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COIMBRA
SHOULD WE TRUST THE GIANT ‘EUSA’?

A REFLECTION ON TRANSATLANTIC TRADE
AND INVESTMENT PARTNERSHIP (TTIP)
AND ITS IMPACT ON EUROPEAN ECONOMY *

1. Introduction

In June of 2013, the European Commission has started bilateral trade negotiations with the United States in order to launch the Transatlantic Trade and Investment Partnership (TTIP). The ambitious goal of the talks is the creation of the largest single market in the world by eliminating tariffs and reducing non-tariff barriers (NTB) to bilateral trade between the EU and the US and by encouraging a favourable FDI environment for investors of both sides of the Atlantic.

The idea of enhancing transatlantic economic relations is not new and during the last two decades both the Clinton administration (in 1995) and the Bush Jr. administration (in 2007) pursued a similar project but with poor results 1.

(*) I am very grateful to Mario Biagioli for useful comments and suggestions.

1 In 1995, the US Government and the European Union established the Trans-Atlantic Business Dialogue (TABD) in order to organize a working group in which the business sector played an official advisory role for US and EU officials on trade and investment issues. The aim of
Particularly, the attempt of Bush Jr. administration and Germany to create the Transatlantic Economic Council (TEC) in 2007 ran aground on the issue of chlorine-washed chickens exported by the US to the EU. Paradoxically, this controversy is still used as iconic argument against the successful implementation of TTIP by those that remark the insurmountable cultural divide between the United States and Europe in approaching regulation policies concerning health and environment: the European attitude to conform to the “precautionary principle” versus the American pragmatism based on the *ex post* verification of the eventual harmfulness of certain products already entered the market.

If the transatlantic fracture in the way of regulating safety and health standards — as symbolized by “chlorine-washed chickens” and other controversial issues like genetically modified organisms (GMO) — still persists, why this time should be different and TTIP should be successful?

Differently from the past, the current situation of the world economy reveals a numbers of factors supporting a

the initiative was the formation of a free trade area between the US and the EU with the final goal of creating a global transatlantic market, but the contingent security issues in the Balkans and the admission of China in WTO blocked the initiative.

In 2007, again, US President George W. Bush, German Chancellor Angela Merkel and EU Commission President José Manuel Barroso signed an agreement establishing the Transatlantic Economic Council (TEC). TEC promoted transatlantic cooperation in harmonizing regulations with particular regard to road safety, food safety, petrol conservation, cosmetics testing, etc. The initiative failed for the lack of agreement on minor matters.

A useful chronological list of the US-EU attempts to launch transatlantic economic cooperation over the last two decades can be found in Jennar and Lambert (2014).
more resolute commitment to carry out transatlantic economic cooperation and to reach an agreement on TTIP ².

First, the sluggish growth of American economy and the profound recession involving the eurozone countries, still bogged down in austerity policies, represent two good reasons for both sides of the Atlantic to rely on the economic stimulus provided by TTIP ³. Although the right dimension of the (estimated) impact of TTIP on transatlantic trade and on European and American GDP is not conclusive and is still debated, even not particularly exciting additional increments of income and employment are highly desired by both sides, after the prolonged depressing effects of the great recession 2008-13.

Second, in 2014 China has surpassed the United States in terms of GDP at purchasing power parity (PPP), becoming the largest economy in the world ⁴. This recent economic overtaking is not only symbolic, but testifies the fast-growing capacity of China to expand its future role in reshaping the global economic order. However, so far, there are disturbing signs that the emerging China’s key role in the world economy and global governance doesn’t conform to the game rules of the liberal international economic order: restrictions imposed by China on exports of its abundant rare earth met-

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² With regard to the different reasons supporting the transatlantic economic initiative today with respect to the past, see, *inter alia*, Barker (2013).

³ In effect, the reason hinging on economic stimulus provide by TTIP would be stronger for the EU than for the US. Actually, the most recent estimates on US GDP growth by the US Bureau of Economic Analysis signal an increase of 3.9% in the third quarter of 2014 forecasting a US GDP growth of more than 2%, on yearly basis, in 2014.

⁴ According to the latest IMF data, in 2014 the GDP (PPP) of China has reached $ 17.61 trillion, while the US GDP (PPP) is worth $ 17.4 trillion. The recent China’s overtaking is commented by Fray (2014).
als — basic material used in new technologies — or the systematic China’s violation of international norms governing intellectual property rights are well-known examples of a substantial misalignment between China and international institutional arrangements. In the face of the growing importance of China in the global economic arena and the implicit risks that this upsurge implies for the stability of international economic relations, TTIP is also conceived as a necessary initiative taken by the EU and the US to take up the reins of global economic governance and relaunch the liberal international economic order. In effect, jointly considered, the European and American economies encompass 50 percent of world GDP, a weight that confers the power to fix the guidelines of global governance. In other words, the full implementation of TTIP would allow the EU and the US to set together the rules of global trade, counterbalancing the current repositioning of world economic barycentre to China (and Asia-Pacific area). In this way, the joint EU–US definition of common regulatory standards would encourage third countries to conform to transatlantic conditions.

A third aspect of the world economy situation calls for a more stringent effort to reach a deal on TTIP: the pervasive tendency of global value chains to affect a larger share of world trade.

As remarked by Baldwin (2006, 2011), the flourishing of global value chains over the last two decades epitomizes the turning point from the “old paradigm” to the “new paradigm” of globalization. This crucial crossroads in the dynamics of international economic integration is profoundly changing the structure of world trade and poses new chal-

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5 On this aspect, see Bollyky and Bradford (2013) and Kommerzcollegium (2013).