

# EU-US Free Trade Agreement – Recipe for Growth or Road to Nowhere?

Presentation at Cato, February, 2013

Fredrik Erixon, Director, European Centre for International Political  
Economy (ECIPE)

[www.ecipe.org](http://www.ecipe.org)



# Perceptions

Martin Schultz, President of the European Parliament

*The German politician said he is in favour of the free trade deal with the US because "democracies have to co-operate on an economic level, putting the European social model at the core - labour unions, social rights..."*

# Perceptions

- Many reactions to the EU-US trade agreement unhelpful, wrongly portraying what it can achieve
- There is a political overture to the trade agreement, but it is not about reducing differences in political cultures
- References to economic NATO unhelpful, too: but can be a platform for alliances
- "Ganging up on China" sentiments plainly silly



# **So why is it a good idea to start negotiations between EU and US?**

1. Solid economic gains
2. Discipline the EU and the US
3. Opportunity for trade leadership in post-WTO trade policy
4. Spur liberalization and freer markets elsewhere

# 1. Solid economic gains

- Plain vanilla modelling suggests GDP gains of 0.5-1 % of GDP
- Tariff elimination deliver positive GDP effects of 0.1-0.3 % (EU) and 0.2-0.9 % (US)
- Biggest gains will come from reducing non-tariff measures/regulatory divergence

Sectors	Index of NTM restrictiveness (scale 0-100)	
	Into US	into EU
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
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
<b>Simple average</b>	<b>39</b>	<b>36</b>

# Results of NTM reductions

	<b>Ambitious Scenario (full reduction in actionable NTMs)</b>	<b>Limited Scenario (partial reduction in actionable NTMs)</b>
<b>Real income, billion € (\$)</b>		
US	40.8 (53.0)	18.3 (23.8)
EU	121.5 (158.0)	53.6 (69.7)
<b>Real income, % change</b>		
US	0.28	0.13
EU	0.72	0.32
<b>Value of Exports, % change</b>		
US	6.06	2.68
EU	2.07	0.91
<b>Value of Imports, % change</b>		
US	3.93	1.74
EU	2.00	0.88

## 2. A trade agreement to discipline the EU and the US

- Trends of creeping, murky protectionism
  - EU and US complicit
- Aggressive regulatory unilateralism
  - Energy
  - Finance
  - Data/ICT
- Absent progress in the WTO: few other alternatives to discipline EU/US



## C. Trade leadership in post-WTO trade policy

- *"Trade policy begins and ends in Geneva"*
- Long, progressive decline for GATT/WTO as driver of liberalisation
- Partial improvements in WTO, but significant change in liberalisation/rules unlikely
- Impetus for global trade reform no longer to come from WTO
- Response from the EU and the US?

## D. EU-US FTA could spur liberalisation/rules in other countries

- Agreement to advance market access and competition by reduced NTMs
- Regulatory convergence/principles to advance competition and transparency
- Externalize the agreement to third countries: through individual bilateral/regional, plurilateral, and multilateral approaches.
- *Fear and profits* in trade policy