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ECIPE EUROPEAN CENTRE FOR INTERNATIONAL POLITICAL ECONOMY

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Transatlantic Economic Summit: Please Press the Reset Button and Start New Trade Talks

A transatlantic economic summit with President Obama and European leaders will take place this weekend after the NATO summit. The EU-US summit is the first for two years, and diplomats on both sides seem to be busy coming up with something meaningful to say in the communiqué. The summit will focus on economic issues, and rumors say leaders will issue a statement on the need to avoid protectionism and to conclude the belated Doha Round of trade negotiations.

This amounts to little more than phraseology – it is nothing but a copy of the **bland statements that emerged from the G20 summit** last weekend. It is indeed important to avoid protectionism and to conclude the Doha Round, but no one with insight into these matters believes leaders attach any real importance to these calls.

It is surprising to see how the **rift between the EU and US in economic affairs is widening**. Economic talks between the two transatlantic partners have been difficult, to say the least, in the past years, despite the fact that they share the view of how the world economy should develop and what leadership is required from the two old giants of the world economy amid rising competition from China and rising Asia. The main forum for transatlantic economic cooperation is the Transatlantic Economic Council, and it has produced virtually nothing since its start five years ago. It is obvious the reset button needs to be pushed also in transatlantic relations. It simply cannot go on like this.

What should transatlantic leaders do? Fredrik Erixon, Director of ECIPE, calls on the leaders to give their political support to new bilateral trade negotiations between the EU and the US.
A recent paper by Fredrik Erixon and Matthias Bauer examined the potential gains from a transatlantic zero-tariff agreement – that is, an agreement that is modest in its ambitions and only eliminates tariffs. The authors found that the dynamic gains from such an agreement would be substantial:

- **Dynamic GDP gains** – accounting for improved productivity and reduced trade facilitation costs – are estimated to be **0.32-0.47 percent** for the EU (or $46 to $69billion) and **0.99-1.33 percent** for the US (or $135-$181 billion). This could be compared with the estimated gains for the EU's and the US trade deals with South Korea, which both are estimated to generate GDP gains of 0.01 percent for both economies.

- The estimated **welfare gains** – measured as national income effects – are more evenly distributed between the two economies. The static effect is **$3 billion** for the EU and **$4.5 billion** for the US. The **dynamic welfare gains** are estimated to be **$58-$86 billion** for the EU and **$59-$82 billion** for the US.

- The estimated **change in EU exports** to the US is **7 percent** (or $28 billion) in a static scenario and around **18 percent** (or $69 billion] in the dynamic scenario. The US is estimated to increase exports to the EU by **8 percent** (or $23 billion) in the static scenario and **17 percent** (or $53 billion) in the dynamic scenario.

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The study by Fredrik Erixon and Matthias Bauer could be downloaded here.