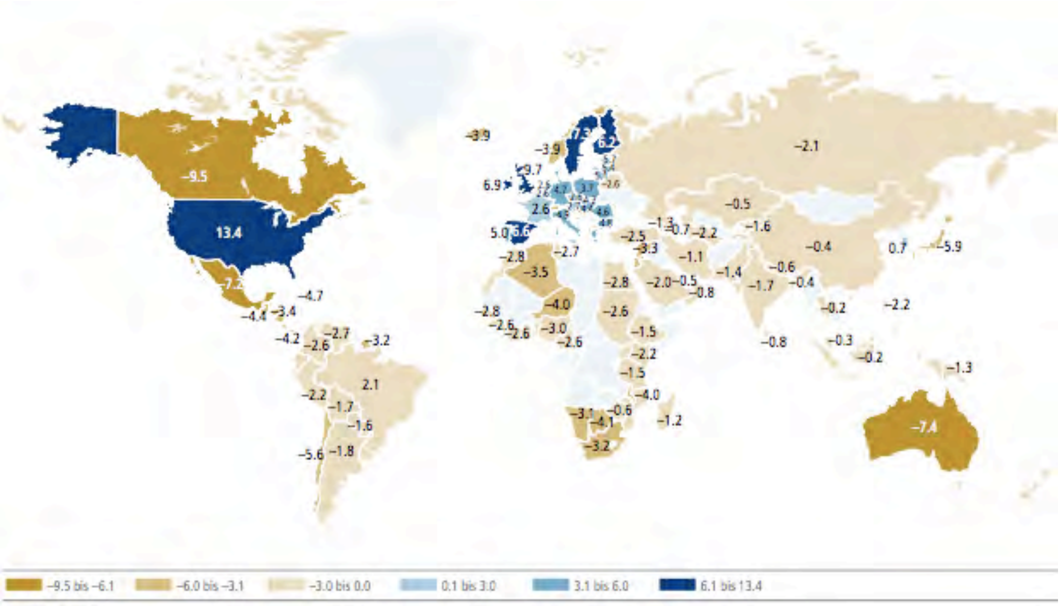
In fact, the increase of real per capita income estimated in a framework of full liberalization would be on average 23 times higher than the tariff scenario.

The European average gain would be 4.95%, with a standard deviation of 1.58%. One country that benefits relatively little is France (2.64 %) because it has relatively little trade in goods with the USA, and the countries that profit most are generally those that have already high on trade volumes with the USA, such as Great Britain, Scandinavian countries and Spain.



Turning to the increase that would potentially have in the U.S., it would be equal to 13.4% and would greatly negative effects on neighboring third countries.

The worst economic consequences of the TTIP suffer, in fact, Canada, Mexico, Chile, Australia and Japan. It should be noted, however, such as Brazil, India and – most importantly – China would stand the shock of a change of trade flows with greater dynamism than the countries mentioned above.



Source: ifo Institut

From the point of view of employment, it is estimated that a full liberalization scenario of TTIP would produce 2 million new jobs, more or less equally distributed between the EU and U.S.

With regard to the EU, the UK would be the most beneficial, followed by Germany, Italy and France.

The third countries would also be affected. In this case important job losses – but not dramatic or unsustainable in the short term – would be suffered in particular by Canada, Japan, Australia and Turkey.

Country	Deep liberalization	Tariff scenario
Australia	–57,332	–13,591
Austria	11,638	2,828
Belgium	4,062	873
Canada	–101,854	–26,176
Czech Republic	22,278	5,527
Denmark	14,623	3,646
Finland	20,066	5,134
France	121,566	29,921
Germany	181,092	44,831
Greece	34,277	8,766
Hungary	22,613	5,691
Iceland	–769	–201
Ireland	18,115	4,549
Italy	140,979	35,538
Japan	–71,833	–19,030
Netherlands	29,535	7,121
New Zealand	–6,606	–1,748
Norway	–11,541	–3,001
Poland	93,333	23,466
Portugal	42,521	10,878
Slovakia	12,995	3,259
South Korea	–29,841	–7,912
Spain	143,098	36,457
Sweden	32,515	8,241
Switzerland	–18,224	–4,640
Turkey	–94,831	–24,625
United Kingdom	400,203	106,134
United States	1,085,501	276,623
Jobs created in the OECD	**2,043,178**	**518,558**

Source: Calculations: ifo Institut

§ **Conclusions.** Given the brief exposure of scenarios associated with the TTIP we have done in the preceding pages, we can now draw some conclusions concerning the prospects that an agreement of this magnitude can determine.

As we have seen from the limited analysis of available data, the potential for economic growth that would occur from a scenario of deep liberalization of markets and the elimination of non-tariff barriers would be significant both in the EU and in the USA.

It is estimated that a possible transatlantic partnership in the field of trade and investment by 2027 would lead to a steady increase in total annual 0.5% of GDP for the EU and 0.4% for the United States.

Overall, the world economy could bring about 70 billion Euros and produce an increase – as reported in the previous paragraph – jobs for a total of 2 million units.

Borrowing the point of view of the EU, which is what most of us are interested in, the main issues that the EU wants to include in the negotiations are: liberalization of investment, financial services; the EU’s access to public procurement markets of the United States at all levels of government; the protection of geographical indications (GIs) in the EU; the abolition of restrictions on U.S. markets for maritime and air transport; competition and state aid in particular.

It seems to be an ambitious program that definitely has to be supported by appropriate transfer of sovereignty from member States to the Community institutions.

If so formally it is – because the letter of the Treaty provides as follows – it is conceivable that pockets of resistance can be enhanced by some countries.

As you can see from the restricted list given, potential obstacles to the conclusion of an agreement are varied and fit, however, in a context of institutional relations profoundly changed – if anything publicly – with the NSA scandal, from which it appears that some European leaders would be "bugged" by the U.S. National Security Agency (NSA).

Just the issue of protection of personal data, which the United States considers part of the negotiation, may prove to be a problem, since in Europe is being drafted a regulation that increases the protection of citizens' privacy.

Some progress, however, have already been registered and it is significant that the negotiation was not broken even in the face of overt diplomatic problems. This alone is to be considered as a positive signal of relaxation and willingness to negotiate by the parties.

In addition, there will be difficulties to overcome the resistance of some Member States specific stakeholders on sensitive issues.

This is the case of France, which – among other things, the analysis conducted – is the country among those most industrialized that would be less benefited from the conclusion of such an agreement . The "cultural exception" – which aims to exclude the cultural and audiovisual services from the negotiations – and the importance of quality agriculture plays for the French market – where, however, U.S. policy on agriculture, use of GMO and safety food is much less stringent – may be the most formidable difficulties to be resolved.

Having said that for completeness of analysis, we can not fail to notice how much more desirable the conclusion of an agreement of full liberalization that had as its object also matters listed above, to ensure that the treaty is highly inclusive and also deals with those sensitive issues that may in the future represent faces problems if not preliminarily discussed at this stage.

Borrowing, therefore, as desirable – and acceptable, as productive of any significant effect – the only agreement of deep liberalization and the elimination of non-tariff barriers with the consequences that we have reported, it is clear that the geopolitical relations at the global level would come out heavily modified from the conclusion of the Agreement.

The successful conclusion of the agreement, in fact, would strengthen the EU's role as a critical partner of the United States on the global arena.

The importance of Europe’s role in the Mediterranean, in particular, should encourage a productive partnership, not just commercial.

The “Arab springs” – whose long-term effects yet little has been explored – as well as the situation in Syria, Lebanon and the long-running Israeli-Palestinian issue, not to mention the Middle East as a whole, are warm fronts that American politics can not forget and where Europe and member States play an essential role.

Although a trade agreement might seem far from military or paramilitary issues such as those listed above, in reality it could include public procurement in the defense sector, making it very important for these reflections, which in our opinion should not be circumvented.

From the strategic point of view, in the face of American politics – in the first years of the Obama administration – seemed to have more look toward Asia-

Pacific Region, an agreement such as this – with the mobilization of large amounts of capital – could balance the relationship.

This could lead to favourable consequences for the centrality of Europe – pending a unification process that is hard to be completed and a common foreign and defense stammering or absent – that could be otherwise dispersed.

As regards, however, the relationship with third countries which we briefly mentioned to provide the data in the previous paragraphs, it should be noted that the conclusion of an agreement for full liberalization between the EU and U.S. would produce significant and damaging economic and employment in particular in the Maghreb, Central America (Mexico), Canada, Japan, Australia and Turkey. Brazil and India would suffer fewer consequences, while intact would be the position of China, a global player by now well established.

From the point of view, finally, of multilateral negotiations to liberalize world trade, you hear two different locations on the conclusion of the bilateral agreement between the EU and U.S.: supporters, on the one hand , argue that the TTIP could allow EU and U.S. to advance rules-based trade liberalization in the absence of improvement in the WTO Doha Round, asserting that possible consensus between the two sides on controversial issues could also break the impasse that members are facing in the Doha Round; on the other hand, it is said that focus on regional and bilateral FTAs detract from trade liberalization efforts through international Institution, such as the WTO, and that could signal the death of the Doha Round in its whole.

The desirability of the conclusion of the bilateral as much as the positive developments in the WTO, the two visions seem overly radical reported.

In fact, the process of liberalization of international trade will necessarily be longer and more complex than those estimated for the negotiation of TTIP. Therefore, even if not there should be an agreement in the WTO between the EU, U.S. and other member countries on the matters at issue, it is positive that the markets of the two major economies of the world are opened up to competition and the standard of cooperation are agreed high. The rest – it is hoped – will follow, but with more inevitable difficulties that probably today should be prevented to allow U.S. and EU to emerge stronger from the economic crisis that has been created and mainly concerns them.

In conclusion, it is clear that the ideas that we have proposed do not exhaust the discussion, that should be broadened in a specific way for each issue.

However, it served to underline how politics – in particular European politics and its leaders – has, thanks to this agreement, a possibility of "redemption", if we may say so, after years of more or less strong immobility.

Restoring the centrality of Europe is an ambitious goal, as well as rethinking the relationships with the major global partners, giving a breath of long-term to EU policies from the point of view of foreign policy, defense, energy, industry and environment.

Europe needs to start to look up on the issues that surround it, and not only those that directly relate to, and economic and trade policies are – willingly or unwillingly – the pivot around which rotate other relevant considerations.

The future partnership could in the medium to long term lead to a renewed welfare from which to start to emulate – at least from the institutional point of view – the United States of America, to finally achieve the dream of the founding fathers Spinelli, Adenauer, De Gasperi and Schumann: The United States of Europe.

Those who are now leading EU politics must have these coordinates as their North Star and we are confident that citizens, less fearful and more confident also thanks to the growth potential inherent in the TTIP, will support this crucial challenge for the future of the next generation.

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