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PREFERENTIALISM AND MULTILATERALISM IN TRADE POLICY

An analysis of the possible impact of TTIP on the multilateral trading system

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Preferentialism and Multilateralism in trade policy

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"- Allora non ci hai creduto.- A che cosa?

- Alla storia della strada che non andava in nessun posto.

- Era troppo stupida.

E secondo me ci sono anche più posti che strade."[1]

[1] Gianni Rodari, (1995). *Favole al telefono*. Einaudi Ragazzi.

METHODOLOGY

This work is divided into three parts, which respectively analyse the concept and recent diffusion of preferential trade agreements (PTAs), the historical background and the content of one of the most relevant PTA that is currently under negotiation, the Transatlantic Trade and Investment Partnership (TTIP) and, then, the possible impact of this agreement on the multilateral trading system. Within the current debate on the issue, the scope of this work is to determine if the conclusion of an ambitious version of TTIP could generate progress or otherwise endanger the process of trade liberalization at multilateral level.

The first part outlines the general framework, since it aims at defining the basic concepts used in the entire work, presents the recent trends and introduces the American and European approach on the PTAs subject. Among the many PTAs concluded in recent years or under negotiation, from the second chapter the attention is devoted to TTIP. The deal will probably mark a cornerstone in 21st century economic foreign policy relations and takes on a special relevance not only because of the economic power of the US and the European Union states but also for the historical interconnections between the two areas. The second part of this work will highlight these elements as well as present the potential economic impact of the agreement, as expected by the analyses delivered by leading think tanks and research institutes. The long chapter devoted to the background of the negotiation aims at clarifying the historical importance of transatlantic economic relations in order underline how TTIP represents a particular case study worth to be analysed in more detail.

The final part, after an overview on the debate on the potential impact of PTAs over the multilateral system, extrapolates some conclusions in the attempt to foresee the possible scenarios envisaged by TTIP negotiations. In order to evaluate this impact, I choose the model proposed by Andreas Dür in the 2007 article "“*Regionalism: Stepping Stone or Stumbling Block for Globalisation?*”, which starts from the assumption that PTAs could have both positive and dangerous effects on the multilateral trading system and, therefore, the analysis should be focused on the identification of the conditions under which a development or the other is to be expected and then on the interaction between the strategies of a PTA's members and the excluded countries. According to his argument, the direction of the effect depends mainly on the initial distribution of bargaining power between the PTA's member states and excluded countries, since the strategy of a third country could vary from membership application to the PTA or association with it, call for non-discriminatory trade liberalisation through the offer of concessions in most favoured nation (MFN) negotiations, creation of a rival trading block, until the threat to impose retaliatory measures on the basis of its initial power.

This model is applied to TTIP case, taking into account four groups of countries which could be relevant for their relations with the US and the EU or for their high implication in world trade. The theory helps in the analysis of third countries potential reaction to TTIP, but obviously does not allow making sure forecasts since multilateral trade negotiations implicate a very high number of countries and it is particularly challenging to make hypothesis on the result of their preferences' aggregation. Moreover, it is to be considered that country's political decisions are not always based on rational choices and are very much influenced by the weight of domestic political interests, since countries are not led by all-knowing and independent experts who will necessarily opt for the public interest. The relatively undisclosed content of TTIP, explained by the fact that negotiations are probably not yet in the conclusive phase, makes any conjecture on future evolution even more complicated and demanding.

PREAMBLE

This work tries to analyse TTIP into a broader framework, in order to consider it not just a deal that will probably influence the regulation of a high number of economic sectors but a result of the process of recent proliferation of PTAs and a step forward in the important history of transatlantic economic relations. The debate on the agreement is now very animated and thought-provoking in Brussels, whereas it is often forgotten the background that has led to the launch of the negotiation and the more ample impact that it could engender.

While TTIP's advocates consider it as the best way to promote growth and creation of jobs in a phase of deep difficulty for the European economies and its opponents deem the deal a danger for European citizens, it seems timely to analyse it as part of the evolving trade strategy of the EU, which is now strongly committed to conclude PTAs with key world actors. This evolution in EU trade policy, epitomized by the launch of TTIP, and the similar process in other world regions, with the greatest example proved by Trans-Pacific Partnership (TPP) negotiation, could generate substantial effects over the multilateral trading system. This work tries to address this issue, focusing the attention on TTIP, while recognizing that the final effect on the multilateral framework will depend on the aggregate impact of all the enforced PTAs.

As last remark before entering into the merits of the issue, I need to apologize for the greater attention given to European side compared to the US one. Even if I aimed at greatly considering both actors involved, on some specific topics the opportunity to live and work in Brussels for the last months has given me a broader knowledge on European issues, which I deemed useful to reflect into this work.

PART I

PREFERENTIAL TRADE AGREEMENTS

"Together, the many smaller and

larger agreements that have already

been signed, or are currently being

negotiated, make PTAs the most prominent

and important governance instrument for

regulating trade and investment flows

of our times".

Andreas Dür and Manfred Elsig, 2013[2]

[2] Dür, A., Elsig, M. (2013). "Introduction: The Purpose, Design and Effects of Preferential Trade Agreements", p. 2.

Introduction

This first part of the work is introductory and preliminary to the following and more substantial ones. It aims mainly at clarifying some notions and at giving a general overview on key recent evolutions.

The first paragraph gives a general outline on the dynamics between protectionism and liberalization in the last century aiming at positioning the entire discourse in an historical setting. Then it is introduced the definition of preferential trade agreements (PTAs) and are highlighted the current trends, with a specific focus on the recent proliferation of PTAs. The last paragraph is devoted to present the United States and the European Union approach toward this topic. It should be clearly stated since the beginning that both the US and the EU's (even more) interest in the preferential approach is quite recent, given that until few years ago they considered the multilateral negotiations the best arena to promote free trade. These preliminary concepts will be needed to analyse then in detail both the PTA that are today negotiating the US and the EU (the Transatlantic Trade and Investment Partnership) among themselves and its potential implications over third countries and the multilateral framework.

Chapter 1. The diffusion of Preferential Trade Agreements

1.1 PROTECTIONISM VS. LIBERALIZATION IN RECENT HISTORY

Until the second half of the 18th century, characterized by the industrial revolution and the emergence of the capitalist model, the industrial policies of the leading European states were based on protectionist principles and on the mercantilist approach. It was the time when Britain consolidated its global predominance, both militarily and economically, and, for the first time, strongly pushed to liberalize global trade. The City of London became the world financial centre and the sterling the currency to evaluate the value of goods, to trade and to gather as state's reserve. It was also the time when the big banks, that would have later dominated the world finance, such as Rothschild, were founded. The British support for free trade pushed other countries to adopt similar policies: in 1860 France concluded a commercial treaty with Great Britain, which removed the mercantilist barriers; this event was followed by similar agreements concluded by the British with Germany, the Austro-Hungarian Empire, Italy and, at the end of the century, the Russian Empire. The success of Britain pushed all Europe to progressively adopt its model. A global and quite open market, at that time largely dominated by the financial and economic power of Great Britain, was born (Di Nolfo, 2012: 12).

The First World War changed this scenario and paved the way for the shift of leadership in world economy from London to Washington and from the sterling to the dollar. During the war, the need to build huge armies pushed the European states to abandon the economic laissez-faire and to restore tariffs aimed at protecting their national and colonial markets. In 1918, however, Wilson included in his fourteen points what would have become a long-term American objective: the "*removal of all economic barriers and the establishment of equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance*". This principle, initially, did not find any practical application and in the interwar years the global market was never completely rebuilt; even the United States did not followed the principle proposed by Wilson and, in 1922, the Congress raised consistently the tariffs with the Fordney-McCumber Act up to 38%, which was an incredibly high level for the US standards.

After a period of stability in mid 1920s', the situation precipitated even more after the 1929 crisis that pushed each country to look for a national solution, independent from the external ties and commitments; it emerged a system fragmented in four different and rival areas: the dollar area, the sterling area, which basically included Great Britain and its empire linked by the, once more popular, system of imperial preference, the gold area, including France, Italy, Belgium, the Netherlands and Switzerland as leading members and the area dominated by Germany (Campus, 2012: 5-6). In 1930 in the US the Smoot-Hawley Tariff Act increased the tariffs up to 59,1% to protect 900 among agricultural and some key industrial products. This measure was opposed by the majority of the American economic establishment, which defined it as "*the tragi-comic finale*" (Campus, 2012: 13), and even Thomas Lamont, advisor of President Hoover as well as principal associate of J.P. Morgan, begged on his knees the President to oppose his veto to the provision. The effect of the Act was not limited to the US; as stated by the League of Nations: ""*the Hawley-Smoot tariff in the United States was the signal for an outburst of tariff making activity in other countries, partly at least by way of reprisals*" (Irwin, 2008: 8). The approach did not change during the following Roosevelt mandate, which continued to be focused on domestic issues and to refuse any international commitment (as exemplified by the failure of the international conferences in Lausanne in 1932 and in London in 1933 aimed at restructuring the global finance structure).

The American policy shifted again towards the support of a free trade system through the action of Cordell Hull, the Secretary of State who believed in the overall positive effects generated by economic openness who, in his memoirs, wrote: "*towards 1916 I embraced the philosophy that I carried throughout my twelve years as Secretary of State. From then on, to me, unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war*" (Irwin, 2008: 13). Between 1934 and 1939, he managed to conclude twenty bilateral agreements, among which the most relevant was with Great Britain, entered into force in January 1939 but immediately undermined by the controls on imports that the British adopted as consequence of their entrance into war. In 1941, through the Atlantic Charter, the Americans reiterated their support for a global system based on free trade and access to raw materials and imposed to Great Britain to renounce to its system of imperial preference in order to participate in the Lend and Lease Act[3]; Hull, in fact, considered this system as "*the greatest insult*" (Di Nolfo, 2012: 37) against the US in the commercial field and the Under-Secretary of State Welles declared, after the conclusion of the agreement, that "*the age of imperialist had ended*" (Di Nolfo, 2012: 37). At the end of the war, the US followed this path and, after the failed ratification by the Senate of the treaty establishing the International Trade Organization (ITO), pushed for the constitution of the General Agreement on Tariffs and Trade (GATT), signed in October 1947 (substituted by the World Trade Organization (WTO) from 1st January 1995, after the conclusion of the Uruguay Round).

From that moment on, the system worked pretty well for some years and led to a progressive reduction in tariffs through the actions of the GATT rounds; however, some new problems gradually emerged: an example was represented by the European economic community (EEC) that became step by step more integrated up to the point to constitute a new big, powerful, and potentially dangerous for the Unites States, protectionist bloc. Moreover in the 1960s' and 1970s' the EEC signed some trade agreements with many African, Asian and Pacific countries (in particular with former European colonies). American irritation was palpable and was reflected by many episodes such as Kennedy's

[3] The final version of Article VII of the Mutual Aid agreement stated: "*In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of worldwide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples;* ***to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers****; and in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on Aug. 12, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom*".

provision, in 1962, that increased duties on carpets and glass or Nixon's decision, after the collapse of Bretton Woods, to unilaterally raise American tariffs, increasing the duties on imports by 10%, in order to restore the equilibrium in the US balance of payments. Anyway, it should be clearly noted that in the past fifty years the United States and the European leading states have been able to successfully proceed in promoting the reduction of trade barriers and in shaping a multilateral trading system and its governing institutions aligned with their interests. Until very recently (the first remarkable example, that at the time seemed an exception, was the North American Free Trade Agreement (NAFTA) that, in 1994, replaced and extended the agreement signed between the US and Canada in 1987), both the US and the EU have privileged a general approach to international commerce: they, in fact, strongly preferred to establish international agreement through the GATT and refrained from proposing and entering into bilateral agreements (Bendini, 2014b: 4).

1.2 DEFINITION OF PTAS AND THEIR RELATION WITH THE WTO FRAMEWORK

After this first brief overview on the recent steps toward global liberalization, it is time to set to the main issue of the chapter, the Preferential Trade Agreements. It is possible to use different terms for this kind of agreements, the most common are probably free trade agreements (FTAs), regional trade agreements, or also economic integration agreements. The use of the expression PTA underlines the preference that is given to the partners involved in the negotiation, thanks to the concluded agreement (Dür, Elsig, 2013: 1). In any case, they should not be confused with non-reciprocal agreements, where the concessions made by the negotiating partners are not the same, which are not the subjects of this work.

The WTO allows its members to enter into PTAs in order to grant more favourable treatment to the participating states than to the other WTO members, given that some requirements are respected. Members can conclude both WTO plus (WTO+) agreements, which go beyond what as already been agreed to at the multilateral level, and WTO extra (WTO-X) agreements, which deal with subjects that are not included in the mandate of the WTO itself (Horn, 2009). The rules are established in Article XXIV of GATT, which distinguishes between two distinct forms of PTAs, free trade areas (FTAs) and customs unions. In order to be GATT consistent, FTA members must liberalise trade between them, while custom unions' members must also agree on a common trade policy regarding the rest of the WTO states (Horn, 2009: 8). With respect to trade in goods, the WTO admitted PTAs need to encompass all or the majority of trade between the contracting parties and should not raise the level of protection with regard to the rest of the WTO members. Another scheme to establish a PTA envisaged by the GATT charter is through the "Enabling Clause", which allows differential and more favourable treatments (inconsistent with the Most Favoured Nation principle required by the WTO) only for arrangements entered into amongst less developed or developing states for the mutual reduction of tariffs in goods trade. With respect to trade in services, the rules are included in Article V of the General Agreement on Trade in Services (GATS), which mentions economic integration as the only envisaged form of preferential agreement. The article requires that an agreement has substantial sectorial coverage and do not increase the overall level of barriers against non-participants.

The first relevant element to notice with regard to PTAs is that they can be very heterogeneous: they can, in fact, cover a large number of subjects or otherwise be much more narrow, include a lot of countries or only few members, cover just one geographical region (in that case it could be correct to use the expression regional agreements) or different continents. In the following analysis it will be considered only the negotiated trade agreements signed between 1945 and 2009 covered by GATT Article XXIV, the "Enabling Clause" or GATS Article V (as analysed by Baccini et al., 2011[4]). First of all there could be bilateral, plurilateral, region-country, and inter-regional agreements (Baccini et al., 2011: 12): the plurilateral ones involve more than two countries that are not in the same region, while the inter-regional are concluded between two regional organizations or entities (however, they represent just 3% of the considered agreements). The figure below shows how the great majority (more than 60%) of the agreements are bilateral and this ratio is even bigger among the most recently signed PTAs.

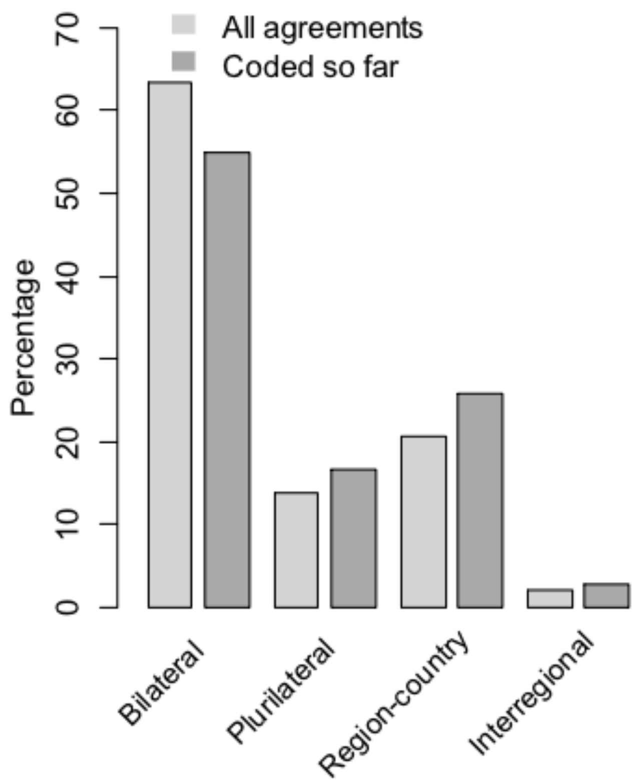


Figure n° 1: PTAs classified by type of the agreement[5]

[4] On the website of the authors of the study it is possible to find the detailed and updated data related to the project DESTA (Design of Trade Agreements) database, http://www.designoftradeagreements.org.
[5] Source: Baccini, L. et al. (2011). "The Design of Preferential Trade Agreements: A New Dataset in the Making", p. 12.

Figure 2 is devoted to the regional division of PTAs and underlines that the great majority of them involve some European countries. However, charts on the chronological evolution of the agreement (which will be presented in the following paragraph) show also that in the last years the greatest part of the concluded PTAs are cross-regional and involve more than one continent (also this figure highlights that this typology of PTAs amounts to more than 30% of the total). This kind of evolution has been especially favoured by the increasing involvement of the Asian countries in the process.

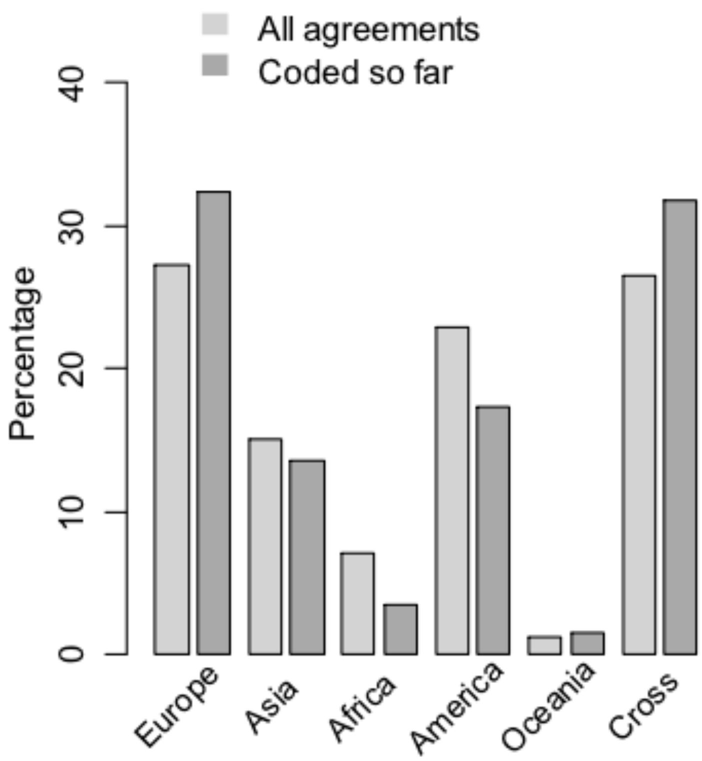


Figure n° 2: PTAs classified by type of the region[6]

To conclude this brief overview on PTAs, it seems also interesting to show how the great majority of them are concluded among developing and least developed countries (fig. 3). Even if this data depends on which countries are considered developed or not and could be improved, it help us to understand the complexity of the phenomenon that does not involve

[6] Source: Baccini, L. et al. (2011). "The Design of Preferential Trade Agreements: A New Dataset in the Making", p. 12.

only or primarily the developed world. On the contrary, the average African state is part of four agreements and the average South American country belongs to seven different agreements (Baccini et al., 2011: 1).

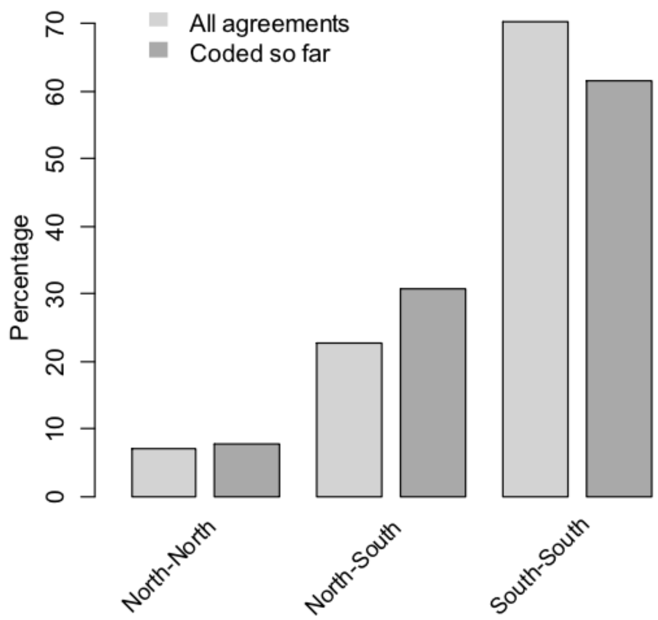


Figure n° 3: PTAs classified by level of economic development of the contracting parties[7]

1.3 The recent proliferation of PTAs and the evolution of the concept

In recent years there has been and an important and evident growth in the number of signed PTAs. The main reason that has pushed many states to open negotiation for PTAs has probably been the stalemate in the multilateral framework after the conclusion of the Uruguay Round, which has led to the establishment of the WTO in 1995. The Doha Development Agenda (DDA), which has been launched in 2001 with the intention to be completed by the end of 2004 (Lamy, 2002: 1400), has, in fact, stalled until 2013, when in Bali it has been achieved a, still very limited, agreement (Bendini, 2013). Apart from the

[7] Source: Baccini, L. et al. (2011). "The Design of Preferential Trade Agreements: A New Dataset in the Making", p. 14.

recent proliferation, new PTAs show original features, involve new regions that previously had only been partially affected by the phenomenon and include a larger number of provisions on trade related sectors than the ones signed until the 1990s.

States have been signing PTAs for a long time: even GATT, which has created the greatest multilateral trade system in history and has led to the establishment of the WTO, in 1947 was not anything more than a plurilateral agreement signed by 23 countries (Dür, Elsig, 2013: 4). Apart from the formation of the European Economic Community (EEC), in the GATT framework few countries showed some interest in establishing a PTA. Only in 1990s this tool was rediscovered and started a period of "new regionalism" in Eastern Europe, where after the Soviet Union dissolution there was a strong desire for new ways of cooperation with the western world, in America and also in Asia.

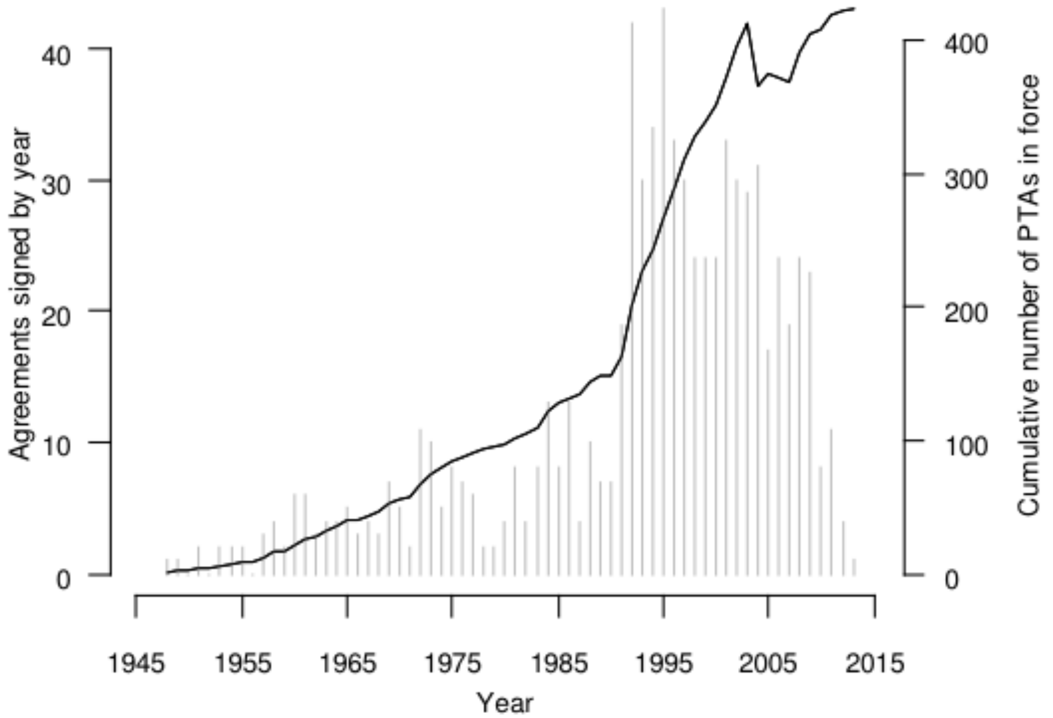


Figure n° 4: Number of PTAs, 1945-2013[8]

[8] Source: Dür, A., Elsig, M. (2013). "Introduction: The Purpose, Design and Effects of Preferential Trade Agreements", p. 6.

Among the around 700 PTAs that have been signed after the end of World War II, the large majority were concluded from 1990s. Only in 2009 twenty agreements were notified to the WTO and today all the members of the organization, apart from Mongolia, have entered in at least one PTA. Figure 4 and 5 clearly show this evolution, highlighting the European dominance in the process during 1990s (because of the agreements signed with former soviet states). By 1992, many countries that are quite active today, such as China or Japan, had not yet concluded a single PTA, while the majority of PTAs under negotiation today involve one or more Asian countries. Figure 5 shows not only the rise of Asian countries in the process, but also the considerable increase of cross continent agreements that have been concluded in 2000s, many of them which include also some Asian states. This recent development clearly makes not any more appropriate to use the label regional agreements. These new cross regional agreements include some of the most relevant and discussed ones, such as TTIP and TPP (Trans Pacific Partnership).

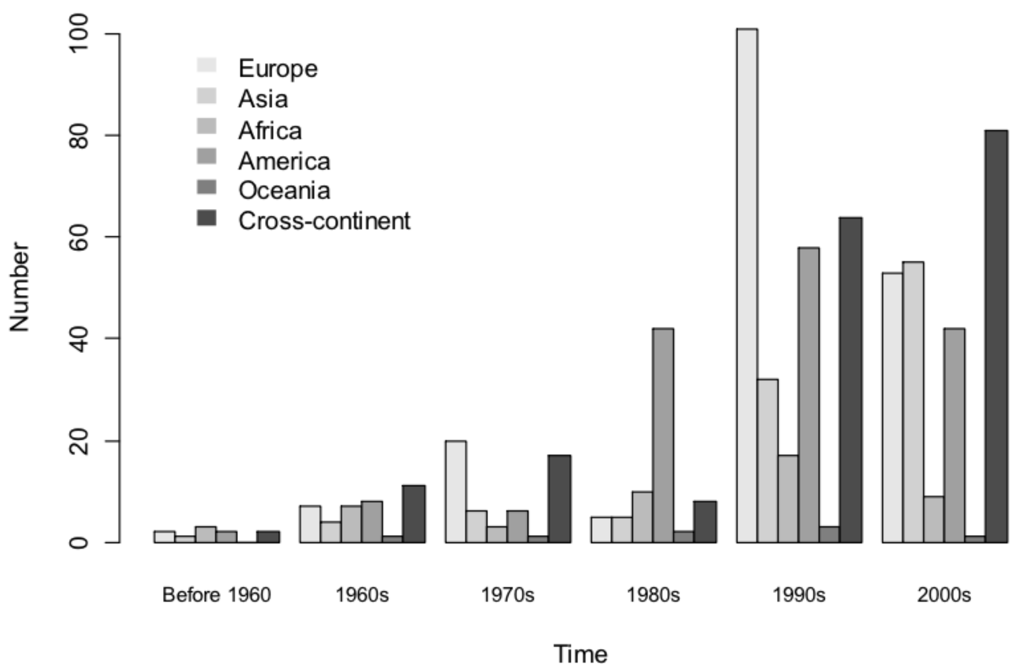


Figure n° 5: PTAs classified by regional distribution by time period[9]

[9] Source: Baccini, L. et al. (2011). "The Design of Preferential Trade Agreements: A New Dataset in the Making", p. 13.

Apart from the change in the most involved areas, recent PTAs tend also to differ on the content from the previous ones. They cover sectors that were not included in agreements signed in 1990s, which, apart from NAFTA, were limited to trade in goods. Newer generation of PTAs includes rules on technical barriers to trade, behind-the-border regulation, government procurement, investment protection, services, standards, and intellectual property rights (IPRs): the focus has consequently shifted from the reduction of tariff barriers to non-tariff barriers and the harmonization of the regulatory framework. Even if the agreements still mainly aim at facilitating market access for goods and services through the elimination or reduction of (tariff or not) barriers, they sometimes contain also commitments and norms concerning non-trade issues, such as the environment, the promotion of human and labour rights or security threats (Dür, 2007), which are areas that are not covered by the WTO agreements at all (Horn, 2009: 3).

1.4 The United States and European Union approaches to PTAs

1.4.1 The competitive interdependence in relation to third markets

The process of European integration has, since the beginning, caused some economic concerns to the American allies. The rather protectionist scheme of the Common Agricultural Policy (CAP) has always been the most disturbing element in America's side and has caused numerous conflicts between the United States and the European Economic Community (the first one already in 1960s' (Lundestad, 2003: 132)). Anyway, initially, these preoccupations were greatly counterbalanced by the positive political impact that the Americans attributed to the project. However, commercial disputes between the two shores of the Atlantic have not decreased in recent years and they have started to economically compete even towards third markets.

In the last decades trade between the US and the EU has dramatically increased up to the point that the two blocks have largely become the principal trade and investment partners on earth. At the same time, however, both the European Union countries[10] and the US increased their commerce with third countries and other commercial blocks. Within this context, both the EU and the United States are engaged in a form of structural competition aimed at concluding bilateral, regional and multilateral agreements with third countries and organizations in order to advance their economic interests (Sbragia, 2010: 368). The peculiar aspect of this relation, however, is that the EU and the US are both interdependent and competitors, aimed at contending the access to the same markets through the same tools; therefore the success of a policy is defined in relation to the other bloc. Competition for access to third markets has become a priority for both the US and the EU since mid-1990s' and has emerged as relevant element to shape trade policies of the two areas. This approach has been defined by some scholars as "*positional competition*" (Sbragia, 2010: 369) since, in trying to expand their global commercial reach through the establishment of PTAs, the moves of an commercial bloc are consistently influenced by the choices, the successes and the failures of the other one.

For a period the European Commission, through the action of Trade Commissioner Pascal Lamy (1999-2004), a strong believer in the power of multilateralism who afterwards became Director-General of the WTO, tried to follow a different approach based on multilateral negotiations, in particular in the World Trade Organization framework. The strategy was labelled as "*managed globalization*", since it was focused more on international collaboration rather than competition. However, as the US competitive liberalization approach was mainly directed at establishing Preferential Trade Agreements

[10] See the European Commission detailed trade statistics divided per geographic area: http://ec.europa.eu/trade/policy/countries-and-regions/statistics/regions/index_en.htm

with third countries, the EU risked to jeopardize its privileged access to key markets and was pushed to reshape and adapt its strategy.

The recent event that powered up this competing process was the conclusion of the North American Free Trade Agreement in 1994 between the United States, Canada and Mexico, which represented a potential threat for the EU since it established the largest trading regional bloc outside the EU itself (and also because of the strong commercial relations of the EU with both Mexico and Canada, which, as has already been underlined, had already concluded an agreement with the US in 1987). This was not the unique US attempt to extend its commercial reach through the conclusion of a PTA; indeed, immediately after the NAFTA conclusion, it started to negotiate with many Latin and Central America countries, Jordan, Australia, Morocco, South Korea, etc. This aggressive American approach forced the EU to restructure its trade strategy, especially after the announcement of the launch of the negotiations for a Free Trade Area of the Americas, which would have included the entire continent (however the project has never advanced because President Clinton administration failed to obtain the necessary negotiating authority by the Congress, which has almost always opposed these kind of initiatives, not really popular domestically).

It took time to completely shift the US foreign trade strategy from a multilateral to a bilateral policy but all recent presidents seemed to accept and promote this transformation. Bush's administration followed the strategy and managed to conclude the majority of the United States PTAs (ten) during his two mandates. However, this effort was partially undermined by the defensive measures adopted in response to the economic crisis and the sub-prime bubble and followed also by Obama, who, in the "*American Recovery and Reinvestment Act*" of 2009 introduced a protectionist "*buy American*" schemes in public procurement. Nevertheless Obama continued the effort of his predecessor and he gradually put in the strategy much more energy and conviction. He lunched the National Export Initiative (NEI) and invested vast government resources into a comprehensive strategy of trade and exports promotion. In his 2010 State of the Union speech he made his position absolutely clear stating that the US had to "*seek new markets aggressively, just as our competitors are*" highlighting that "*if America sits on the side-lines while other nations sign trade deals, we will lose the chance to create jobs on our shores*" (Bendini, 2014b: 5). Until now, he has managed to conclude a Free Trade Agreement with Panama and, especially, the KORUS FTA (free trade agreement between the United States of America and the Republic of Korea), which represents the most relevant trade agreement concluded by the US since NAFTA[11]. Moreover he has reaffirmed American commitment to the conclusion of TPP and officially launched the negotiations for TTIP, the two most ambitious trade initiatives launched in recent years.

As a response to the shift in America commercial strategy, immediately after the conclusion of NAFTA, the EU started the negotiation for a preferential trade agreement with Mexico and, in 1999, with Chile, in order to not be evicted from South American markets. In 2006 this became the official European strategy through the Communication from the European Commission "*Global Europe: Competing in the world*". At that time, the Commission was, for the first time, forced to recognise the paralysis reached in the Doha Development Round talks and that it was necessary to seek alternative ways to compete globally to have access to third countries markets. This Communication paved the way to a new period of bilateral deals, which had to go beyond tariff cuts[12], even if the

[11] United States concluded Free Trade Agreements, see http://www.state.gov/e/eb/tpp/bta/fta/c26474.htm .
[12] "*In terms of content new competitiveness-driven FTAs would need to be comprehensive and ambitious in coverage, aiming at the highest possible degree of trade liberalisation including far-reaching liberalisation of services and investment. FTAs should also tackle non tariff barriers through regulatory convergence wherever possible and contain strong trade facilitation provisions.",* for more details see: European Commission (2006). "Global Europe: competing in the world", p. 8-9-10.

issue of Free Trade Agreement was still approached with a lot of care and prudence. The approach was reaffirmed and reinforced by the 2010 Communication "*Trade, Growth and World Affairs (TGWA)*", which did not suggest particular innovations. The first European attempts to conclude negotiations with other relevant regional actors like MERCOSUR, the Golf Cooperation Council and ASEAN (the EU has been compelled to open distinct negotiations with ASEAN individual members, like for example Singapore, Malaysia, Vietnam and Thailand since regional negotiations did not advanced from 2007 to 2009) did not produce positive results; however the European Commission, since, after the entrance into force of the Lisbon Treaty, the Union Commercial Policy is an exclusive competence of the Union's institutions, has managed to conclude many other agreements in recent years, regaining the lost time compared to the United States that had undertaken this path years before. These agreements, alongside with the ones concluded by the US, will be summarised in the next paragraph.

Apart from the different temporal evolution that the US and the EU have followed, according to a study published by the think tank Bruegel (Horn, 2009), also the content of their recent trade agreements show some relevant differences. The study, which analyses the agreements notified to the WTO within October 2008 where the EU or the US is a partner, found that the European agreements contain much more WTO-X provisions than the Americans, that is to say that they go more frequently beyond the issues negotiated at the WTO level. However, in WTO-X areas, the European PTAs establish a great amount of obligations that have no legal standing and are not enforceable. This phenomenon of "legal inflation" (Horn, 2009: 7) is almost absent in the United States PTAs, which include a good number of legally enforceable undertakings in WTO+ areas.

1.4.2 American activism and European response: the state of art of concluded agreements

As a result of the process that has been presented in the previous paragraph, today the United States have concluded a conspicuous numerous of PTAs with 20 countries and are involved in the two most relevant negotiations at global level, for the TPP and the TTIP. Apart from NAFTA established in 1994, the first agreement concluded by the US has been with Israel. In 1996 the two countries signed the Agreement Concerning Certain Aspects of Trade in Agricultural Products (ATAP), extended in 2004 and for a second time in 2010. Only during the G. W. Bush era the United States have signed and started to implement their PTAs with Australia (entered into force in 2005), Bahrain (2006), Central America FTA (concluded in 2004 with the Dominican Republic and the five Central American countries Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, which at that time represented the first free trade agreement between the United States and a group of smaller developing economies), Chile (2004), Jordan (2006), Morocco (2010), Oman (2009), Peru (2009), and Singapore (2004). Also the PTAs with Colombia and Panama have been negotiated during this period and signed in 2006 and 2007, however they entered into force only in 2012 because they had much difficulty obtaining US Congress approval, due to the allegations of human rights violation against the Colombian government and the protests of the digital right activists related to the imposed changes of the Panama copyright law. On March 15, 2012 it entered into force the most recent, ambitious and most commercially significant PTA concluded by the US in almost two decades, the KORUS FTA.

The following map summarises what it has been described in this paragraph.

Figure n°6: Countries with Preferential Trade Agreements with the United States[13]

Even if the European Union could appear as "follower" in this new global strategy on foreign trade, especially because of the initial delay and the time that has needed to shift to a bilateral trade policy strategy, the recent activism could eventually transform it into the "leader" of the process in future (Sbragia, 2010: 379). Today the European Union has Preferential Trade Agreements in place with Chile (into force in March 2005), Mexico (the first Latin American country to sign a partnership agreement with the EU in 1997, which entered into force in 2000), Colombia (2013), Peru (2013), South Africa (2000), the Central America states (the countries involved are Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, 2013) and South Korea (2011). Similarly to the KORUS FTA, the EU-South Korea agreement is the first of a new generation of trade agreements and goes further than ever before in integrating the two economies.

[13] Source Fedex: https://smallbusiness.fedex.com/international/free-trade-agreement.html

In addition the EU has already in place Economic Partnership Agreements with African, Caribbean and Pacific (ACP) area countries, in particular with the fourteen Caribbean Forum (CARIFORUM) states, Papua New Guinea and the four Eastern and Southern Africa (ESA) countries (Zimbabwe, Mauritius, Madagascar, the Seychelles). It has also concluded but not yet applied a Deep and Comprehensive Free Trade Area (DCFTA) with the Eastern Neighbourhood (Moldova, Armenia and Georgia), part of the Association Agreements with these three countries, and with Ukraine, while the agreement with Singapore need to be agreed upon by the European Commission and the Council, before being ratified by the European Parliament. However some crucial negotiations, like the ones with Mercosur, ASEAN and the Gulf Cooperation Council, launched respectively in 2000, 2007 and 1990, have been suspended due to the lack of advancements and the EU has started to negotiate directly with member states (and in some case successfully, like Singapore).

On 16 September 2014 EU Trade Commissioner De Gucht has announced the end of the long negotiations on the Comprehensive Economic and Trade Agreement (CETA), the free trade agreement between the EU and Canada, whose negotiations have been launched in May 2009. The agreement is supposed to eliminate almost all tariff barriers and put the European Union member states on an even better position than the US under NAFTA's conditions as far as concerns services and investment market access. CETA is expected to be signed and officially transmitted to the European Parliament for final approval in 2015[14]. Moreover, on 17 July 2014 the EU and Ecuador have announced that Ecuador will join the EU's existing preferential trade accord with Colombia and Peru[15]. Figure 7

[14] De Gucth, K. (2014). *Statement on CETA*, see http://trade.ec.europa.eu/doclib/docs/2014/september/tradoc_152789.pdf

[15] See the annoucement by the Eurpean Commission, DG Trade, http://trade.ec.europa.eu/doclib/press/index.cfm?id=1129&title=EU-and-Ecuador-conclude-negotiations-for-trade-and-development-agreement

summarised the European position, showing both the countries with whom an agreement has been concluded and the ones with whom the EU is negotiating.

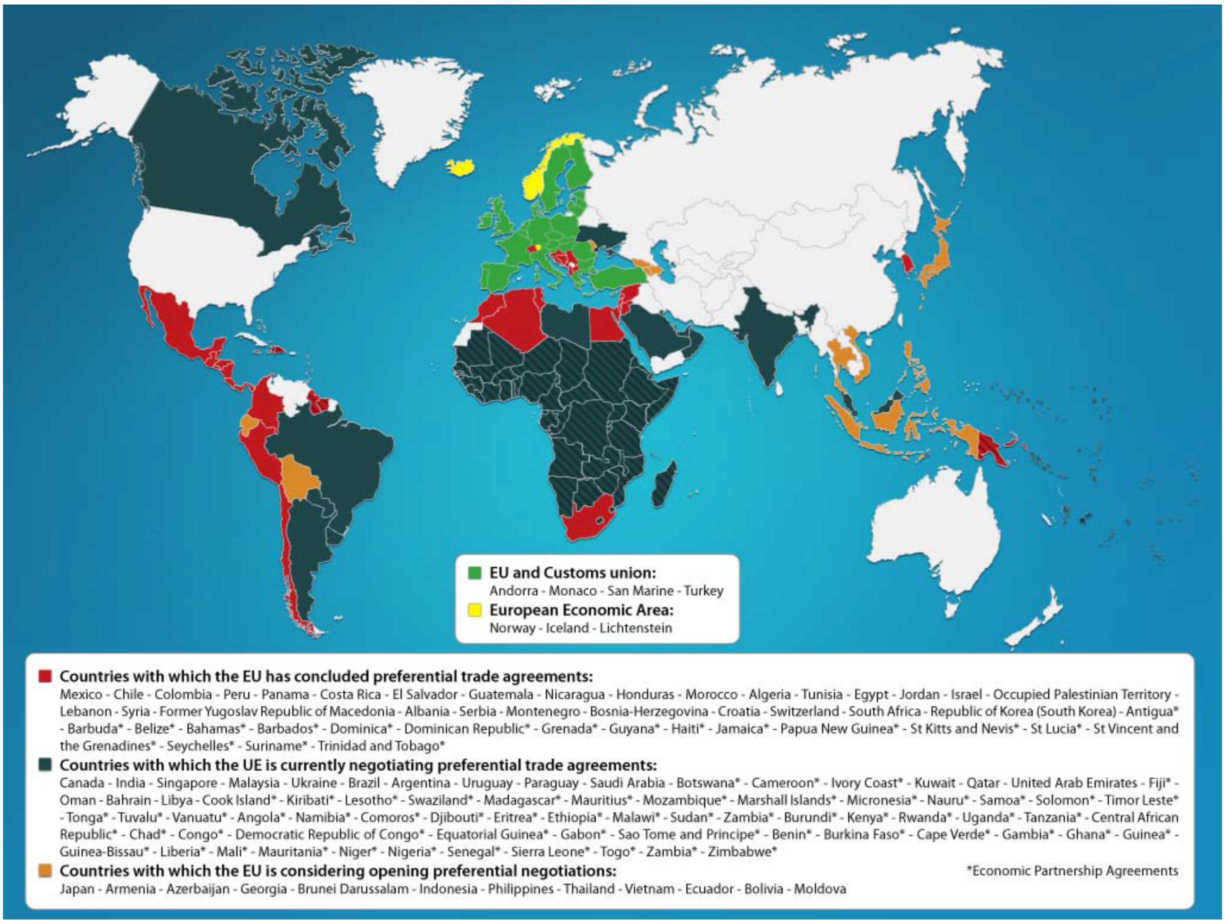


Figure n°7: European Union's trade agreements and current negotiations (updated in 2013)[16]

The role of the EU in the overall process will mostly depend on the outcome of the TTIP negotiations and the American ability to exploit its privileged position of being involved in two fronts, that is to say both in TTIP and TPP, and to secure maximum concessions from both negotiating partners (Bendini, 2014b: 15). However, Europe can still have the opportunity to not play the role of junior partner in a transatlantic partnership, for example taking into account and evaluating the geopolitical feasibility and the economic appropriateness of opening preliminary talks for a Free Trade Agreement with China, as

[16] Source European Commission, http://ec.europa.eu/enterprise/policies/international/files/ongoing-trade-negotiations_en.pdf.

proposed by Chinese President Xi Jinping on March 2014 during his visit of to the EU (Bendini, 2014b: 19-20); while, until today, the EU has only agreed to open the negotiation for an Investment Agreement with China, covering exclusively market access and investment protection.

PART II

TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP

"We need this deal to help solidify further the transatlantic alliance, to provide an economic equivalent to NATO, and to set the rules of world trade before others do it for us. There are many reasons why this agreement is not only important, it is vital".

Anthony L. Gardner, US Ambassador to the EU, 16 July 2014[17]

[17] Vincenti, D., (2014). "US Ambassador: Beyond growth, TTIP must happen for geostrategic reasons", in *Euractiv*, access on http://www.euractiv.com/sections/trade-industry/us-ambassador-eu-anthony-l-gardner-beyond-growth-ttip-must-happen.

Introduction

Before entering into the merits of the issue, I would like to deeply thank Mr Edouard Bourcieu, deputy head of Trade Strategy Unit in the European Commission Directorate-General for Trade, Mr Roberto Bencini, senior advisor at the European Parliament Directorate-General for External Policies, Policy Department, and Mr Carlo Pirrone, head of the commercial and customs policy unit of the Confindustria delegation in Brussels, for their precious reflections during the interviews they agreed to grant me; their contribution has been absolutely helpful to write the part of this work devoted to TTIP. I am also grateful to Mr Bob Vastine, member of the US Department of Commerce/USTR Industry Trade Advisory Committee on Services and Finance Industries and to Mr Pascal Kerneis, Managing Director of European Services Forum and a member of the TTIP Advisory Group of the European Commission for the ideas and opinions they presented during the 17 July 2014 seminar "Services in TTIP" organized by ECIPE. I used many precious reflections that have been suggested me during the interviews, which are present in the next chapters without being directly quoted.

TTIP is currently under negotiation between the European Union and the United States and aims at removing all trade barriers, tacking non-tariff barriers harmonising standards and regulations but also at opening markets for services and public procurements. The scope of the agreement is enormous, since, together with TPP, currently under negotiation too, represents the most ambitious trade agreement discussed in the last years and, if positively concluded, will probably mark a cornerstone in 21st century economic foreign policy relations (Bendini, 2014a: 21-22). It will create the biggest free trade area in the world, with the two involved areas representing the two world biggest trade blocks and accounting for almost half of the world GDP.

The talks started in July 2013 and the initial aim was to conclude them within the end of 2014; however the schedule has already consistently lengthened and the new objective to reach an agreement within 2015 seems very optimistic. The European Commission, which is conducting the negotiations for the European side, considers the agreement a key tool to drive future growth and create jobs in Europe. As a matter of fact, apart from its economic impact, TTIP could assume a crucial geostrategic role in revamping transatlantic relations, if the two sides managed to conclude a well-balanced and comprehensive agreement that can represent a sort of economic NATO (North Atlantic Treaty Organization), as argued by many experts, included the American Ambassador to the European Union Anthony Gardner (Vincenti, 2014)[18]. Other scholars, however, consider this scenario way too optimistic: Uri Dadush, former director of International Trade at the World Bank, is sceptical on the conclusion of the agreement and argues that expectations are too high since there are many complicating factors that can halt the process and that, even if the treaty is concluded, it will probably deliver much less than it promised (Dadush, 2013).

This work considers the Transatlantic Trade and Investment Partnership as the more recent step of the long process of structural integration and interconnection between the transatlantic countries. For this reason, before analysing specifically the TTIP negotiations, it seems appropriate to present a brief historical overview, in order to catch the main trends characterising the evolution of the transatlantic economy, that is to say the system of links and interconnections between the European and the American economic structures. A first part is devoted to some key moments in the evolutions of transatlantic economic relations (the interwar period, the Marshall Plan, the Bretton Woods framework); then there is leap ahead towards more recent issues, in particular the efforts to establish institutional

[18] The definition is, however, considered very much exaggerated and inappropriate by some scholars, for more details see, for example: Tentori, D. (2013), "The TTIP: an Ambitious Step Forward but Not an 'Economic NATO", in *ISN Blog*, 12 June. The European Commission does not share this point of view too, highlighting the evident differences between the economic and the military fields.

frameworks to foster transatlantic cooperation, such as the Transatlantic Economic Partnership (TEP) or the Transatlantic Economic Council (TEC), until the constitution of the High Level Working Group on Jobs and Growth, preliminary to the launch of TTIP. These initial elements will pave the way to the last part, devoted to the description of the transatlantic economy's state-of-art: the attention will be focused mainly on the key sectors addressed by TTIP, trade and investments, but it will also, more briefly, touch other issues, such as services and jobs. The third chapter will address the context, the content and the possible impact of TTIP. It is devoted to the description of the issues negotiated, highlighting the high importance of non-tariff barriers, the expected economic benefits, the more controversial and criticized topics and the possible global impact of the agreement.

This entire part aims at presenting the importance of this negotiation and the key elements, in order to explain why it could be interesting to try to foresee which kind of impact the agreement could have on the multilateral framework. As we have seen, in the last years a great number of PTAs have been concluded; all of them have could create relevant effects on the multilateral negotiations, however, TTIP, because of the importance of the parties involved and their great involvement in global trade, represents a particular case study worth to be analysed in more detail.

Chapter 2. TTIP's background: the transatlantic economy and its recent evolutions

2.1 THE HISTORICAL EVOLUTION

2.1.1 POLITICAL ISOLATIONISM AND ECONOMIC INTERVENTIONISM: THE US IN THE '20S

The interwar years represented a key moment both in world economic and financial history and, more specifically, in the emergence of a transatlantic economy. American policies in these years were deeply influenced by the intervention in the First World War and by the following rejection of the participation in the League of Nations. At the same time this period will profoundly affect American positions and strategies in the subsequent years, and even in the period after the Second World War. In fact, while in the 1920s' the three Republican American Presidents who succeeded W. Wilson at the White House, Harding, Coolidge Jr. and Hoover, proclaimed the American extraneousness to the European problems and tensions, the declared political isolationism was counterbalanced by a strong economic activism and interventionism in European affairs.

The transformation started with the American decision to enter in the First World War in 1917: during the war, and thanks to it, the United Stated became the largest exporter of military and civil goods to belligerent countries, and, especially, to Great Britain; when the British were risking the financial failure and their credit was expiring, the Americans decided to directly enter in the conflict to decisively shift the equilibrium in favour of their debtors, as it is asserted by Giovanni Arrighi (Di Nolfo, 2012: 18). It was not clear at that time, but this event marked the definitive end of European global hegemony, since the

European powers became dependent on the American capitals, markets and technologies. The unexpected length of the war forced the British, French and Italians to depend on the American loans and in few years the US passed from being an indebted country to the major creditor in the world. Even if, in the post-war period, in the country dominated the isolationist tendencies the war debts compelled the US to act in order to maintain an efficient world economy and prevented them to remain isolated from the European crisis: this contrasting drives led to a decade of American involvement without commitment in global and European affairs (1921-1931) (Herring, 2008: 436), based not on military intervention but rather on what Joseph Nye has later labelled as "*soft power*", determined from the emerging economic and technological superiority of the country (Herring, 2008: 439).

The main concern that pushed the US to be involved in European politics was the question of war debts and related reparations established by the Versailles Treaty. During the war, American's loans to the Allies amounted to \$10.35 billion but the inter-allied debts amounted to \$26.5 billion, since the US was mainly creditor towards the UK (but also France and Italy) while, in turn, France was indebted primarily towards the UK. In Versailles the Allies unanimously considered the loans as the American contribution to victory and argued that they should have been cancelled; Keynes smartly claimed that both European war debts towards the US and continental Europe debts towards Great Britain should be cancelled, in order to prevent additional tensions and crisis in the following years. Unfortunately Keynes' proposal was too advanced for the period; US position was different since they considered the loans as investments and their full repayment was demanded, not taking into account Europe inability to pay.

The only way European countries could repay their debts was through German reparations established in Versailles: even if the link between the debts and the reparations was not officially recognised by the US (Maldwyn, 1998: 481), the ultimate effect was that America was compelled to cooperate in the reconstruction of European, and especially German, economy, if it was interested in receiving the repayment of its credits. In Versailles it was agreed the amount of reparations that Germany had to pay to a total of 132 billion Golden Marks plus a 26% duty on exports. This sum would have been sufficient to repay the American debts, especially because more than 50% had been assigned to France. The system could have worked, but it depended on the very ephemeral assumption that Germany would have been able and willing to pay its debts (Di Nolfo, 2012: 26).

When in 1923 France invaded the Ruhr in reprisal against a German delay, German government not only stopped all the mining activities but also sustained a policy of uncontrolled inflation. American economy was too linked to Europe and had to react to the paralysis of the continent's economy: the solution was found in the Dawes Plan, a move that definitely broke with American supposed isolationism and launched a phase of strong economic interventionism aimed at protecting American possibility to invest in Europe, in a period during which US economy was characterized by a high level of liquidity. An international commission presided by the banker Charles Dawes, chair of the US Bureau of the Budget who kept the fiction that he was operating as a private citizen), assisted by the future Director of the Federal Reserve Bank Owen Young, designed a new reparations settlement. This initial compromise established to place on the world market a new loan of 800 million of new Reichmark, on theoretical guarantees on real German goods. German and French markets would have mainly financed the loan and therefore Germany would have started to repay its debt. However, the real functioning of the system was quite different since it was based on a much bigger American commitment. The loan was, in fact, largely subscribed by American financiers and investors who, in few years, brought to the German industrial system $2.5 billion. Hence, Germany was able to pay back to its creditors a roughly equivalent sum and the Allies paid $2.6 billion to the US as war-debts repayments.

Even if the system was really fragile and effectively worked for only few years, it indicates the level of structural interconnection that the US and European economies had acquired, which did not consent anymore to the US to be isolated from European affairs. The Dawes Plan, because of the great American effort, was a moment of non-return and represented a watershed in America economic foreign policy. Even if in the 1930s' the pacifist and isolationist sentiment dominated America, when the Second World War erupted it was very clear to President Roosevelt that, as in the 1920s', America's fate could not be separated from European events: a transatlantic economy was born and Europe was and would have been both the principal American marketplace and the centre of US investments.

2.1.2 THE IMPACT OF THE MARSHALL PLAN

While the interwar years had been a phase of transition when the US were starting to replace Great Britain as the world's leader, at the end of the war the centre of international system had definitively moved from London to New York. In this context, between 1948 and the end of 1951, the United Stated delivered the European Recovery Program (ERP), better known as the Marshall Plan. Even if it eventually became the greatest project aimed at European recovery, the origins of the aid program were connected to the German situation and to the American difficulties at managing it: Secretary of State Marshall, Under Secretary Acheson, Policy Planning Staff Director Kennan and Under Secretary of State for Economic Affairs Clayton designed a plan to use Germany as the engine to stimulate a much broader European recovery (Hitchcock, 2010: 156). While the economic effects of the plan are still object of a serious debate and its impact has been downgraded by some scholars, the political, historical and cultural significance of the Marshall Plan is out of discussion: it represented the crucial initial step towards the construction of what we know as the West, "*a community of ideas, economic links and security ties between Europe and the United States*" (Hitchcock, 2010: 154).

Apart from its impact on the beginning of the Cold War and the emergence of the European Community project, the most far-reaching political effect of the ERP was its contribution to the process of Americanization of Europe: through the Plan new ways of production and consumption were introduced in the Old Continent and the European governments, eager to overcome the destructions caused by the war and to favour a rapid reconstruction, started to adopt American inspired policies. The European countries and the United States, which were rather different in 1939, undertook a path of so strong and deep convergence that, in few years, a real transnational community was born, based on the principles of mass consumption, economic growth and similar high standards of living: the so-called West (Hitchcock, 2010: 172-173).

Turning to the economic effects of the Plan, it seems interesting to consider the hypothesis raised by Alan Milward (Milward, 1989) that the Plan has not been necessary to foster European recovery. First of all, it is necessary to hark back on some economic data to have a clearer understanding on the ERP. The plan lasted a bit more than three years, from April 1948 to the end 1951, and provided to Europe around $12.3 billion in aid (much less than the initial proposed amount of $25 billion and even less than European request of $28 billion). The countries that received the major parts of the funds were Great Britain (more than $3 billion), France (more than $2 billion), West Germany (around $1,5), the Netherlands and Italy (both a bit more than $1 billion).

Dean Acheson, Secretary of State under President Truman, wrote in his memoirs that, in 1947, economic crisis in Europe was so dramatic that the continent was on the point of a "*headlong destruction*" (Hitchcock, 2010: 159), hence arguing that the Marshall Plan was the decisive tool in addressing the situation. However, it is now agreed that this vision was overstated since at the end of 1947 European countries were already experiencing a recovery and France and Britain, for example, had exceeded the pre-war levels of industrial production. For this reason, many scholars got things in perspective and in recent studies downsized the impact of the Marshall Plan. Nevertheless, it is still prevailing the opinion that the Plan has been fundamental in promoting European recovery: Michael Hogan, for example, argued that, even if American capitals have been marginal in fostering the recovery, they represented the "*crucial margin*" that made the entire process possible (Milward, 1989: 233). This would imply that the ERP did saved Europe, as American agencies stated in commemorative occasions (Milward, 1989: 237), or even the world, as an ERP official wrote in his memoirs[19].

However, Milward asserts that European crisis in 1947 simply did not exist, except for serious dollar shortfall caused by the vigour of Europe resurgence (Milward, 1989: 237). American aid, which remained a small fraction of gross national product of the recipient countries (2,4 of Britain's, 2,9% of West Germany's, 6,5% of France, 5,3% of Italy's, etc.), sustained the already under way recovery process, by providing the dollars to import raw materials and capital goods. The impact of the Plan was different in each involved country and it is necessary to analyse the singular contexts to understand if the European countries could have continued their path of industrial and investments expansion even without the US aid program. According to Milward, all the countries, except France and the Netherlands, could have followed the same path they did under the Marshall Plan in the

[19] This is referred to Kindleberger, see Hitchcock, W.I. (2010). "The Marshall Plan and the creation of the West", p 154.

same time frame. France and the Netherlands would have probably needed more time, but they would not have experienced an economic collapse (Milward, 1989: 239). Even in West Germany, where the post-war scenario seemed particularly dramatic and, instead, the recovery was incredibly fast and successful, the contribution of the Marshall Plan has long been discussed. Some historians consider that American aid paved the way for further German investment, as Charles Maier put it: the Plan was "*like the lubricant in an engine, not the fuel, allowing a machine to run that would otherwise buckle and bind*" (Hitchcock, 2010: 164); other scholars was much more sceptical, as for example Werner Abelshauser that labelled the contribution of the ERP aid to German recovery as "*hardly noticeable*" (Milward, 1989: 247).

What it is deemed important to highlight is that, despite the fact that there is no agreement among scholars on the economic impact of the Plan and that would probably be impossible to ever determine if the European countries could have recovered at a similar speed without its implementation, the political, cultural and social effects of the Plan are not discussed and are generally recognised as a fundamental moment in the emergence of a transatlantic community. This implies that an economic measure could have also a big value in political and geostrategic terms: while, in fact, it is still doubted that the ERP was decisive from the economic point of view, it is certain that it was one of the main factor that contributed to create the transatlantic community based on the values that we use to share still today to the point that it is considered as "*one of the United States' most successful twentieth-century initiatives*" (Herring, 2008: 620).

2.1.3 The establishment of the Bretton Woods framework

From an economic point of view, the Unites States and is European allies started to cooperate already during the last part of the Second World War to build the architecture of a new post-war system. The aim was to establish a complex of global institutions and rules able to give life to systems as homogenous as possible. The first issue on the table concerned trade: the proposed ITO would have had the mission to reduce tariffs and foster the free commerce of goods; however the project was substantially undermined by the rejection of the American Senate. Anyway, in 1947 the first step towards the emergence of a multilateral framework for trades was done through the GATT, signed by 23 countries belonging to the Anglo-American area.

However, at the end of the war the main global economic problem was connected to the lack of international liquidity and its correlation with the need of reconstruction. Hence, the agreements concerning these issues were the most relevant and full of practical efficacy. The negotiations started in 1942 and terminated in July 1944, when the delegates of 45 Allied nations gathered in the area of Bretton Woods in the New Hampshire for the United Nations Monetary and Financial Conference. The results of the negotiations were the Bretton Woods agreements, which shaped the post-war international monetary order. Even if a well-functioning monetary system is absolutely useful for all the states since it permits them to exploit the gains from trades, the negotiation costs are very high and each state could be tempted to free ride. For this reason rarely states have been able to create a stable international monetary order and many international conferences on these issues failed (1870s, 1920s, 1970s) (Eichengreen, 2008: 4). The majority of the monetary arrangements have arisen spontaneously through the choices of different countries based on the historical circumstances and on the behaviours of neighbouring countries: the most well-known example is the classical gold standard. Hence, a monetary system based on negotiated agreements is an exception in the history of the international monetary system. The Bretton Woods order is the most recent and famous experiment. The emergence of this system was possible because of some relevant factors: there was a widespread will of avoiding the monetary chaos of the interwar period; during and after the Second World War the Allied countries were linked by a strong feeling of political solidarity because of the fights against the Nazi (before) and the Communists (after) (Eichengreen, 2008: 4); the political leverage of the United States at that time was enough strong to discourage free riding and to attract many countries in the system. However, it should be noted that the system lasted for few years: the declaration of par values by thirty-two countries that marked the beginning of the new order was made in 1946 and it definitely collapsed on August 1971 with the Nixon Shock. Anyway, the full convertibility phase started only in 1958 and in 1968 the Gold Pool ended. Therefore the system was fully effective only 9 years.

The majority of the economists and policy specialists that worked on the post war settlement were inspired by Keynesian ideas and all shared a set of common interests: the new world should have been characterized by a multilateral order, with monetary practices subject to arrangements to make possible the application of Keynesian economic policies. These ideas received a favourable reception both by the public opinion and the political leaders since all, at that time, were dissatisfied with the precedent order. The principles on which the Bretton Woods agreements were based reflected the historical moment in which the proposals were formulated: the experts were influenced by multilateral liberalism and welfare state concept (Ikenberry, 1992: 294).

Even if the American and British experts shared many ideas, there was a crucial antagonism: the main US objective was to create an open trading system, while the British would have preferred to maintain the imperial preference system, established with the 1932 Ottawa Agreements. Moreover, two different proposals were elaborated for the Bretton Woods Conference: one by the US Treasury economist Harry Dexter White and the other by John Maynard Keynes, adviser to the British Chancellor of the Exchequer. The two plans presented many differences but the intents and the approach were not so distant. Hence, there was substantial disagreement with respect to a key issue: the future access to international liquidity. Keynes proposed to establish an international clearing union with the authority to create and manage up to 30 billion of a new international currency (the so-called bancor) to correct payment imbalances: this would have been a sort of world central bank aimed at preventing both chronic balance of payments deficits and surpluses. This provision, which penalized permanent surpluses, would have affected the United States that, thanks to its hegemonic position, proposed a different plan that, finally, prevailed: instead of the clearing union, it was created the *International Monetary Fund* (IMF), with very limited resources and unable to generate any currency. American's position was justified by the fact that the US emerged from the war as the strongest power and it expected to be a creditor nation, while the United Kingdom, strongly weakened by the two wars, expected to be a debtor nation (Bordo, 1993: 31).

The IMF was supposed to became an international permanent forum for the cooperation on monetary matters, to force the states to reach agreements and avoid the re-emergence of a situation like the one of the inter war period in which the states had not been able to cooperate to shape the international economic environment in an ordered way. The Fund had its resources, given by the member states through a system of quotas, and each state could borrow foreign currencies from it to finance short or medium term payments disequilibria. The creation of the Fund should have encouraged the development of the principle of collective responsibility in the management of the monetary interactions.

Anyway, since the number of quotas possessed determined the voting rights, the hegemonic position of the US was absolutely evident from the beginning: the country, in fact, possessed a third of the IMF quotas. The Unites States became in this way the money manager of the world and the main source of global liquidity growth and the centrality of the dollar in the system increased impressively. The other fundamental institution designed at Bretton Woods was the *International Bank for Reconstruction and Development*, known as the *World Bank,* which became operational in 1946 with the initial aim of conceding loans to finance the reconstruction efforts of European nations after the war.

The system revealed itself useful in creating an international economic system conducive to prosperity, contributed to the reconstruction and the modernization of the economies of the Western countries and to shape an integrated Atlantic economy. During the Bretton Woods period, especially the nine years characterized by full convertibility, it was experienced a real per capita GNP growth more rapid than in any other previous or successive monetary regime: this gives the idea that the system was not only stable but also able to ensure growth. The economic boom in Western Europe (and also in Japan) reinforced the cohesion within the block and the faith in capitalism and in the market economy model.

In the Bretton Woods framework, the Americans did the best to promote their interests without coercing other countries, legitimizing in this way their hegemonic role (Ikenberry, 1992: 320). In this way, they managed to base their hegemony on a specific complex of institutional arrangements (Arrighi, 2010: 23) and to reinforce the cohesion within the western block (Maier, 2010: 44), from that moment onwards characterized by capitalist economies based on a functioning market economy and a multilateral system of trades. The Bretton Woods order functioned for a quarter of a century because the monetary cooperation and agreements were part of a larger and interlocking web of political bargains related to the Cold War setting. The system drastically changed in 1971 when the US President Nixon took the unilateral decision to close the gold window and put an end to the Bretton Woods order, without even consulting the European allies. This decision created a fracture in transatlantic relations and pushed the European leading countries to take autonomous initiatives[20].

2.2 THE RECENT DEVELOPMENTS

2.2.1 THE NEW TRANSATLANTIC AGENDA

This paragraph does a leap ahead to focus on more recent evolutions, much more directly linked to the TTIP negotiations. Some important facts will be neglected, but the focus will be on the key moments that have led to the launch of the TTIP negotiations. From this moment on, the attention is shifted from the single European states to the entire EU, taken almost as a unique entity. For this, the reasoning starts from moment when diplomatic relations have been officially established among the United States and the European Union.

Diplomatic relations between the European Communities and the United States started long time ago, in 1950s', when, in 1953, the US sent some observers to the European Coal and Steel Community, then, three years later, they established an official Mission in Luxembourg and in 1961 in Brussels. In the same period the European Commission opened a delegation in Washington DC. However, only in 1990, with the signature of the Transatlantic Declaration during the Paris Summit, the relationship was officially formalized[21].

[20] The reference here is to the initiatives taken within the EEC, such as the creation of the European Monetary system and the acceptance of new members.
[21] see: http://eeas.europa.eu/us/index_en.htm.

This document opened a political dialogue on many levels, based on regular exchange of information and organization of periodic meetings focused on economic, science and cultural matters. After recalling the common goals and the principles of the partnership, the Declaration identified some specific macro-areas of cooperation: first of all on the economic field, aimed at promoting and strengthening the multilateral trading system and supporting further steps towards liberalization; then, it intended to promote collaboration on the educational, scientific and cultural fields through the organization of exchanges and joints projects and, lastly, common transnational responses to transnational challenges such as terrorism, international crimes, measures to protect the environment and to prevent the proliferation of nuclear armaments, chemical and biological weapons. In order to pursue these aims, a framework of regular consultations was established including bi-annual consultations between the President of the US and the Presidents of the European Council and the Commission and bi-annual consultations between the European Foreign Ministries and the US Secretary of State.

However, these meetings were not particularly productive since many leaders were mainly focused on domestic priorities and specific problems. In response to the increasing concern and thanks to the positive disposition of Clinton administration towards the EU, in 1995 at the Madrid Summit was launched the New Transatlantic Agenda (NTA), which aimed at supplementing the 1990 Declaration in substance and in process (Burwell, 2003: 5). Even if this document has almost being ignored in international relations analysis, the NTA and the associated Joint Action Plan reflected the state of art of transatlantic relations and a new basis to face security challenges, more and more of transnational nature (Monteleone, 2003: 87). It added to the already fixed objectives to promote stability and democracy, respond cooperatively to global challenges develop closer economic relations and favour world trade, the broader general and ambitious aim to build bridges across the Atlantic;

moreover, for the first time, it was proposed the creation of a New Transatlantic Marketplace, with the aim to reduce and progressively eliminate tariff and non-tariff barriers. The NTA reinforced and institutionalized many already existing contacts and relations and led to the creation of sectorial Transatlantic Dialogues between consumer groups, environmental associations, labour associations (the Transatlantic Business Dialogue, which in the following years has been very successful, had already been created few months before) and a Transatlantic Legislators' Dialogue. According to the American Ambassador to the European Union Stuart E. Eizenstat, the NTA represented "*the most ambitious programme of cooperation ever established by the EU with another country*" (Monteleone, 2003: 93).

However, even if the design of the NTA and the related Action Plan proved to be flexible to changing circumstances and to face new emerging challenges, it failed on many aspects and reached only moderate results. The accomplishments of the strategy include the formation of a class of diplomats, who meet regularly and are very prepared on US-EU relations and a continuous process of information sharing; still, at the same time, after 1995 neither economic disputes between the United States and the European states nor the moments of political tension decreased. However, in addressing the NTA, it should be noted that after 1995 the world and the Atlantic community changed very quickly: the attack to the Twin Towers in 2001 and the process of reform and enlargement of the EU reshaped consistently the foreign policy's priorities of both the US and the EU's member states.

2.2.2 Recent attempts of economic cooperation: the Transatlantic Economic Partnership and the Transatlantic Economic Council

Among the objectives fixed by the NTA there was a broad commitment to economic liberalization, while the most ambitious chapter of the Joint Action Plan aimed even at building a "*new transatlantic marketplace*" through increased regulatory cooperation. These political efforts have been combined with similar agreements specifically focused on economic issues: the first one was the Transatlantic Economic Partnership (TEP), launched in May 1998 at the London Summit, and its Action Plan that fixed specific target and related deadlines, agreed at the beginning of November of the same year by the European and American administrations. Notwithstanding the institutions established by the NTA and their purpose to prevent and settle any eventual dispute, precisely in those years high-level commercial disputes between the US and the European Union were proliferating, and continued to increase after 1995, up to the point to create a "*system friction*" in a growing number of areas such as food safety, taxation, copyright protection and accountancy standards (Pollock, 2003: 18). The most well-known episodes concerned both traditional trade disputes on discriminatory national measures, such as the one on bananas, and new style disputes on behind-the-borders regulations (Pollock, 2003: 17), such as those on genetically modified organisms and hormone-treated beef (the issues are still very much debated during nowadays TTIP negotiations).

In this context the European Commission decide to launch the negotiations aimed at establishing a new transatlantic marketplace focused on four very ambitious and not easy achievable pillars: the complete removal of technical barriers to trade goods, the progressive elimination of industrial tariffs, the establishment of a free trade area in services and further liberalization in other enumerated key areas; however, France opposition led to the failure of the proposal within the Council of the European Union. Still, the Commission did not abandon the plan and decided to present a more limited proposal: the TEP, which includes both multilateral and bilateral elements and was mainly focused on tackling regulatory barriers and fostering additional liberalizations. More clearly, the aim of the partnership was to increase market access for goods, services and agricultural products, to foster both bilateral and multilateral liberalization and to deepen the dialogue between the representatives of the transatlantic civil society.

Moreover, the TEP established new institutions in order to strengthen the incentives to cooperate and reinforced the role of others already existing. Beyond the US-EU biannual summits between the Presidents of the US, the Commission and the Council, the Senior Level Group in charge of the definition of the summits' agenda and the NTA task force designated to follow specific dossiers in the economic field, the TEP established some specific bodies such as the TEP Steering Committee, which is composed by the US Deputy Assistant Secretary of State for Economic Affairs, Commission officials and a Council Presidency representative and has evolved into the leading body for coordination in economic relations, and the Working Groups, which help the Steering Committee at identifying areas of possible cooperation in each sub-sectors included in the TEP. In order to prevent other commercial disputes, the TEP introduced an Early Warning system, aimed at spotting at the earliest possible stage potential emerging disputes. The task was assigned to the Steering Committee, however, since the system did not impose to pause or reconsider the regulation or the legislation object of the dispute, it did not guarantee at all to limit or solve potential conflicts. The other bodies considered relevant to ensure an effective cooperation were the Legislators' (TLD) and the civil society Dialogues, already established by the NTA or even before. While the first one has failed to live up to the initial expectations, the others have been more successful, in particular as far as concerns the Transatlantic Business Dialogue (TABD) and the Transatlantic Consumer Dialogue (TACD). The TABD is the most organized and influential Dialogue, calling from the beginning for the reduction of non-tariffs barriers and the mutual recognition of standards; it also actively participates in the Early Warning System.

In 2001, when the European Commission reviewed the NTA system, it highlighted the existence of some evident weaknesses, especially linked to the demand for "deliverables" at six months intervals and the absence of medium or long-term priorities (Pollock, 2003: 15). However, despite the weaknesses of the system, which was not designated to create binding reciprocal obligations but rather to encourage a culture of cooperation and dialogue and to favour a progressive harmonisation of the approaches between the US and the European policy makers, the Commission highlighted the utility of TEP in developing a cooperative agenda in the trade and investment areas and its importance as forum of discussion; nonetheless the need for adjustments was not hidden (European Commission, 2010: 3). A study directed by Eric Philippart and Pascaline Winand concludes that the TEP has been useful and successful in promoting the creation of a transatlantic marketplace, while it has failed to coordinate the EU and the US efforts in multilateral fora such as the WTO (Pollock, 2003: 16).

Since in the 2000s' non-tariff market barriers represented the first obstacle in transatlantic trade, the Germany Chancellor Angela Merkel and the President of the European Council Steinmeier at the 2007 EU-US Summit held in Washington pushed to sign the "*Framework for advancing transatlantic economic cooperation between the EU and the US*", which, basically, established the Transatlantic Economic Council (TEC). The aim of this new agreement was not particularly different from the precedent, since it was focused on the attempt to reduce regulatory burdens by intensifying sector-by-sector regulatory cooperation (annex 1); furthermore it identified some lighthouse priority projects, namely intellectual property rights, secure trade, innovation and technology, financial markets and investment (annex 2). The new tool was represented by the TEC, which aimed at establishing a more binding framework. The TEC is co-chaired by a US Cabinet-level official in the Executive Office of the President (currently the deputy assistant to the president and deputy national security adviser for international economic affairs Michael Froman) and by a Member of the European Commission (currently European Trade Commissioner Cecilia Malmström) and aims at guiding the works between the Summits, adopting work programs and, more generally, supervising the efforts outlined. Even if the tool produced a set of working arrangements and initially seemed to respond positively to the expectations, since the second meeting it produced very few and modest results (Bendini, 2014b: 12-13), the precedent conflicts persisted and in 2010 the last official meeting was held, even if the Council is still officially existing and operational.

2.2.3 The High Level Working Group on Growth and Jobs

Neither in the European Commission Communication "*Global Europe*" (2006) nor in the following "*Trade, Growth and World Affairs*" (TGWA) (2010) there was any specific reference to the possibility to establish a free trade area between the European Union and the United Sates, even if both Communications aimed at establishing a new European approach to foreign commercial policy based on the conclusion of preferential trade agreements with key strategic partners. In *Global Europe,* notwithstanding the recognition for the first time of the importance of the PTAs as tools of foreign trade policy, considering the stalemate in multilateral negotiation at WTO level, there was only a minor reference to the United States. It was stated that the European Union had to pay specific attention to the US, given the special relation between the two blocks, but there was no commitment to launch a PTA negotiation with Washington. The communication TGWA, which revised and superseded *Global Europe*, did not add any new objective in this area and it only stressed the relevance of non-trade barriers (NTBs) as the principal obstacle in transatlantic economic cooperation: "*the biggest remaining obstacles lie in the divergence of standards and regulations across the Atlantic, even though we have very similar regulatory aims. The stakes involved are high, as illustrated by a recent study suggesting that removing only half the non-tariff barriers from trade with the US would result in a 0.5% increase in EU GDP*" (European Commission ,2010c: 11).

However, the idea to establish a Trans-Atlantic Free Trade Agreement (TAFTA) is not new as it was proposed, the most recent time before the launch of TTIP, in the post-cold war scenario and immediately after the conclusion of NAFTA in 1995 by the Minsters of Foreign Affairs of the United Kingdom and Germany, Malcolm Rifkind and Klaus Kinkel. Anyway the proposal, after an intense but quite short debate, did not gain momentum and was abandoned since it was considered both "*too small*" (tariffs between the two shores of the Atlantic were, and are, already very low) and "*too big*" (just as today, many interests were touched in such ambitious project) (Ries, 2014: 2). Moreover, both the Americans and the European leaders feared that the conclusion of a big preferential trade agreement could ultimately undermine the multilateral system that had just been reinforced through the establishment of the WTO.

The proposal re-emerged quite unexpectedly in 2011, since as already seen, it was not included in the TGWA strategy, published just the year before. The decision was mainly taken by the Obama administration at the beginning of the President's first mandate that, after some cautious initial months, started to greatly count on an aggressive trade policy in order to revamp both American global role and domestic economy after the crisis.

The first step towards the beginning of TTIP negotiation was the establishment of a High-Level Working Group on Jobs and Growth (HLWG) at the EU-US Summit meeting held in November 2011 aimed at developing a strategy for new transatlantic trade negotiations. The Group was created under the auspices of the TEC and leaded by US Trade Representative Ron Kirk and the former EU Trade Commissioner Karel De Gucht. It should be noted that a similar group was established also before the start of the negotiation for NAFTA. The fixed objectives of the HLWG were to examine policy options in areas such as: "*conventional barriers to trade in goods; reduction, elimination, or prevention of barriers to trade; opportunities for enhancing the compatibility of regulations and standards; reduction, elimination, or prevention of unnecessary "behind the border" non-tariff barriers…"* (White House, 2011) and to suggest to transatlantic political leaders the practical tools necessary to implement the best measures that they would have identified.

The growing American interest in working to reinforce the Atlantic partnership was proved by a speech delivered by the Secretary of State Hillary Clinton at the Brookings Institution conference in November 2012 in which she argued that "*President Obama and I made clear that if we were going to make progress, we had to do the hard work of renewing and reinvigorating our partnerships around the world, and that began with Europe*" (Clinton, 2012: 4) and highlighted the relevance of economic cooperation in transatlantic dialogue: "*at a time when countries are measuring their influence as much by the size of their economies as by the might of their militaries, we have to realize the untapped potential of the transatlantic market. This is as much a strategic imperative as an economic one*" (Clinton, 2012: 11).

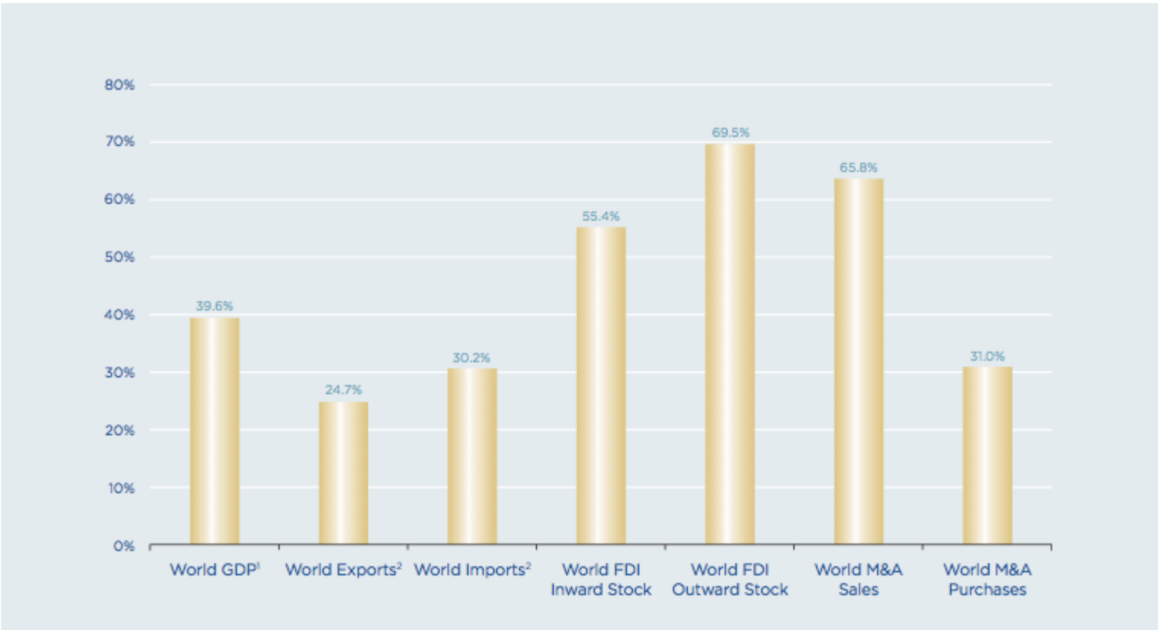
In June 2012 the HLWG released the interim report, which enumerated the areas that should have been included in a transatlantic agreement: reducing or eliminating tariffs, regulatory issues and non-tariff barriers, services, investment, government procurement, intellectual property rights and rule-making for the 21st century. The HLWG final report was issued in February 2013 and suggested general recommendations for the structure and the contents of a future transatlantic preferential trade agreement. The report calls for the establishment of a "c*omprehensive, ambitious agreement that addresses a broad range of bilateral trade and investment issues, including regulatory issues, and contributes to the development of global rules"* (European Commission, 2013a: 6), tackling market access obstacles related to trade, procurement, investment and services and the negative effect of non-tariff barriers on trade and investment as well as supporting the development of shared rules in other key subjects, such as intellectual property rights, environment and labour.

By endorsing the conclusion of the HLWG's final report, Americans and Europeans political leaders implicitly committed to undertake the ambitious program framed in it aimed at deeply integrating the respective economic systems. On 13 February 2013, through a common statement from US President Obama, European Council President Van Rompuy and European Commission President Barroso, they launched the Transatlantic Trade and Investment Partnership as a way to promote growth, the creation of jobs, the development of global rules and the reinforcement of the multilateral trade system (European Commission, 2013b). President Obama immediately launched the project to the national audience, during the 2013 State of the Union speech: *"tonight, I'm announcing that we will launch talks on a comprehensive Transatlantic Trade and Investment Partnership with the European Union, because trade that is fair and free across the Atlantic supports millions of good-paying American jobs"* (Obama, 2013). After some months of consensus building upon the project in the European Union and within its member states, the European Council approved the mandate for the European Commission in June 2013 and the first round of negotiation was officially launched in July 2013. The details on the process and on the content will be presented in the following chapter.

2.3 THE TRANSATLANTIC MACROECONOMIC FRAMEWORK[22]

2.3.1 TRADE

This last part on the economic aspects of transatlantic relations will be devoted to present the macroeconomic framework, focusing mainly on trade and investments, that are the principal objects of discussion of the TTIP negotiation, and more briefly analysing the services and jobs sectors. Chart and graphs will be used in order to make clearer the main trends. There will be only minimal references to (recent) historical developments, while the focus will be on the actual state-of-art, whose knowledge is the basis to analyse the Transatlantic Trade and Investment Partnership negotiation, the expected gains and the most controversial issues.



Sources: UN, IMF, figures for 2012.
1. Based on PPP estimates.
2. Excluding intra-EU, Norway, Switzerland and Iceland trade.

Figure n°8: The transatlantic economy vs. the world - share of world total[23]

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[22] When not specified otherwise, data presented are from the annual survey of the American Chamber of Commerce to the EU and the Transatlantic Business Council, as synthetized in *The Transatlantic Economy 2014: Annual Survey of Jobs, Trade and Investment between the United States and Europe, vol. 1.*

In figure n°8, the economic data of the US and the EU countries are summed up and taken together in order to show the weight of transatlantic economy in the more general framework of global economy. As it is possible to see, in 2012, the US and European exports accounted for 25% of global exports while combined imports accounted for 30% of global imports. The main links that keeps together transatlantic economy is the level of Foreign Direct Investments (FDI): the US and the EU together accounted for 55.4% and a huge 69.5% of outward stock of FDI. Already from this very basic data, it seems possible to assume that the transatlantic economy remains a leading force in the global economy.

Let's move to the object of this paragraph and one of the main issues on the table of TTIP negotiators: transatlantic trade. Trade are the main subject of TTIP for a simple reason: the US and the EU are the principal trade partners in the world and are each other's main commercial markets. In 2013 European exports in goods to the US accounted to 288,239 million euros that corresponds to 16.6% of total exports, while the imports accounted to 195,989 million euros and 11.6% of total imports. Even if the imports from China were higher, EU trade in goods with the US was overall still superior, since it accounted to 14.4% of total European trade against 12.5% of trade between the EU and China. As far as concerns 2013 United States trade in goods, the exports to the EU accounted for 16.6% and the imports for 17.1%. Also in this case the imports from china were higher (19.4%) but the overall relation with Europe was stronger accounting for 16.6% of total trade in goods[24].

[23] Hamilton, D.S., Quinlan, J.P. (2014a). *The Transatlantic Economy 2014: Annual Survey of Jobs, Trade and Investment between the United States and Europe, vol.,* p. 18.

[24] The source of this data on the EU is DG Trade, European Commission; the source of data on the US is the US Census Bureau.

The level of EU-US merchandise trade doubled from the start of 21st century until today and in 2013 has reached an estimated $787 billion. The European Union countries enjoy a mounting trade surplus in relation to the US. From 2009 to 2013 the American deficit has doubled and last year amounted to $125 billion (8% more than a year before). However, this surplus is not equally distributed among European countries and in 2013 Germany alone recorded nearly half of it (it rose by 12.2% from 2012); other countries that enjoyed a consistent trade surplus in 2013 were France, Ireland, Italy and the United Kingdom. In the last year the US has manage to increase its exports towards Belgium (7.7%), the Netherlands (5%), France (3.8%), Italy (2.6%), while they have decreased in Sweden (-17.9%), the UK (-13.7%), and Ireland (-10.4%).

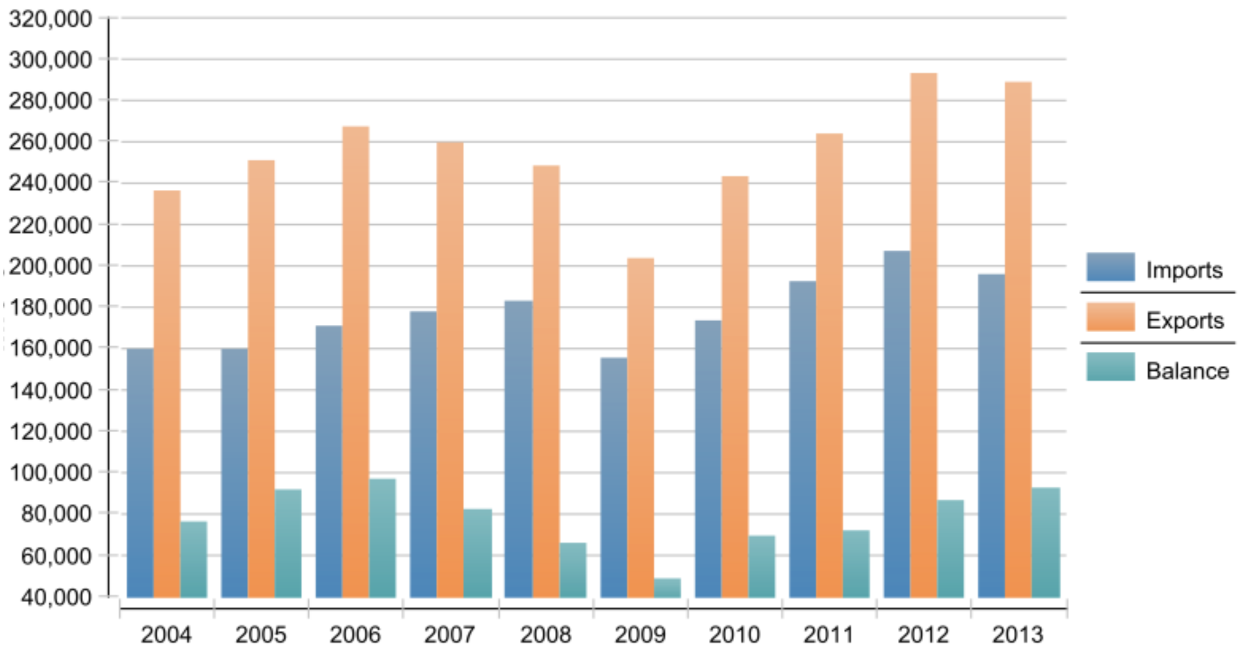


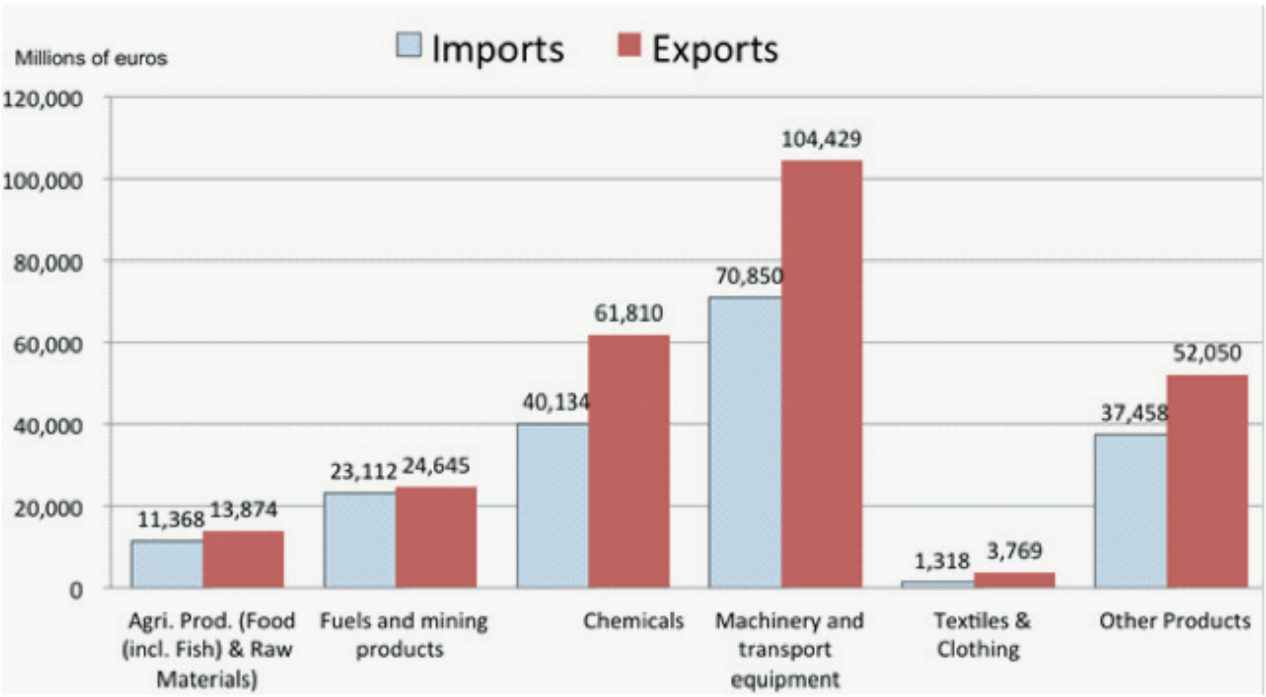
Figure n°9: Total goods: EU Trade flows and balance, annual data 2004 - 2013[25]

The picture is summarized by figure 9, which shows the evolution of the European Union imports and exports toward the US. Figure 10, instead, shows European merchandise trade with the United States divided by main sectors in 2011. It can be noted that the majority of

[25] Source EUROSTAT COMEXT.

imports and exports took place in the machinery and transport equipment sector. The second most important sector is chemicals. In both these sectors the European countries exports more than they import and record a strong commercial surplus (in the chemical sector the EU exports are even 50 per cent more than the imports).

This framework is, however, incomplete since goods trade accounts only for roughly 65 per cent of total bilateral trade[26]. In fact, in contrast, the United States consistently has services trade surpluses with Europe, which in accounted for nearly $67 billion in 2012. Forty-five of fifty American states continued to export more to Europe than to China, often by a wide margin. Even if it experienced a small decrease in exports to Europe, Texas was the leading US state exporter to Europe and sold more than three times as many goods to Europe than to China.



Source: Eurostat

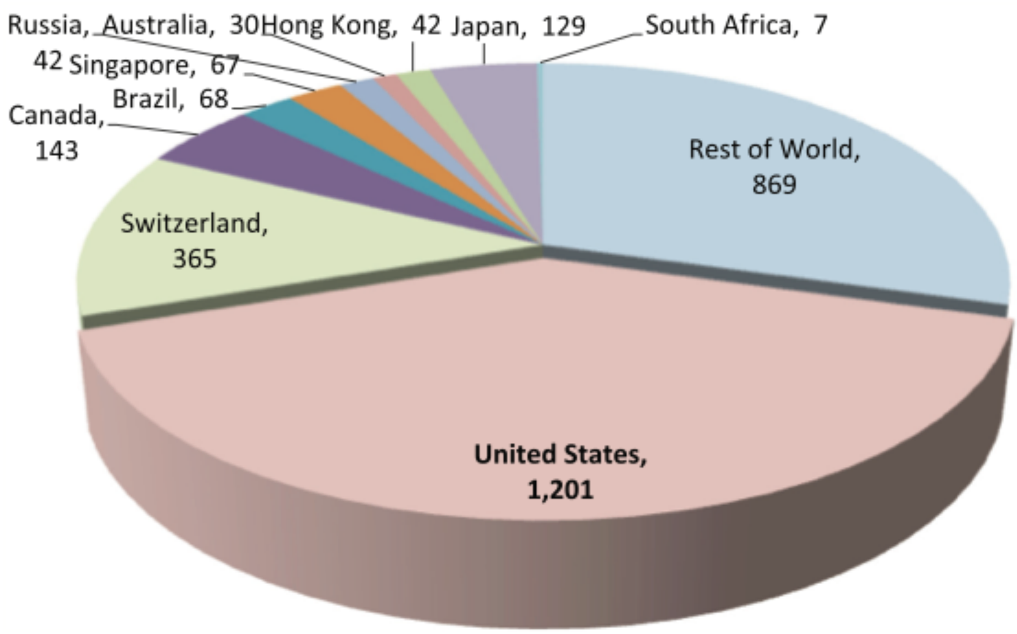
Figure n°10: EU trade in goods with the US by sector (in million euros), 2011[27]

[26] Source EUROSTAT.
[27] Francois, J., et al. (2013). *Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment,* p. 8.

2.3.2 FOREIGN DIRECT INVESTMENT

When analysing international commerce, it is not sufficient to consider the value of trade. This is a generally true assumption, but it applies even better to transatlantic economy: the real strength of it is constituted, in fact, by foreign direct investment, since in 2012 Europe and the Unites Stated, taken together, accounted for 55.4% of the inward stock of FDI and nearly 70% of outward stock, as it is shown in figure 8.

Furthermore, the two areas are each other's primary source and destination of FDI, which have evolved into an essential source of American and European economic prosperity. Europe has always been the place that has attracted the majority of US foreign investments but this trend has actually increased in the last years with the US outflowing to Europe 56% of total American investment in the world since the beginning of the new century.



Source: Eurostat

Figure n°11: Top ten sources of EU inward FDI stocks, 2010 (in 1000 million euros)[28]

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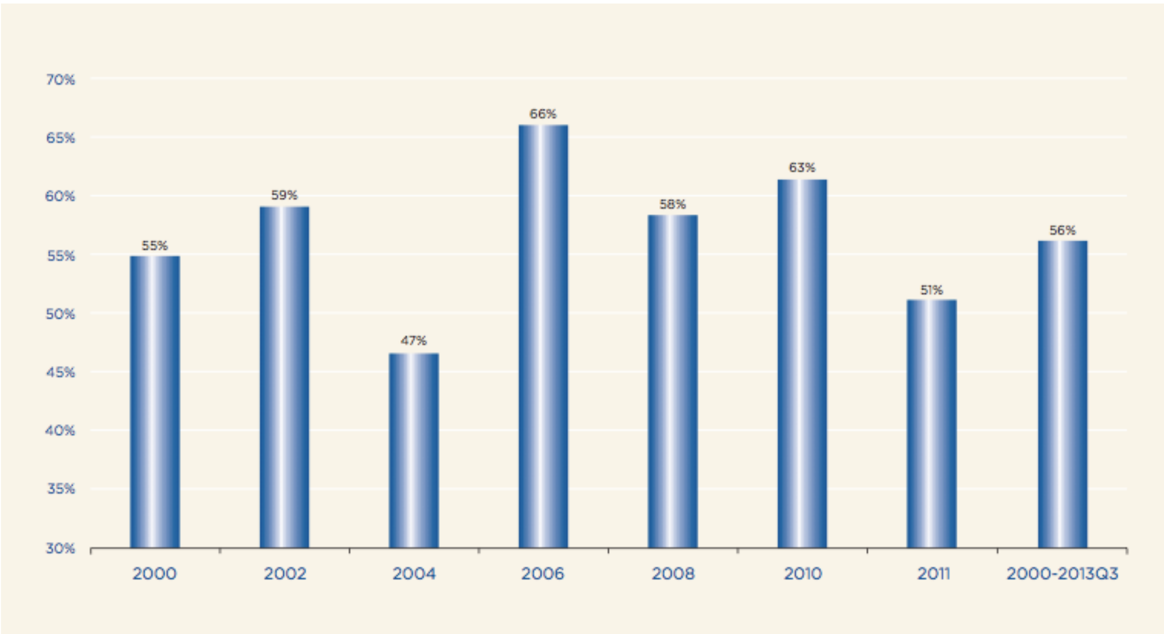
28 Francois, J., et al. (2013). *Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment,* p. 11.

Through figure 11, referred to 2010, it is possible to see as the US consistently emerges as the most important bilateral investment partner for Europe, owning four times more FDI stocks than Switzerland, which is European second partner.

After a precedent small decline, in 2013 American FDI outflows to Europe increased by 6%; however it was mainly directed to few states: The Netherlands, the United Kingdom and Ireland ($17.8 billion) were the three principal destinations in the first six months of the year and recorded over 70% of American investment to the European Union; the ratio is even more clear-cut if we take into account a longer period, in fact, since 2000, the three states have accounted for 79% of the total US Foreign Direct Investment in Europe.



Source: Bureau of Economic Analysis
Data through 3Q2013

Figure n°12: corporate America's bias toward Europe (US Foreign direct investment (FDI) outflows to Europe as a per cent of total)[29]

[29] Hamilton, D.S., Quinlan, J.P. (2014a). *The Transatlantic Economy 2014: Annual Survey of Jobs, Trade and Investment between the United States and Europe, vol.,* p. 8.

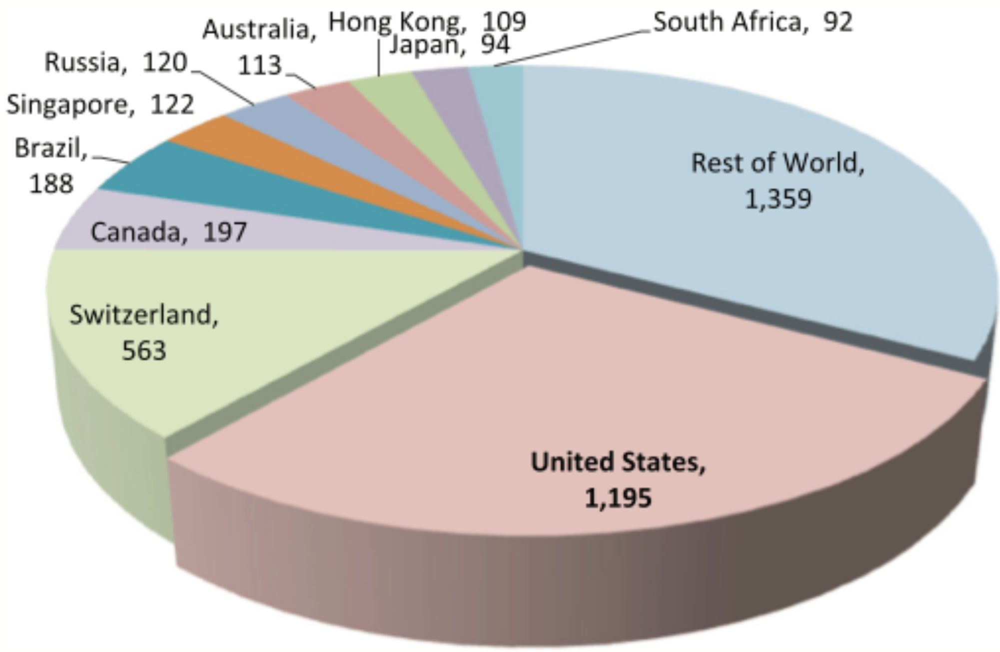
American Foreign Investments are shifting within Europe, not away from it: the trend shows that they recently increased in Denmark, Poland, Luxembourg, Central and Eastern Europe (in particular Poland and Czech Republic) and, even more consistently, in Ireland and The Netherlands. In contrast, the share of American FDI is declining in Belgium, France, Germany, Portugal and, more slightly, in Italy and Spain. In these last two countries the trend inverted in 2013. Even if the UK has conventionally served as the main platform for American affiliates in Europe, now the main continental market has become the Netherlands, thanks to its membership in the Single European market and adoption of euro.

To make the framework even clearer, it seems good to compare the level of American FDI in Europe to the ones in other areas of the world. Even if FDI in China recently started to rise, they accounts for 1.2% of US investment and are still lower than those in Ireland, the Netherlands or France alone. Since the start of the century United States firms' investments have been more consistent in in the UK or in the Netherlands alone than in African, Middle Eastern, South and Central American countries all combined, Italy has received more FDI than India, Brazil only one quarter than Ireland, the Netherlands received four times more than all the BRICs.

Furthermore Europe is the most profitable area for American firms that, in 2013, earned a record high $230 billion, which represents more than 57% of global American foreign affiliates income. This obviously means that if Europe experiences economic difficulties, so does a large part of American economic actors, given European influence on US companies' profits. This relationship has not changed in the last decade, notwithstanding the political disputes between the US and the EU member states and the consequences of the economic and financial crisis, at it is shown by figure 12.

From the other side, the inflow of European FDI to the US in the last years has declined;

however EU stocks in the US remains twice as large as the ones to Switzerland, the second host country of European investments (see figure 13, referred to 2010) and in 2012 European FDI to the US were four times larger than to China.



Source: Eurostat

Figure n°13: Top ten hosts of EU outward FDI stocks, 2010 (in 1000 million euros)[30]

However, as underlined before, FDI inflows from Europe to the United States have experienced a consistent decline in the last years (by 37% at the beginning of 2013 and 17.7% in 2012), caused mainly by the European financial crisis that has pushed European companies to downsize their foreign operations. Nevertheless this recent contraction, the US remains the principal market in terms of earning for European multinationals and their affiliates output in 2012 increased by 6,5% to a record high. Apart from European countries, only Canada and Japan are strongly present in the US, nonetheless their affiliate

[30] Francois, J., et al. (2013). *Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment,* p. 11.

output is well below that of UK while the German firms' output is similar to the Japanese one.

2.3.3 Services

Services represent the "*sleeping giant of transatlantic economy*" (Hamilton and Quinlan, 2014a: X) since the two blocks are the global top services economies and represent already each other's most important commercial partner and principal growth market as far as concerns services trade. To be more precise today Europe is the largest trader in services in the world, while the US is the largest single country.

In 2012 the European Union was leading all major categories of world services trade, notwithstanding the economic crisis that caused a decline in the export of services by 2.3%. On the contrary the US services exports grew by 5.5%. In contrast to what happens in trade, the United States recorded a trade surplus in services trade with Europe of $66.8 billion, caused by a very positive trend in recent years, during which US services exports to Europe doubled (in the eleven years lapse of time between 2001 and 2012) and Europe accounted for half of American services exports.

2.3.4 Jobs

An aspect that is often neglected in analysing transatlantic economic relations is the "exchange" of workers between the two blocks. Even if it is not treated within TTIP, it seems interesting to run over some basic information on it, especially because one the main aim of TTIP is to foster the creation of jobs. Notwithstanding the general conviction that American and European businesses are mainly interested in cheap workforce in Asia or

South America, the majority of foreigners working for US companies abroad are Europeans, and vice versa the most foreigners working for EU companies outside Europe are Americans.

Moreover, European companies operating in the US employ millions of American and US firms in Europe employ millions of European workers. To make things clearer, let's look over some numbers: US affiliates directly employ roughly 4.2 million workers in Europe; in 2012 US affiliates created 106,000 new jobs in the UK, 58,800 in Germany, 17,000 in the Czech Republic, 13,000 in the Netherlands and 7,000 in Spain, while, simultaneously, cut approximately 9,000 jobs in Italy and 40,000 in France. These numbers are not limited to 2012 but show a recent growing trend: in fact U.S. affiliates employed 1.8 million manufacturing workers in Europe in 2011, while only 1.6 million in 1990.

As for trade, the trend is different in each European country; therefore, for example, in the UK manufacturing employment among US affiliates declined from 431,000 in 2000 to 301,000 in 2011, while Poland experienced the opposite path and doubled the number of workers employed by United States affiliates up to 100,000.

On the other side, in 2012 European affiliates directly employed approximately 3.8 million American workers and two-thirds of all United States workers working for majority-owned foreign affiliates. The European affiliates companies that employed more in the US were from the UK, Germany, France, Switzerland and the Netherlands.

Chapter 3. The Transatlantic Trade and Investment Partnership (TTIP): a cornerstone in 21st century trade relations

3.1 THE CONTEXT OF NEGOTIATION

3.1.1 THE ROUNDS AND THE TIMELINE

Before starting to analyse the chronology of the negotiations, the rounds of meetings that have been organized until today and the hypothesis on the conclusion, it is necessary to highlight that the on-going negotiations are evidently very complex and time consuming, since this is one of the biggest and most complicated trade agreement that has ever been negotiated. The length, some period of stalemate and some delays with regards to the original envisaged path were to be expected. Anyhow, it is interesting to analyse how, at the launch of the negotiations, it was announced a very ambitious and predictably unfeasible deadline, which today the European Commission itself declines that has never constituted the concrete objective of the negotiating team.

The negotiations, in fact, started in June 2013, with the first round being held in Washington DC between 7 and 12 July 2013, and aimed at reaching an agreement within the end of 2014. This date was probably announced because former Commissioner for Trade De Gucht ended its mandate on October 2014 and Barack Obama had to face the mid-term elections in the same period: for these reasons, both politicians aspired to reach even a very basic agreement for that date. Today[31] the website of the European Commission still optimistically indicates as envisaged end of the negotiation mid/end of 2015. However, given the stalemate on some delicate issues and the rising criticism especially in Europe, this objective seems implausible. More realistically, many experts

[31] The information are updated in January 2015.

tend to fix a possible deadline for the end of 2017, when Barack Obama, who is a strong supporter of the project and has launched the process at the beginning of his first mandate, would finish his second mandate at the White House (even if it would be better to close the deal before the American 2016 Presidential race begin to bear down). The election of a Republican President in the US would risk, in fact, to further compromise the approval of the agreement or, at least, to block the process for some time.

According to Uri Dadush, former director of international trade at the World Bank, the negotiations cover so many complex sectors that there could be several complicating factors that could hold them up and even definitively paralyse them. He is even sceptical on the positive conclusion of the process and argues that, even if the agreement was concluded, this would almost certainly happen within 2017 and the end of Obama's mandate (Dadush, 2013). In a less pessimistic way, also former EU Trade Commissioner and Director-General of the WTO Lamy underlined how complex will be to conclude this PTA of new generation including the regulations of so many sectors. According to him, it is hard to imagine the end of the process within 2016, unless the partners decide to conclude a less encompassing deal (Lamy, 2014). Also other scholars have agreed on these points and argued that probably the political support of many European leaders and of the American President does not mean it is a done deal and will not be sufficient to smooth the process, since there could be other institutional actors less supportive of the project (some possible examples could be the American Congress, the European Parliament or also some members of the EU) (Donceel, 2013).

Until January 2015 there have been seven rounds of negotiations, which have been alternatively organized in the United States and in Belgium. The process was lunched during the G8 summit at Lough Erne, on 17 June 2013, three days after the approval of the negotiating mandate by the Council of the European Union. During the first round (8-12

July 2013) the 24 working groups, covering the single aspects that could eventually be included in the final deal, were established. The first limited delay in the process was caused by the postponement of the second round, from early October to 11-15 November due to the US government shutdown. The first three negotiating rounds were preparatory and focused on understanding each other's approach on the topics that could be included in the deal; only from the fourth round real negotiations have started. The seventh round, until today the last one, was held from 29 September until 3 October in Washington DC. The change of the EU Trade Commissioner and the US mid-term elections have slowed down the process; there have not been new rounds for few months, but now the next one is planned for the first week of February 2015, according to some European sources[32].

3.1.2 WHO DOES WHAT? THE PROCESS OF APPROVAL

In this paragraph it will be analysed the role of the different institutions and actors involved in the TTIP negotiations, both in the US and in the European Union, from the decision to open the negotiations until the end of the process with the possible final approval.

The three stages in this negotiating process are, as always, the approval of the mandate, the rounds of negotiation and the final decision. In the EU, on 14 June 2013, the EU Foreign Affairs Council approved the "negotiating mandate"[33], through which it gave to the Commission the guidelines to follow and allowed the start of the negotiations, since in the EU the Commission is the institution that has competency to negotiate international trade

[32] See for example: http://insidetrade.com.
[33] The official name of the text, which has been declassified on October 2014 and it is now publicly available, is *"Directives for the negotiation on a comprehensive trade and investment agreement, called the transatlantic trade and investment partnership, between the European union and the United States of America"*.

agreements on behalf of the EU member states. The document was initially classified and its content not publicly available, as it happens in the majority of international trade negotiations where a certain degree of confidentiality is considered necessary (Armanovica, 2014: 7). As response to the rising criticism, some aspects of these directives have been disclosed: an example concerns the cultural exception, required especially by France, which excludes the opening of the European audio-visual sector to competition from American firms. On 16 July 2014 the Commission has publicly confirmed that the mandate excludes from the talks any sectors with a strong cultural component. However, the rising protests on the lack of transparency of the process have pushed the Council to officially declassify the mandate and publish it online on 12 October 2014. This result was obtained thanks to the request by the Commission, which wanted to avoid public protests related to the secrecy of the negotiations, and to the commitment of some member states, included Italy which had the temporary presidency of the Council and through its deputy minister Calenda favoured the process within the Council. On 7 January 2015, the Commission, for the first time in the history of European bilateral trade negotiations, has also published seven textual proposals the EU has tabled for discussion with US negotiators, as part of the transparency initiative launched by new Commissioner for trade Cecilia Malmström.

Given the complexity of the talks and the wide spectrum of issues that are involved, the European Commission established a negotiating team composed by experts working in seven different directorates general[34] and leaded as chief negotiator by Ignacio Garcia Bercero, director at the Directorate General for Trade of the Commission and former coordinator of the EU-US HLWG. Both in between and during each negotiation round the team meet the relevant interested stakeholders in order to receive external input and

[34] The entire list can be found here: http://trade.ec.europa.eu/doclib/docs/2013/july/tradoc_151668.pdf

comments on the specific subjects on the table. These meetings are generally open to corporations, civil society organisations and NGOs members or even individuals with a direct stake in the talks; moreover the Commission is helped by the TTIP Advisory Council, composed by 16 individuals representing business and trade unions, consumer bodies and environmental and public health groups.

According to the Lisbon Treaty, once the deal is agreed, it had to be approved both by the Council and the European Parliament (however no amendments are allowed). For this reason the Commission keep constantly informed both institutions: the member states governments are informed through the Trade Policy Committee and the Foreign Affairs Council, while the Parliament is informed through its International Trade Committee (INTA). The involvement of the Parliament in the process is particularly relevant since the institution, in one of the first occasions it as had after the entrance into force of the Lisbon Treaty, has rejected the approval of the Anti-Counterfeiting Trade Agreement (ACTA). Although it was not officially required, the Parliament 23 May 2013, even before the launch of the negotiations, passed a resolution supporting a comprehensive TTIP agreement. During the negotiation the Commission have to share with the INTA Committee the same degree of information it provides to the Council. Moreover Garcia Bernero regularly briefs the INTA Monitoring Group for US and participates in in camera meeting with the INTA members. The Parliament in few years has been able to use its leverage to influence the work of the Commission; recently, for example, some groups, in particular the S&D, have expressed serious concerns over the inclusion of the Investor-State Dispute Settlement (ISDS) clause in the agreement, which has pushed the Commission to open a public consultation on the subject and temporarily suspend the negotiation on this issue. Thanks to the Lisbon Treaty, the Parliament has become a crucial institution all along the process of negotiation, since the Commission is pushed to involve it to be sure that it will ultimately give its consent to the final deal (Alemanno, 2014: 49). Because the agreement is likely to include elements that fall outside of EU competence, it will also have to be separately ratified by the parliaments of all the EU member states before its final approval.

In the United States the path towards the negotiation has been quite different and the eventual approval of the Treaty by the Congress seems even more uncertain. The negotiations are leaded by the Office of the U.S. Trade Representative (USTR), while Congress retains the constitutional power to regulate commerce with foreign countries. Congressional powers include consultations with negotiators, general oversight of the process and consideration of implementing legislation. On 20 March 2013, the USTR notified to the Congress President Obama's intent to enter into the TTIP negotiations and obtained a bipartisan and unequivocal support (Troszczynska-Van Genderen, Bierbrauer, 2014: 4). Trade agreements in the US are generally approved through the "trade promotion authority" (TPA) procedure, under which Congress agrees to a simplified procedure for approving the negotiated agreement. TPA is a legislative procedure, through which Congress defines negotiating objectives that should guide the President and his teams, while keeping for itself the right to approve or not the final text. Anyhow, at the end of the process, the Congress gives the agreement an up or down vote, does not have the power to amend it and has a limited amount of time to approve or reject the agreement. This procedure makes the tasks of the negotiators much easier, because trading partners are assured that Congress would not amend the text of the agreement itself after the President had signed it (Alemanno, 2014: 47). However the US Congress, notwithstanding the official request made by President Obama during his State of the Union address on 28 January 2014 (Thompson, 2014: 9), has not approved a TPA and the Republican majority makes this possibility more unlikely. Anyway, no matter if the PTA procedure is adopted, Congress will ultimately have to vote on the deal and approve it in both houses (absolute majority in both the House and the Senate if it is 'an agreement' or a two-thirds vote in the Senate in the case of a 'treaty'). Moreover, the Congress, which has been very united in supporting the launch of the deal, seems quite divided over some specific issues (Troszczynska-Van Genderen, Bierbrauer, 2014: 5).

3.2 THE CONTENT OF THE NEGOTIATION: THE MAIN ISSUES ON THE TABLE

TTIP could represent a cornerstone in 21th century trade agreement, not only because the parties involved share a large and dynamic trade and economic relationship, account for nearly half of world GDP, 30% of global trade and have investments of more than $3.7 trillion in each other's economies, but also because of the nature of the deal. If an ambitious agreement is indeed reached, TTIP could represent the model for a new generation of PTAs, encompassing provisions on many different sectors and focusing much more on the reduction of NTBs than on tariffs, distinct from most other PTAs both the EU and the US already negotiated with other countries.

Given that the tariffs between the EU and the US are already very low, many studies suggest that the greatest economic gains would come from enhancing regulatory cooperation and compatibility, opening services and government procurement markets and developing new rules (Akhtar, Jones, 2014). Only in this way the relationship could reach its full economic potential.

According to the recent documents disclosed by the European commission, the agreement should be composed by 24 chapters divided into three parts: better access to each other's markets (for trade in goods, services and in the public procurement sector), enhance regulatory cooperation cutting red tapes and other costs developing and new rules to make easier for firms to import and export[35].

The content of the following paragraphs is clearly based on the released information at this point of the process; hence, it is evident that the subjects that will be actually regulated could greatly differ from what it is presented. Moreover, considered the number of sectors concerned by the deal, here it is provided only a general overview over key topics.

3.2.1 Tariff Barriers

Before entering into the merits of the issue, it is suitable to define the terms "*tariff barriers*" and "*non-tariff barriers*", as used by the negotiators in the official documents. Both concern measures that actually limit trade of goods and services between different countries; while the first ones consist of tariffs on importing goods or services, non-tariff barriers restrict the import by other means such as labelling and shipping requirements, quality standards, legal requirements, subsidies to the country's firms, or fixing restrictions based on quotas.

As it has already been highlighted, one of the greatest innovations of TTIP is its focus on non-tariff barriers and regulatory issues more than on tariff barriers, which, indeed, are the most relevant subject in the majority of standard trade agreements.

The level of tariff barriers between the US and the EU countries is already so low that no great economic gain can be expected from a further reduction. The average tariff duties on bilateral trade amount to around 2.2% in the US and 3.3% in the EU (according to CEPII estimates, Fontagné, 2013: 3). Consequently, in order to generate some effects, the deal needs to aim at completing tariff liberalization for all products. However, there are

[35] The general overview on the structure of the agreement is presented on EU Commission website: http://ec.europa.eu/trade/policy/in-focus/ttip/about-ttip/contents/

consistent discrepancies among the various productive sectors: in both Europe and the United States protection is focused on agricultural products (12.8% in the EU and 6.6% in the US), compared to manufactured products (2.3% against 1.7%). Moreover the overall low level of tariffs masks extreme sectorial peaks that could reach even 350% in the US and 74.9% in the EU (Felbermayr, 2013: 3). Some concrete examples include the meat sector in Europe (average protection of 45% that reach 146% on some specific products) and dairy sector in the US (22% average tariff protection and, for example, 40% on yogurt). The graph below gives a more general overview on sensitive sectors, which TTIP should touch if it aims at being really effective.

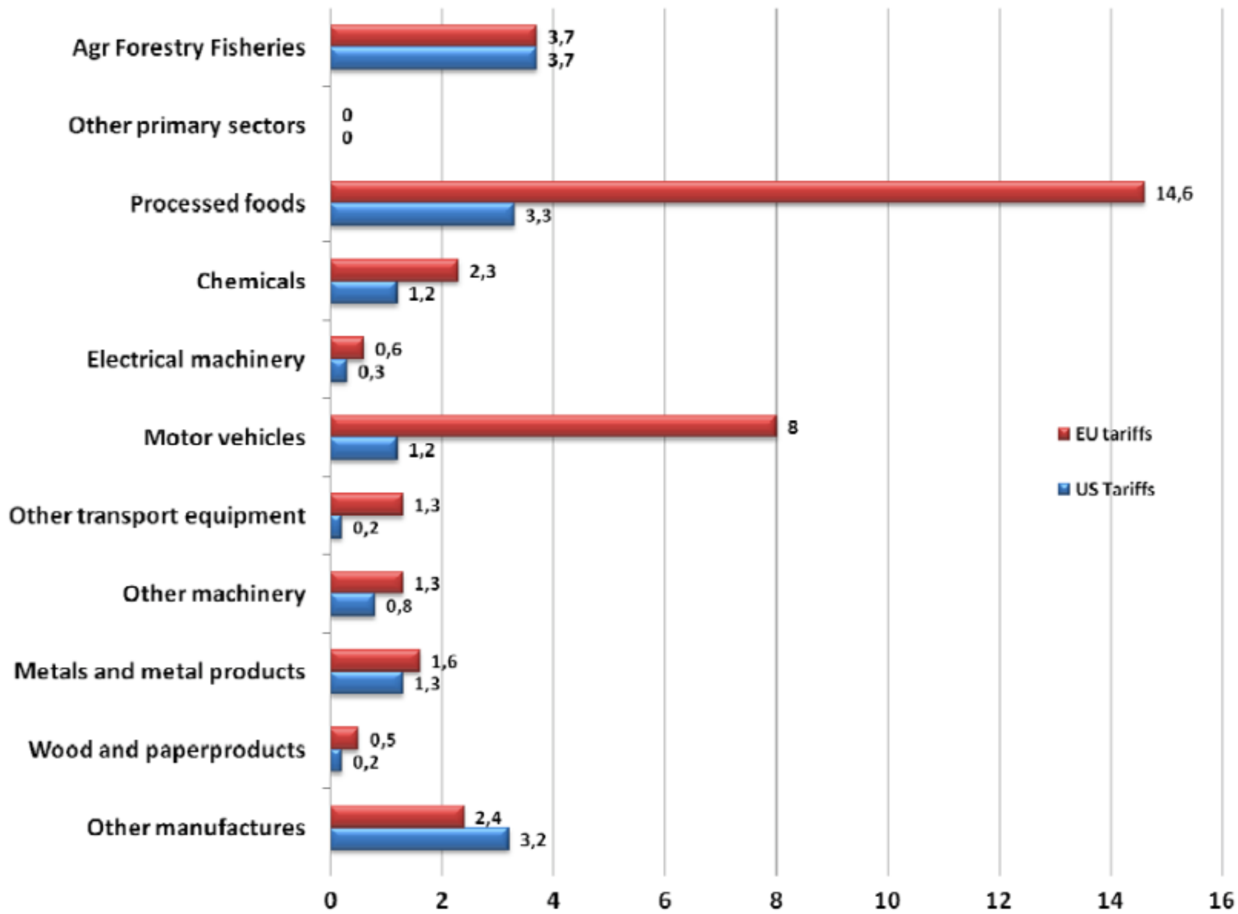


Figure n° 14: tariff barriers for selected countries, 2011[36]

[36] Source EUROSTAT, taken from Alcaro, R., Renda, A. (2013b). "Il partenariato transatlantico su commercio ed investimenti: presupposti e prospettive", p. 5.

However, the reduction of barriers in these sectors would be as crucial as difficult: in fact, the cause of these residual tariffs is these sectors lies in their importance for the national economy or in the influencing power of domestic lobbies. Agriculture seems to be the most delicate and complicated field, where it is still possible to find tariffs so prohibitively high that they cut off the trade of some products, such as raw tobacco, on which US duty amounts to 350% and peanuts (over 130%).

The ambition of TTIP negotiators remains, however, to reduce almost to zero the tariffs between the two areas in order to generate savings for both shores of the Atlantic's firms and also create spill-over effects not directly related to trade beneficial for the entire economic systems.

3.2.2 Non-Tariff Barriers and Regulatory issues

Much more economically relevant for transatlantic economies are non-tariff barriers, caused mainly, as it has been said, by regulatory divergences in numerous key sectors, such as cars, chemicals, pharmaceutics but also financial services and telecommunications. Just to make an example, American duties on European chemical products average 1.2%, while non-tariff barriers add around 19.1% more; the same can be argued for cars sector where European tariffs on US imported products reach already 10%, then adding the non-tariff barriers average 25.5% (Alcaro, Renda, 2013b). To highlight the trend more generally, a recent study commissioned by the British government to the Centre for Economic Policy Studies (CEPR) estimates UK tariff barriers on American products at 0.5% while non tariff ones at 8.5%.

As far as concerns goods, these barriers include mainly Sanitary and Phyto-Sanitary (SPS) regulations and Technical Barriers to Trade (TBTs). Even if, in the majority of the cases, these regulations have a legitimate objective, such as preserving the environment, enhancing consumers' protection and information or increasing products' safety, cross-country regulatory divergences generally impose additional costs to exporting firms. Some costs may stem from substantial differences, however many others ensure the same levels of quality and security of the product, while differing only on procedures and technical details.

The simpler way to overcome regulatory differences is through mutual recognition agreements, which is a solution already applied between the EU and the US on some sectors (electromagnetic compatibility, medical devices, telecommunications equipment, electrical safety, recreational craft, and pharmaceuticals). These agreements make certifications provided in the Unites States valid also the other shore of the Atlantic and vice versa. TTIP could mainly aim at extending these agreements to other sectors and improving their applicability, or otherwise chose a less conservative approach and open a process of real mutual recognition of standards between the contracting parties (Fontagné, 2013: 4). An example of this less prudential approach on which private sector has been particularly insistent concerns vehicle safety belts and other cars' components.

However, mutual recognition of standards became much more complex in relation with SPS measures that reflect different collective preferences in the two public opinion and political arena and a not compatible perception of risk. As to this issue, some sticking points could be constitute by food standards, since genetically modifies organisms (GMOs) are strictly regulated in Europe and a number of directives forbid both the import and sale of meat treated with growth hormones and chicken washed with chlorine, while the US shows concerns on unpasteurized cheese. On GMO there has already been a controversy within the WTO framework and Obama has declared that one of the major American aim is the elimination of food standards 'not based on science' (Thompson, 2013: 6). On these issues political obstacles make negotiations particularly complicated and it seems unlikely that a controversial case such as GMOs will be resolved through bilateral negotiation. For some specific products that are verifiable and without externalities such as chlorine-rinsed chicken and hormone-fed meet, a solution could lie in clear labelling.

However, according to an analysis commissioned in 2009 by the European Commission to Ecorys, it is not realistic to assume that all non-tariff obstacles and regulatory divergences can be aligned. Many of them are, in fact, based on geography, language, preferences, culture or history. According to the authors (Berden at al., 2009), maximum 50% of them could be actionable. Non-tariff barriers can both increase the cost of doing business for firms (60% of cases for both the EU and the US), and restrict their market access (40%). More details on the possible consequences caused by the alignment of all the actionable barriers are presented in the following part on the expected economic benefits of TTIP.

On these issues, the European Commission enumerates among the major objectives the review of existing regulations that consistently affect transatlantic trade and investment, development of new common regulations, promotion of cooperation both between the US and the EU standardization agencies and at international level on regulatory issues, elimination or reduction of unnecessarily duplicative or burdensome procedures and the establishment of a Regulatory Cooperation Body, which would monitor and help the implementation of measures agreed in TTIP.

3.2.3 Public Procurement

Public procurement is another key negotiating issue, in particular for the EU. The sector is usually not included in multilateral negotiations such as the DDA; however it is a sector in expansion, in particular after the economic crisis. During the last years, in fact, public procurement accounted for 20% of European GDP and, at the same time, many countries, such as the US, increased their protectionist measures in order to limit the concurrence of emerging economies (Alcaro, Renda, 2013b). The United States and the European Union are both members of the Government procurement agreement (GPA), a plurilateral agreement concluded in 1996 and revised in 2012.

Although countries signatories to this agreement commit to following fair and non-discriminatory public procurement procedures, each country can select the public entities concerned and the specific restrictions it applies. Within the GPA, the difference between the US and the EU is quite evident, since the first area opened to foreign competitors between 85% (Alcaro, Renda, 2013b: 7) and 95% (according to the EU Commission, Fontagné et al., 2013: 5) of its public procurement market, included regional and local ones, while the second limited its efforts at the federal level, opening to foreign firms only 32% of its markets. In the US only 37 states have agreed to the GPA restrictions, which are, moreover, not applied to sub-state entities that control the majority of the American public procurement market.

Even if the numbers appears difficult to crosscheck, it seems evident the European interest in the sector, since the US enjoys much more limitations on the existing commitments and many European firms are not allowed to exploit their competitive position in fields such as transport equipment, railways or energy distribution. For these reasons, the Commission aims at ensuring that EU and US firms are not discriminated against when tendering for public contracts on each other's market, in order to maximise their opportunities in public procurement markets across the Atlantic, at all government levels, central, federal or sub-federal.

3.2.4 THE ISDS CLAUSE

The Investor State Dispute Settlement (ISDS) is not one of the main topics of the negotiations; anyhow, especially in Europe, it is probably the most publicly criticized and it has been raising considerable protests within the public opinion debate, coming not only from groups that are on principle against TTIP. Also the Socialists and Democrats (S&D) group of the European Parliament officially announced it opposition to the provision and asked the Commission to not include it in the final deal[37].

The ISDS is arbitration instrument that allows investors to bring legal proceedings against foreign governments that are party to the agreement, under international law, if they believe they have been subject a discriminatory treatment or to expropriation in that country. While it is also included in many PTAs (such as NAFTA), ISDS is a typical clause within bilateral investment treaties (BTIs) and it is present in more than 1400 of them (and in 93% of the overall established BITs (Thompson, 2013)); however, until the recent conclusion of CETA, the Commission had not included the ISDS clause in any agreement after the entry into force of the Lisbon treaty.

While the main aim of the mechanism is to protect foreign investors from arbitrary decisions taken in countries with little legal certainty, this description seems not proper to the US and the EU. ISDS has in fact always been considered particularly valuable where domestic dispute resolution procedures may be biased, for example as a result of corruption or institutional fragility. For these reasons, it is argued that the inclusion of the clause in TTIP would be useless or indeed serves only the interests of powerful business

[37] This was the official declaration by S&D spokesperson on trade, MEP Bernd Lange: "*We believe that this mechanism is unnecessary in an agreement between two countries that fully respect the rule of law. Accepting the ISDS would mean opening the door for big corporations to enforce their interests against EU legislation. This would deprive states of crucial policy space in important fields such as health or environment*", from the S&D website: http://www.socialistsanddemocrats.eu/it/newsroom/sds-want-investor-state-dispute-mechanism-out-eu-us-trade-and-investment-agreement-ttip

groups (Armanovica, Bendini, 2014: 13). Many civil society organizations are worried that the provision could limit the right to regulate of the involved states in sensitive areas such as the environment, health and public services, given that the investors may contest these rules and be awarded hefty compensation from governments. Some recent examples are Vattenfall against Germany (2012), through which Swedish energy giant Vattenfall obtained €3.7 billion in compensation for lost profits when Germany decided to phase-out nuclear energy, Lone Pine against Canada (2013), with the company that, on the basis of the ISDS provision included in NAFTA, is demanding US$250 million in compensation from Canada because the province of Quebec has put a moratorium on fracking or Achmea against the Slovak Republic (20121), where the company was awarded €22 million in compensation following a legislation requiring health insurers to operate on a not-for-profit basis. Moreover, tobacco giant Philip Morris is demanding US$2 billion from Uruguay over new labelling on cigarette packets, which would not include the name of the company, even if it has lost similar claims against Australia and Norway.

More specific objections concern the fact that ISDS system gives foreign companies a special treatment, compared with local entrepreneurs, citizens, and communities, and much greater property protection rights than are enshrined in national constitutions of numerous developed countries and provides big multinational companies a powerful instrument to influence the action of foreign governments not only through actual claims but also through the threat of expensive lawsuits against them. In addition it is argued that ISDS is based on a not necessarily judicially independent system, that could be pro-investor biased, given that decisions are generally taken by a tribunal of three for-profit arbitrators, paid per case, and it is not provided a judicial review made by an independent court (Corporate Europe Observatory, 2014).

In recent years, the number of claims launched by companies on the basis of an ISDS clause is constantly rising, as it is possible to highlight from figure 15. According to the United Nations Conference on trade and development (UNCTAD), only in 2012, 58 claims were launched (this is the highest number in a year, but the trend is continuing since in 2013 there have been 57 new claims), while in 1990s' there were around 10 claims per year. The US and the EU are very active in this field and have initiated 64% of all the disputes; 15 EU states have already faced a claim while the US faced already 20 claims only under NAFTA's investment chapter.

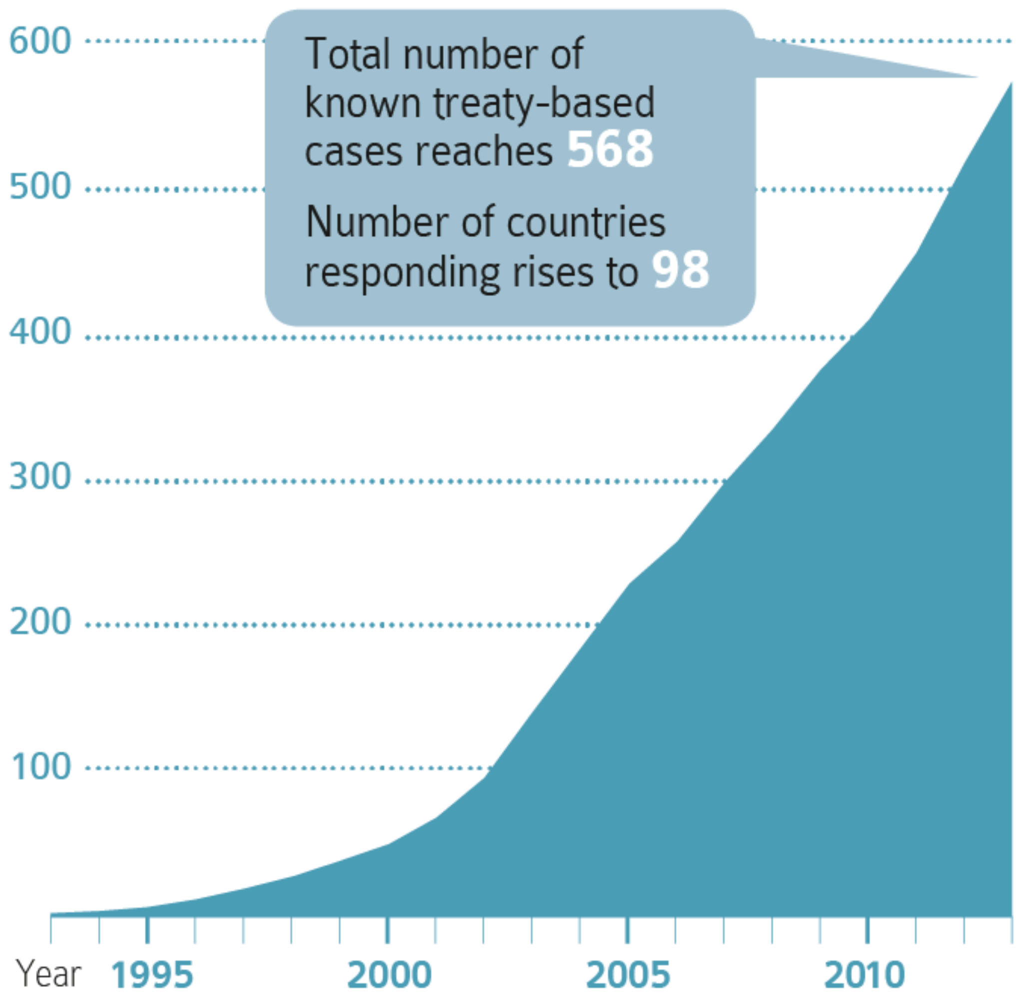


Figure n°15. : Cumulative number of disputes under ISDS system[38]

[38] Source UNCTAD Down to earth, taken from: Corporate Europe Observatory (2014). *Still not loving ISDS: 10 reasons to oppose investors' super-rights in EU trade deals*.

ISDS provision is included in the negotiating mandate for TTIP and the Commission has initially explicitly favoured its inclusion in the deal, arguing that potential abuses stems only from poorly defined rules (Armanovica, Bendini, 2014: 14). However, in order to block rising antagonism against the entire deal, in March 2014 Commissioner De Gucht launched a public consultation between 27 March and 13 July and froze the negotiations with the US on the issue. The results of the consultation showed both a great interest in the subject, since the Commission received more than 15.000 replies, and a huge scepticism towards the instrument (European Commission, 2015).

3.3 THE EXPECTED ECONOMIC BENEFITS

According to the American Congressional Research Service (Akhtar, Jones, 2014), TTIP negotiations could generate multiple beneficial effects both on the economic and on the political level, such as strengthening the overall US-EU strategic relationship, boosting transatlantic economic growth and jobs, enhancing progress on trade liberalization at global level, through regional and bilateral PTAs, developing common approaches for the emergence of rules in future multilateral negotiations both in the WTO or with third country.

From both side of the Atlantic, leaders have announced the launch of TTIP negotiations as a powerful tool to generate growth and jobs in both regions. Especially in Europe, in a period of crisis when the European rigorous rules established by the Stability and Growth Pact do not permit expansionary policies aimed at stimulating growth, trade policy seems the most effective way to boost economic growth. After the launch of the negotiations, being in the mood for grandiose, and probably excessive, statements, at the time EU Trade Commissioner De Gucht described TTIP as "*the cheapest stimulus package you can* *imagine*", while UK Prime Minister David Cameron added that "*this is a once-in a generation prize and we are determined to seize it*" (Siles-Brugge, De Ville, 2013).

All studies realised until now agree on the fact that almost all the foreseeable economic advantages would emerge from the reduction of NTBs, since, as it has been presented, tariffs are already very low. On the issue, the majority of studies rely on an analysis realised by Ecorys in 2009 (Berden et al., 2009). According to it, the elimination of all actionable non trade obstacles, which, as said before, amount to 50% of the actual barriers, between the two economies would boost European Union countries' GDPs in the long term (it was hypothesized by 2018) by 0.7% per year, with regards to the baseline scenario (the situation without this common initiative) and the United States GDP by 0.3% compared to the baseline. This prevision foresees an annual potential gain of EUR 122 billion for the EU and EUR 41 billion for the US in 2008 prices.

However, even if there is a common agreement on the beneficial effect that would have the overall dismantlement of all the actionable non-tariff barriers and measures, the envisaged scenarios by various analyses are substantially different. The European Commission firstly commissioned a study to CEPR (Francois, 2013), published in March 2013, which is the most quoted in all the official document of the EU institutions. The study is based on Computable General Equilibrium (CGE) economic model, as the other major analysis realized until today, which simulates in the most realistic possible manner the structure of the entire economic system and the nature of all economic transactions among various agents, included the private sectors, government, local authorities and families (Bendini, De Micco, 2014: 6). The CGE model aims at capturing the broadest possible set of economic impacts and, therefore, it is considered particularly appropriate to assess trade deals.

CEPR analysis foresees that, if negotiators manage to reach an ambitious and comprehensive agreement, this could bring EUR 119 billion a year (0.5% of GDP) of economic gains to the EU and EUR 95 billion a year (0.4% of GDP) to the US by 2027 (the moment when the expected economic benefits reach their full level) relative to their levels without the TTIP in place. Another data that is often presented by TTIP supporters is that, translating the economic gains of the deal into household disposable income, they esteem that each European family of four would see their annual income increase by an average of EUS 545 per year. However these results can be obtained only in case of an ambitious agreement, covering 98% of tariffs, 25% of non-tariff barriers on both goods and services (50% of the actionable) and 50% of procurement barriers. In order to describe various scenarios, CEPR's study took in consideration also other four more limited options, which are all summarised in figure 16.

	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.

Figure n°16: Summary of macroeconomic effects of five different scenarios[39]

[39] Source: Francois, J., et al. (2013). *Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment,* p. 3.

In agreement with Ecorys studies, they expect that the greatest part (around 80%) of the benefit would stem from deeper regulatory integration and the dismantlement of non customs duties. A problematic aspect of the analysis is that it does not esteem how the expected benefits and burdens would be distributed among different European member states and regions (Bendini, De Micco, 2014: 5).

Bertelsmann Stiftung German foundation (Felbermayr et al., 2013b) used a different method in order to esteem the effects of TTIP. Given that GCE studies have frequently been criticised because ex-ante projections regarding trade and welfare effects of PTAs resulted repeatedly too low as regards to ex-post assessments, they adopted a different technique based on the analysis of the costs of 15.750 pairs of bilateral trade fluxes, as calculated before the economic crisis in 2007.

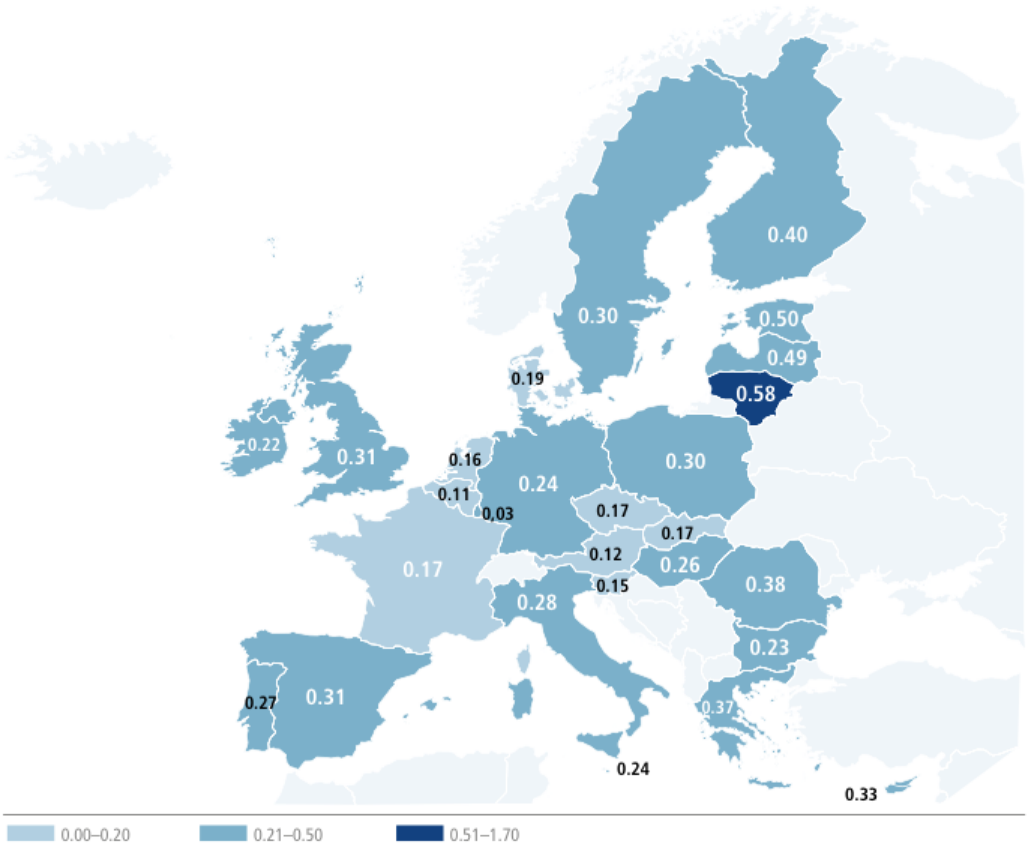


Figure n° 17: changes in real per capita GDP in EU 27, tariffs scenario[40]

[40] Source IFO Institute, taken from Felbermayr, G., et al. (2013b). *Transatlantic Trade and Investment Partnership (TTIP): Who Benefits from a Trade Deal? Part 1,* p. 22.

The study compares a first scenario, dismantlement of all tariff barriers, and a second scenario, the liberalization scenario in which also all non-tariff trade barriers are abolished, with the baseline situation. In addition, this study provides different provision for all the 27 European member states (it was realized before the entrance of Croatia in the EU). In the tariffs only scenario (see figure 17), the effects on real per capita GDP are quite limited and vary between 0.03% in Luxemburg and 0.58% in Lithuania, with an average gain around 0.27%. However, in this scenario all countries of the EU benefit from the agreement even if at different levels, on the base of their trade structure, size and geographical position, with the smaller countries who would tend to gain more (the data of the Baltic countries are emblematic).

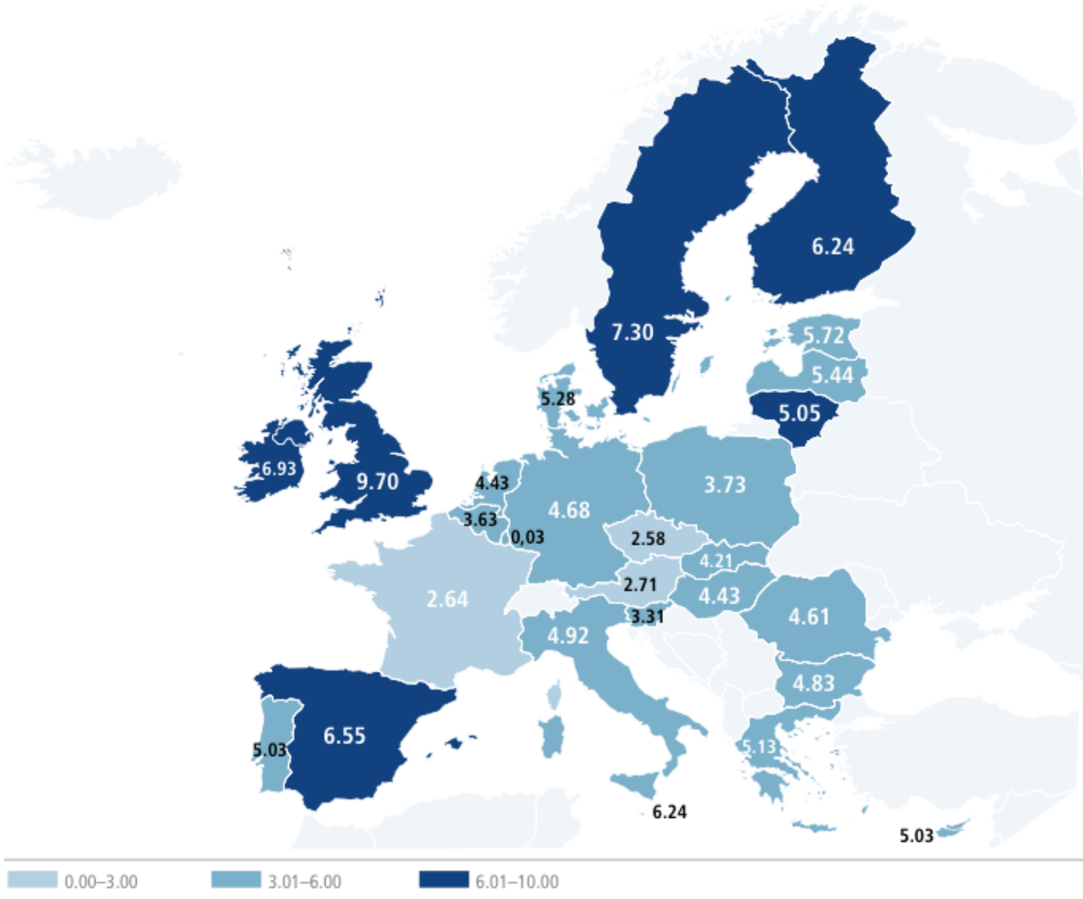


Figure n° 18: changes in real per capita GDP in EU 27, deep liberalization scenario[41]

[41] Source IFO Institute, taken from Felbermayr, G., et al. (2013b). *Transatlantic Trade and Investment Partnership (TTIP): Who Benefits from a Trade Deal? Part 1,* p. 24.

In the liberalization scenario, which includes also induced effects such as the expansion of direct investments or the reduction of economic policy uncertainty, the results are substantially different (see figure 18), since the expected gains are some 23 times higher, even if less equally distributed. The European average gain is 4.95%; the UK, Ireland, Sweden and Spain are the countries that would profit the most, while France, Czech Republic and Austria are the ones that would benefit less.

Another two relevant studies were conducted by the Centre d'études prospectives et d'informations internationales (CEPII) and by the Institute for Economic Research (IFO). The first one (Fontagné et al., 2013) is also based on a CGE model and takes as reference scenario the elimination of all tariff barriers and the nearly complete removal of non-tariff one. The authors conclude that trade between the US and the EU in goods and services would increase on average by 50%, with a peak of 150% for agricultural products. The analysis shows that US export performance would benefit more considerably than that of the EU while the EU would enjoy an annual increase in national income of $ 98 billion and the US of $ 64 billion. The IFO study (Felbermayr et al., 2013a), commissioned by the German Federal Ministry of Economics and Technology, in the full liberalisation scenario, foresees the UK and Sweden, followed by the southern European countries Spain, Greece and Italy, as the ones which would benefit most from the deal.

Even if the creation of jobs is considered to be a major objective of TTIP, the various studies did not provide an accurate analysis on the impact of TTIP on European job market and employment. CEPR's study only highlights that the increased level of economic activity and productivity would generate positive consequence in the European and American job markets, both in terms of overall wages (both skilled and less skilled workers' wages would rise by 0.5%) and new job opportunities. The most detailed analysis on the issue is, however, provided by the Bertelsmann Stiftung study that attempts to calculate the impact of increased trade on job markets. Their findings show that there would be a positive net impact on member states' welfare, with significant discrepancies among the various countries and western states benefitting the most. In the deep liberalisation scenario the esteemed gains in real wages would amount to 2.34% and to reduction in unemployment to 0.45%.

3.4 "All that glitters is not gold"

Even if the cultural, historical and economic links between the United States and Europe make the deal particularly appealing for the advocates of the transatlantic alliance and the expected economic benefits are very welcomed in a period of low economic growth, there are still a lot of concerns on many issues tied with the negotiation raised by civil society groups and scholars.

First of all, some experts tend to minimize the expected economic impacts, considering them very limited and only effective in more than years (Bendini, 2014) or questioning the high optimism on which are based the majority of the studies presented before, when they assume some deep liberalization scenarios that seem hardly achievable (Siles-Brugge, De Ville, 2013 and Defraigne, 2014a). Pierre Defraigne, former head of cabinet of EU trade Commissioner Lamy, has moreover underlined the risks that TTIP presents in terms of redistribution of wealth within the EU, since the deal would generate different impacts on different European areas with the possibility to strengthen a key European problem, that is to say the different level of economic growth and development between the centre and the more peripheral states (Defraigne, 2014a).

In addition, many civil society groups and non-governmental organisations (NGOs) raised concerns on sectorial issues. One of the most discussed and criticized topic, which has already been analysed in detail, is the ISDS clause, which, if included in the definitive text, risks jeopardizing the final approval of the agreement by the European Parliament. The Commission and the negotiators have also been accused of lack of transparency during the process; however the Commission, who is pushed to consider more seriously Parliament's role after ACTA's rejection, is now trying to improve its communication on trade policy and involve more both the members of the Parliament and civil society actors in the process. A major tool used by the Commission in order to receive inputs from a large number of involved stakeholders on sensitive issues are public online consultations: since the launch of negotiations, there have been five of them on the HLWG on Jobs and growth, the future of EU-US trade and economic relations, a call for inputs on regulatory issues, the ISDS clause and a SME survey in the context of TTIP negotiations. Moreover, after the declassification of the negotiating directives, the Commission has started to publish some official texts that are actually being discussed with the Unites States and the new Commissioner Malmström has announced her full commitment to make the process as transparent as possible.

Apart from ISDS and transparency, criticism mainly concerns the inclusion in the deal of provisions that could impact environmental or consumers' safety regulations and even limit the European states right to legislate in these sectors. The most sensitive issues for European public opinion seem to be the GMOs, which have already been objects of a WTO dispute between the EU and the US, and the related regulations aimed at protecting human life, health, animal welfare and environmental and consumer interests, the chemical sector, where the US has very low regulatory standards and the aviation emissions system, regulated in the EU through the emissions trading scheme (ETS), while in the US there is not a similar system. European NGOs and consumers' groups fear that TTIP provisions could put in danger European regulations in these sectors, reducing safety's standards and protection for both individuals and the environment. The majority of civil society's associations do not oppose TTIP in principle but ask negotiators to preserve and strengthen environmental, labour, climate, health, safety, and other regulations and standards in the US and EU and to ensure that investment rules do not undermine the power of governments to protect local communities and the environment (Sierra Club, 2013). In addition, some environmental groups argue that the deal risk to jeopardize European efforts to tackle the global climate crisis and reduce its dependency from fossil sources of energy: the agreement would, in fact, expand fossil fuel exports from the US to Europe, increase EU's reliance on this kind of sources, limit the ability of governments to adjust its energy policy and prevent the development of renewable energy programs (Sierra Club, Power Shift, 2014). Also Nobel laureate in economics Stiglitz fears that new generation PTAs, such as TTIP and TPP, could have a negative impact on countries' social welfare, given that the trade regime put commercial and corporate interests ahead of other basic values, such as the right to a healthy life or the protection of the environment, which should be non-negotiable (Stiglitz, 2013).

To conclude, there are some supporters of the agreement who, indeed, are worried on the feasibility of the deal, since many simpler agreements have never been signed and the process seems full of obstacles; they do not criticize TTIP in principle, however, they do not share the optimism of many European leaders and politicians who see this agreement as a possible solution to leave behind the economic crisis. Among them, Uri Dadush considers that the future of TTIP is increasing cloudy (Dempsey, 2014), since there are several complicating elements that could hold up negotiations, almost all the issues that needs to be addressed are complex and political forces on both shores of the Atlantic are more divided than ever (Dadush, 2013). Even a very recent report (Vestine, 2015) of ECIPE, a Brussels-based think tank which ha been very favourable to the launch of the deal, recognizes that, after 500 days of negotiation, the enormous initial enthusiasm has eft the place to plainly discouraging results. Paul Krugman, another Nobel laureate in economics and in principle a free trade supporter, has an even sharper opinion on TPP, which seems to be easily applicable also to TTIP (Krugman, 2014). He states in fact that there is an excessive hype about new PTSs, while they would probably not make that much difference, and that an eventual failure of the negotiations will be "*no big deal*".

3.5 TTIP AND THE WORLD: THE GEOSTRATEGIC VALUE OF THE NEGOTIATION

Apart from its economic value, TTIP could have a great significance from a political point of view, since it would reinforce the special relationship between the US and the EU. Undoubtedly they are already strategic partners but, since the end of the cold war, transatlantic relation has faced some challenges. According to some scholars and to key actors involved in the process, TTIP would probably have a more remarkable value from the geopolitical point of view rather than from the strictly economic one. It would, in particular, provide a new sense of purpose for transatlantic relations (Ries, 2014) and a significant answer to the concerns caused by the American's shift towards Asia and the Pacific and its progressive military disengagement from the Europe (Fabry et. al., 2014).
The ambassador of the US to the EU underlined how TTIP could represent an economic version of NATO and, therefore, become a pillar in the transatlantic alliance (De Vincenti, 2014). The ambassador, apart from the economic reasons, highlighted that there are critical geostrategic reasons to get TTIP done, since it could greatly help in solidifying the transatlantic alliance, providing an economic equivalent to NATO and setting common rules for world trade. Even if the geopolitical meaning of the deal is not put into discussion, the label of political NATO seems quite misleading, not only to some scholars

but also to European institutions officers. They explain how the aim of TTIP is to generate economic benefits not only for the involved parties but also for the rest of the world, through a process of trade creation and development of common rules and standards, while NATO, especially when it was established in 1949, had defensive and not cooperative objectives towards third countries. As it has been put, it is unlikely the emergence of a "fortress scenario" in which the transatlantic allies would mutually protect themselves from other emerging economies (Tentori, 2013). It seems, therefore, possible to conclude that the reference to NATO is acceptable in journalistic language (Taino, 2014) but not very accurate; however, less enthusiast experts found some similarities between TTIP and NATO. According to them (Defraigne, 2014b and Bendini, 2014b), there is a power asymmetry between the US and the EU, which could be in some way comparable to their relationship within NATO, especially during the cold war years, when the many European states needed US military assistance in order to be defended. TTIP negotiations confront, in fact, a united player with clear objectives with the sum of member states that do not always share the same economic and commercial objectives. The inferior negotiating position seems particularly worrying since the US could manage to obtain much more concessions than the EU while the Commission should be particularly careful to not further weaken process of European integration and undermine the single market (Bendini, 2014b: 19).

To conclude this long chapter on TTIP, it seems interesting to briefly compare it to TPP, the preferential trade agreement actually under negotiation between the US, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, which I mentioned many times all along this work. The initiative, joined by the US in 2009, is the key component of the US's 'pivot' towards Asia strategy (Gajdos, 2013). Together with TTIP, TPP is considered as the most ambitious trade initiative that

has been launched recently, both as regards its objectives and the economic power of the involved countries. Moreover, since the US is involved in both negotiations and TPP was launched some years before, it is possible that the US will try to use it as a blueprint for TTIP (Muscat, 2013) and exploit its simultaneous participation in the two contexts (Bendini, 2014b). The US negotiators aim, in fact, at concluding TPP before putting all their efforts into TTIP negotiation, first of all because TPP was launched four years before and has already generated a high level of expectations (Prestowitz, 2013). A rapid conclusion and approval of TPP could then speed the TTIP's negotiation process and, perhaps, ease the approval of a TPA for TTIP. However, even if EU can benefit in some ways from a quick approval of TPP, the Commission's negotiators need to be aware that the US is advancing on two fronts and will try to achieve maximum concessions from the two contracting parties (Bendini, 2014b: 15). Even if the two deals are obviously competing in the US for time, attention and resources and the two processes will impact each's other in some ways, trade analysts reject any comparisons between the two as comparing apples and oranges (Muscat, 2013). The United States, in fact, needs to address different issues with TPP countries, which have very different levels of development, and with the EU; hence TPP will probably include more classic trade agreements' subjects while TTIP should be focused more on regulation and standardisation stand issues.
Before moving to the final conclusions of Part II, it is needed to highlight that I neglected here TTIP's impact both on third countries and on the WTO because these themes will be deeply treated in the last part of the work.

In these last two chapters, I have analysed the evolution of transatlantic economy and then the key issues concerning the Transatlantic Trade and Investment Partnership negotiations. Now, it is clearer why it is particularly interesting to analyse TTIP as case study. Apart from the economic impact that could generate, which is still debated, it not only involves two geographical areas that have been historically deeply interconnected and able to influence the evolution of world commercial flows but also shows new features and elements, which were not present in the majority of PTAs concluded until today. Since it differs in many ways from other agreements, it seems useful to try to understand which impact it could generate on the multilateral trade framework. The next part will introduce the recent debate on the relation between preferentialism and multilateralism in trade policies; then, through a qualitative analysis, I will present some hypothesis on the future impact of the agreement on the behaviour of third countries.

PART III

PREFERENTIALISM VS MULTILATERALISM

"It may be logical, but rare indeed is the international system which not only accepts apparently diverging approaches to fundamental issues, but is designed specifically to accommodate them.
But such is the approach of the international trade system, as governed by the rules of the World Trade Organisation, to the great debate about multilateralism vs. regionalism in trade policy".

Pascal Lamy, Former EU Trade Commissioner and WTO Director-General, 2002[42]

[42] Lamy, P. (2002). "Stepping Stones or Stumbling Blocks? The EU's Approach Towards the Problem of Multilateralism vs Regionalism in Trade Policy", p. 1399.

Introduction

This final part of the work enters into the merits of the issue and finally gives some suggestions and reflections on TTIP global impact. After a first part devoted to understand the PTAs phenomenon and its rising importance as instrument to promote world trade, a second long one focused on TTIP and aimed at presenting the very specific significance of the deal, this concluding section gives, first of all, a general overview of the debate over the role and impact of PTAs over the multilateral trading system. The treatise is synthetic and does not yearn for completeness; it aims, however, at presenting the two main visions on the issue and the common terminology used. It illustrates the arguments of both the stumbling blocks and the stepping stones perspective's advocates, who respectively argue that preferential agreements could endanger or favour the evolution of multilateral trade negotiations. It is then presented a synthesis between the two arguments, which suggests that PTAs could generate different impacts on the basis of how the bargaining power is distributed among world's countries. According to this vision, in order to forecast the potential impact of a PTA, it is not sufficient to analyse its impact on excluded countries but it should also be take into account the interaction between the strategies of the PTA's members and third countries.

In the last chapter, this model is applied to TTIP case: it is estimated the bargaining power of four groups of countries, through their balance of trade, trade openness and regional concentration of trade data. These are, in fact, the economic elements which most influence a country's power in trade policy field. To conclude, this model allows inferring some qualitative comments and conclusions on the possible future evolutions even if, it should be highly underlined, the analysis is partial and a more sophisticated model would be useful to aggregate to data.

Chapter 4. The debate over PTAs: do they constitute stumbling blocks or stepping stones for multilateral negotiations?

4.1 THE ORIGINS: THE CONCEPTS OF TRADE DIVERSION AND TRADE CREATION

The debate on the impact of PTAs over WTO and multilateral trading system has progressively gained great relevance and has fuelled a high level of controversy between two opposing visions. Since the early 1990s and the emergence of a new wave of regionalism the issue has attracted a bigger attention, given that new PTAs aim at eliminating not only tariffs but possibly also other barriers to trade and could generate important consequences on excluded countries. In fact, PTAs remove barriers to trade for contacting states but leave them in place with third countries. In the actual debate scholars tries to define if bilateral and regional free trade areas propel or hinder further liberalisation in the WTO; the controversy however, is not all new and was already well alive during the First Regionalism period (Bhagwati, Panagariya, 1996a).

The first wave of regional and bilateral agreements in late 1950s and early 1960s, usually inspired by the conclusion of the Treaty of Rome, opened the way for the researches in this field, which were at the time mainly devoted to the analysis of welfare effects of PTAs and were based on various econometric models aimed at calculating whether the trade diverting or the trade creating effects of a PTA dominated (Dür, 2007). The concept of trade creating and trade diverting effects was developed in 1950 by Jacob Viner, in a research commissioned by Carnegie Endowment aimed at analysing the design of world trading system after the end of the Second World War. The Viner's pioneering analysis was influenced by his policy concerns following the rejection of the Havana Charter for the establishment of the International Commercial Organization (Bhagwati, Panagariya, 1996b). While Viner's concepts of "trade creation" and "trade diversion" have subsequently been defined in different ways, the author originally meant a shift of import from an inefficient to an efficient source under trade creation and, vice versa, a shift of imports from an efficient to an inefficient source under trade diversion (Bhagwati, Panagariya, 1996a). The author undermined, for the first time, how, differently from non-discriminatory trade liberalization, PTAs could in some cases decrease world welfare diverting trade inefficiently and put into discussion the notion, generally accepted until then, that any move towards free trade would be automatically welfare-improving (Bhagwati et al., 1998).

After the First regionalism period in the 1960s, this process started to lose momentum, mainly thanks to the good results delivered by GATT in promoting trade liberalization. Only recently the number of PTAs has again been on the rise, following the deepening of the Single Market in Europe (through the Single European Act in 1986 and the Maastricht Treaty in 1992) and the establishment of Canada-US Free Trade Agreement (CUFTA), later extended to include Mexico under NAFTA. And, as the process increased its impetus, the same happened for the debate on it. While the concepts of "trade creation" and "trade diversion" reflects a static approach to the analysis of PTAs, in 1991 Bhagwati coined the new terms which are commonly used today in the debate on PTAs of "building blocks" (also designated by Dür as stepping stones) and "stumbling stones" and conceptualize the phenomenon in a dynamic sense. According to this phraseology, PTAs could constitute "building blocks" when they contribute to the multilateral liberalization of trade either by progressively adding new members or by prompting accelerated negotiations at multilateral level, while they represent "stumbling blocks" whenever they do the opposite (Bhagwati, Panagariya, 1996a).

4.2 "IS BILATERALISM BAD?"

4.2.1 KRUGMAN ON THE RISK OF RIVAL TRADING BLOCKS

Since 1990s the debate on PTAs' effects has started flourishing again, as the number of concluded agreements rose. The new debate was started in 1991 by an analysis written by Nobel Prize laureate for economics Paul Krugman (Krugman, 1991) and slightly provocatively called: "*Is bilateralism bad?*". After an overview of different arguments and positions, Krugman argued that bilateralism could be bad and could represent a serious risk for multilateral trading system. He justified his positive answer to the question with the argument that PTAs could incentivise the formation of rival trade blocks and therefore lead to the emergence of protectionist measures. This process could eventually favour the deterioration of international trade relations and undermine the role of the multilateral organisations.

Krugman develops a minimal model aimed at giving some clear foundations to the intuitive concerns about the formation of rival trading blocks in order to highlight the tension between the benefits of a PTA and its negative effects on the entire world trading system. His reasoning starts with the assumption that bilateral agreement could be good or bad in different circumstances and that the trade diversion risk described by Viner is per se a weak critic, since it only demonstrate that PTAs could cause trade diversion and are not always the best policy option (Krugman, 1991: 5). However, Krugman adds that countries which aim at establishing a new custom union or a PTA between them will voluntarily select policies that lead to trade diversion, given that they want to take advantage of the size of the union to increase their levels of trade. Therefore, they will opt for higher tariffs than the ones either of them would have on its own. This option would ensure economic benefits to the contracting states and, at the same time, it will surely be harmful to the rest of the world and, potentially, decrease the level of world welfare if the diversion effects caused by the agreement overcome the increase of trade between the member states. While in reality trade blocks could act in a more cooperative way, Krugman uses this obviously simplified framework in order to underline that bilateralism could foster tariff wars and to describe the effects which could generate on world welfare a different number of trading blocks. Apart from the best option that would be exemplified by the existence of one single block in the world, which of course would correspond to a free trade system, the presence of many smaller blocks would be the best possibility since they would all be very open to external trade. According to the author, when the number is reduced, world welfare progressively falls (Krugman, 1991: 8); however the presence of few blocks could lead to an increase a world welfare, since the intra-blocks trade would probably consists of trade creation. According to the economic model developed by Krugman, the existence of three blocks would represent the pessimal point, when world welfare is minimized, as far as no natural trading blocks are taken into account by the model (Krugman, 1991: 18).

Apart from Krugman, there are, however, many other supporters of the stumbling blocks vision who developed other critics and mainly raised concerns on the impact of PTAs on the multilateral system. All advocates of this perspective, in fact, argue that all forms of PTAs risk undermining the multilateral trading regime emerged and progressively grown since the end of the Second World War and that should be the natural locum to develop new global rules and to foster cooperation among states on trade-related issues. It is also noted that this evolution may, in the long term, unleash a dangerous protectionist spiral (Dür, 2007). It has been argued that PTAs can push member states to adopt measure to protect each other at the expense of non members (Bhagwati et al., 1998) or opt for agreements that are costly to excluded countries over those that are costly to national constituencies (Dür, 2007: 5).

4.2.2 THE "SPAGHETTI BOWL EFFECT"

In addition to the already described elements, today some scholars argue that, apart from the concerns linked to the trade diversion effects, the presence of so many active PTAs in the world could have systemic and eventually dangerous consequences on the entire world trading system (Bhagwati et al., 1998).

Jagdish Bhagwati coined in 1997 the memorable expression '*spaghetti bowl'* to illustrate a condition where world trade is regulated through a heterogeneous mixture of unilateral, bilateral and multilateral trade agreements (Bhagwati, 1995 and Baldwin, 2006). This situation leads to discrimination of trade depending on the nationality of a good and therefore generates rising costs. In fact, when multiple and different forms of PTAs are in place, trade is restricted or liberalised on the basis of the origins of each single product: the "*who is whose problem*" (Bhagwati et al., 1998). It becomes necessary to establish through detailed rules of origin the provenience of all traded goods and this may lead to myriad of difficulties and absurdly arbitrary criteria (Bhagwati et al., 1998: 1139). A further problem is emerged through the establishment of different rules of origin by the various PTAs, which raise the transaction costs and can favour the emergence of protectionist practices. Figure 19 shows the European spaghetti bowl, as it was 1998; it is not updated since many events happened in the last 17 years, the most relevant in this case is the expansion of the EU. However, it seems still interesting to use this illustration given that now the framework is even more complex because many more, and more complex, agreements have been concluded.

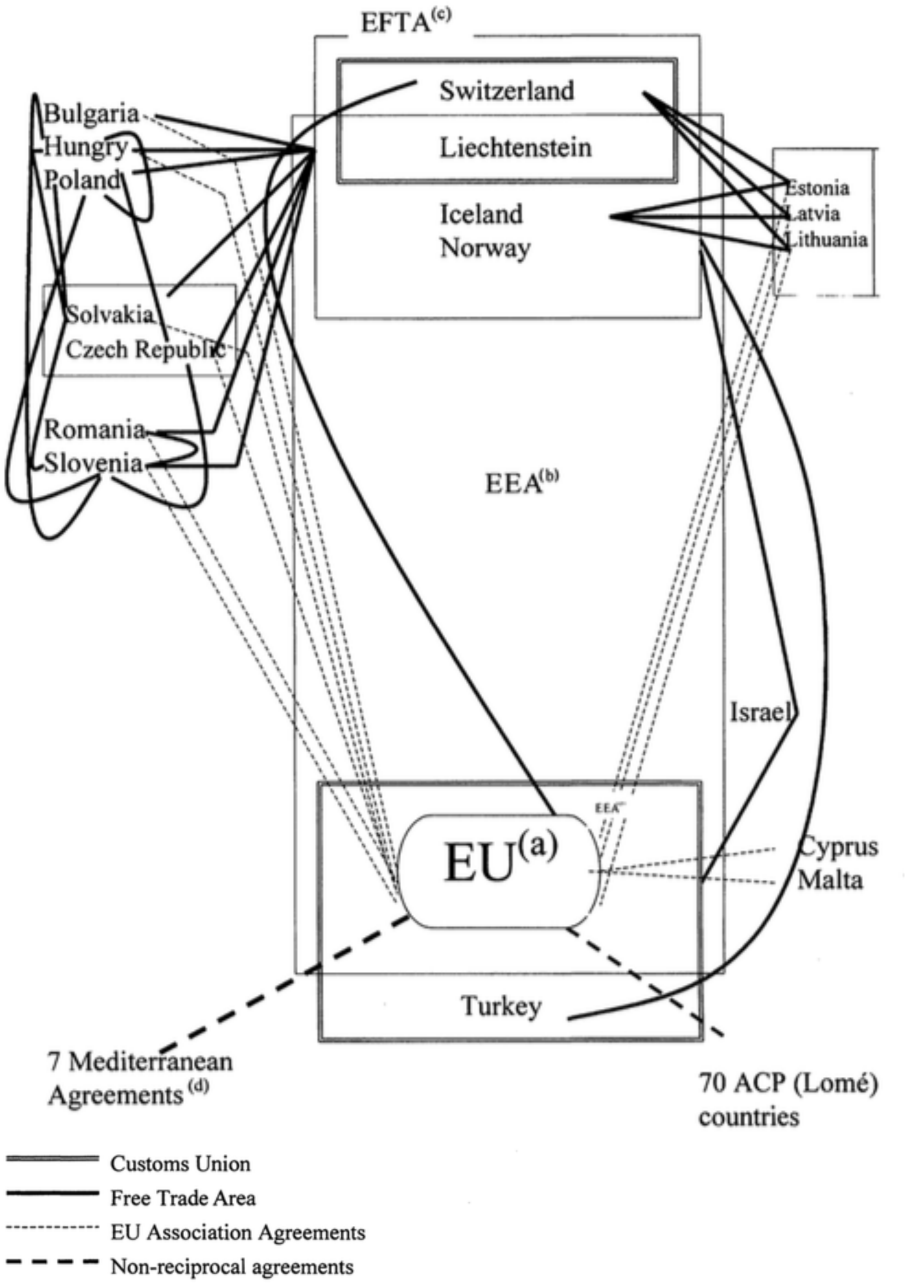


Fig. n° 19: European spaghetti bowl (1998)[43]

In this complicated framework characterized by the interconnection between numerous agreements based on specific rules of origin it is difficult to negotiate even for large countries with an efficient bureaucracy, such as the US, since each agreement usually covers very technical questions. This spaghetti bowl situation, with many slightly different rules contained in preferential agreements, could make also more difficult to reach

[43] Source: Bhagwati, J., et al. (1998). "Trading preferentially: Theory and Policy", p. 1140-1141.

ambitious multilateral agreements, because too many diverging and possibly incompatible regulations are already enforced (Dür, 2007).

4.3 A POSITIVE APPROACH: THE DOMINO THEORY

Against the stumbling stones theory, Kemp and Wan in 1976 argued that a custom union could always be potentially beneficial for its members, without at the same time endangering the rest of the world (Krugman, 1991). According to them, the contracting parties can adjust their external tariffs to the point at which external trade remains at the pre-agreement level; in this situation trade diversion would be prevented and the reduction of internal barriers would ensure an unambiguously positive result (Krugman, 1991: 5).

During the second wave of regionalism, leading economist Lawrence Summers, Chief Economist at the World Bank from 1991 to 1993 and Secretary of the Treasury under the Clinton administration, challenged Viner's reflections on trade diversion underlining how the interest of researchers should be focused on the direct impact caused by PTAs (*I find it surprising that this issue is taken so seriously- in most other situations, economists laugh off second best considerations and focus on direct impacts*, Summers, 1999: 299) and arguing that, especially in a period of stalemate at multilateral level, "*economists should maintain a strong, but rebuttable, presumption in favour of all lateral reductions in trade barriers, whether they be multi, uni, bi, tri, plurilateral*", since each effort towards freer trade needs to be encouraged (Summers, 1999: 297).

According to Baldwin, these reflections lack the recognition of the deep interdependence between PTAs and their contagious effect with regards to third nations (Baldwin, 2010). He starts his reasoning from the assumption that the proliferation of PTAs is not correlated to the impasse in multilateral negotiations, that today's world trade is regulated through a ‘spaghetti bowl’ of deals and this fact is very unlikely to change. He does not argue that this tangle of trade agreements is the best way to organise world trade; however, seeing that the preferentialism seems to be here to stay, he tries to analyse how the process works (Baldwin, 2006). In his theory, after an initial shock caused by the conclusion of a new PTA or the deeper integration within an existing block for political reasons, many non member states become interested in joining the block if they are confronted with losses of market access, as a result of the lobbying’s activity of the firms that export to the regional block’s countries. This activity can push the country to actually ask for membership; this fact would increase the cost of non-members and leads either to a further enlargement of the block or to the creation of new blocks though the conclusion of new preferential agreements. An historical example of the domino effect is represented by the evolution of the European Union and its progressive enlargements (Baldwin, 2004: 27-28).

The domino theory could either favour the progressive integration of the majority of the countries in a unique framework or encourage the emergence of few integrated blocks; also this second option may not jeopardize the multilateral efforts since negotiations among a limited number of actors would be characterized by lower transaction costs (against the 160 WTO members). In addition, PTAs’ negotiations could be much easier than global multilateral ones, they could address topics that are still not debated at multilateral level and develop rules which can then serve as models for the multilateral level (Dür, 2007).

The deadlock in the DDA process pushed also many long-term advocates of multilateral primacy to support PTAs. Pascal Lamy, former Director General of the WTO and Commissioner for Trade of the EU, in 2002 openly admitted the rising importance of preferential deals, arguing that “*multilateralism and regionalism are not mutually exclusive, but are complementary instruments to manage the complexities of an interdependent world*” (Lamy, 2002: 1400). In 2001, the final declaration of the Ministerial

Meeting of the WTO in Doha had already joined this approach and suggested that the proliferation of PTAs can generate a process of competitive liberalisation efforts and, therefore, boost the process of multilateral liberalisation (World Trade Organization, 2001). As it has been noted before, Lamy is now amongst the most active supporters of TTIP negotiations (Lamy, 2014).

4.4 THE SYNTHESIS PROPOSED BY ANDREAS DÜR

As it has been briefly presented, the debate on the issue is not a recent one but it is still very lively and animated, in particular thanks to the new wave of PTAs since early 1990s. Both advocates of the stumbling stones' and the building blocks' positions can refer their theories to some empirical relevant cases to back up their arguments. As to the first vision, the existence of colonial empires and the formation of closed trading blocks in 1930s' could be seen as an example of stumbling stone for liberalization, since the entire process led to a fragmentation of world trade system, prevented multilateral cooperation and unleashed a protectionist escalation, which worked up to involve in some ways all countries. It is also added that, during the Uruguay rounds, the more limited reduction of tariffs on goods for which developing countries enjoyed preferential access to the developed countries' markets compared to other tariffs could prove that preferential deals hinder further liberalisation at multilateral level (Dür, 2007). Stepping stones perspective' advocates, on the other side, highlight how in the last decades many countries have both concluded preferential trade agreements and lowered tariffs in multilateral trade rounds. They refer as example of the positive effects of PTAs the impact of the European Economic Community establishment in 1957, which favoured the conclusions of multilateral negotiations in the context of the GATT. However this also pushed for the establishment of a rival trade block in Latin America (LAFTA, in 1960).

Since both perspectives are backed up by logical arguments and historical examples, Andreas Dür in his 2007 study "*Regionalism: Stepping Stone or Stumbling Block for Globalisation?*" starts from the assumption the integration of the two perspectives in a comprehensive model it is needed in order to provide satisfying explanations of the actual phenomena, since neither of the two theory is sufficient to capture the complex effects generated by PTAs on the globalisation process. Given that both effects seem plausible, the analysis should be focused on the identification of the conditions under which the one or the other development is to be expected and then on the interaction between the strategies of a PTA's members and the excluded countries. According to the theoretical argument developed by Dür, the direction of the effect depends mainly on the initial distribution of bargaining power between the two groups, since an excluded country would have different tools to react on the basis of the distribution of bargaining power between itself and the member countries. The possible strategy of a third excluded country could vary from membership application to the PTA or association with it, call for non-discriminatory trade liberalisation through the offer of concessions in most favoured nation (MFN) negotiations, creation of a rival trading block, until the threat to impose retaliatory measures.

As it has already been stated, each country's choice among these strategies is determined by its bargaining power. Dür selects some economic indicators to calculate the bargaining power of each country, including the relative strength of import-competing interests compared to exporters, the degree of regional concentration of a country's exports and the importance of trade relative to the economic size of a country. From these three elements it is possible to infer that the higher the trade surplus, the more concentrated the exports within a region involved in the PTA and the more trade contributes to the country's GDP, the lowest would be the national bargaining power but at the same time it would be more complicated for governments to ignore trade interests. Countries with a strong bargaining power can opt for retaliatory measure or the creation of alternative blocks, while countries with a lower power, more economically dependent from the countries involved in the PTA, would probably aske fro membership or association or otherwise offer concessions at multilateral level.

This explanation concerns the selection of strategy by third excluded countries; however, it is still incomplete since it does not take in consideration the reaction of member states to the chosen strategy. PTA's member states could react positively or not to excluded countries' requests; their approach would eventually determine the constitution of a building block or stumbling one. If all the actors were aware of the distribution of power and acted rationally, it would always be possible to opt for a cooperative scenario, which would not hurt the multilateral framework. The potential reaction of third countries and the eight possible final scenarios are enumerated in the following table.

	Member countries	
Excluded countries	*React as expected*	*Do not react as expected*
Threat	Agreement	Trade war
Rival agreement	Overarching agreement	Rival blocks
MFN negotiations	MFN liberalisation	Status quo
Accession	Enlargement	Status quo

Fig. n° 20: Eight possible scenarios[44]

The entire argument presented by Dür is supported by the analysis of the evolution of the United States trade policy, which has become more assertive in the last years as a consequence of the increasingly negative trade balance and the greater concentration of exports in NAFTA partners. In 1960's the process of European integration and the

[44] Source: Dür, A., (2007). "Regionalism: Stepping Stone or Stumbling Block for Globalisation?", p. 13.

emergence of the internal market worried the US; however, the high concentration of US exports in European countries prevented the Americans to impose retaliatory measures or to try to conclude alternative agreements. They firstly called for a new round of multilateral negotiations, the Dillon Round (launched in 1960), with the hope for unilateral European concessions, and then launched the Kennedy Round based on the MFN principle (1964). In 1970's the US bargaining power with Europe started to rapidly increase, since the country's trade balance turned negative and the concentration of exports in Europe progressively decreased. This time, since the European exporters had become greatly dependant from the US, the European Community had to partly agree on some concessions demanded by the Americans after the European enlargement in 1976. Today the US maintains a privileged role in the international context and a strong negotiating position, since it incurs a record deficit with almost all world regions (Dür, 2007).

Chapter 5. TTIP impact over multilateral trade negotiations

Given the importance attributed to TTIP both by the most supportive and the most critical involved actors, it is not strange that many authors have argued that the conclusion of an ambitious agreement could generate relevant effects on multilateral trade negotiations. However, until now[45], there have not been conducted detailed qualitative or quantitative analyses to esteem and evaluate these consequences. Nevertheless many scholars claim that TTIP would clearly have negative effects on WTO because it violates its basic principle of non-discrimination. It is argued that TTIP could strongly undermine the trade system developed from Bretton Woods onwards, by imposing a 'one-size fits all' reference model rather than promoting multilateral negotiations (Defraigne, 2014b). TTIP (but also TPP for example) could weaken world trade governance eroding WTO's central place in it and creating new places for developing and agreeing on new trade rules (World Economic Forum, 2014). However, Richard Baldwin adds to this negative view some more positive remarks, since he believes that TTIP and other mega preferential agreements may also tidy up the spaghetti bowl emerged from the proliferation of bilateral PTAs and favour a process of harmonization or mutual recognition in particular as far as concerns non-tariff barriers (World Economic Forum, 2014: 26). This approach is shared by the already mentioned Uri Dadush, who stresses how a re-engagement in the WTO framework would probably represent the best response to mega PTAs for third countries, while he recognizes that they could also opt for different responses, such as autonomous trade reforms or the initiation of new negotiations with the contracting parties to TTIP (and TPP), as well as with other important trading partners (World Economic Forum, 2014: 30).

[45] January 2015.

Apart from these general remarks, the Centre for European political studies (CEPS) has devoted a recent publication to the potential indirect spillovers of TTIP at global level, in order to analyse the economic incentives for third countries to pursue regulatory alignment with TTIP outcomes (Lejour et al., 2014). Their research argues that only the closest neighbours of the US and the EU, such as NAFTA partners, Turkey and European Free Trade Association (EFTA) members (Norway, Iceland, Liechtenstein and Switzerland) exhibit strong incentives to align with TTIP results so as to benefit from positive spillovers. In terms of sectors, the study highlights that the chemical sector followed by electronic equipment would be by far the most influenced by potential TTIP spillovers.

5.1 ASSESSMENTS ON TTIP'S POTENTIAL IMPACT ON THIRD COUNTRIES

Apart from its impact on European countries and on the United States, it is relevant to examine which economic consequences could generate TTIP on third excluded countries, caused by trade diversion and trade creation effects due to relative and absolute changes in trading costs. This is particularly interesting given that TTIP, differently from TPP, is not supposed to be an open agreement where other states could ask for accession.

CEPR's study commissioned by the European Commission (Francois, 2013) does not analyse the effects on single third countries but on other regions. The researchers argue that TTIP could be profitable for the EU and the US, while at the same time it would not be at the expense of the rest of the world (Bendini, De Micco, 2014). The study finds that the agreement would increase GDP of third countries partners by almost EUR 100 billion, mainly in OECD economies (EUR 36 billion). These 36 billion of gains are caused not only from direct but also from indirect spillovers. It is, in fact, argued that many partner countries will an incentive to align with the new transatlantic standards that the TTIP create, in order to improve their market access between to the US and to Europe. The study expects the indirect spillovers were modelled to account to half of the 20% rate assumed for direct spillovers. The table below describes the expected economic benefits for all areas of the world, both in the less and more ambitious liberalization scenarios (as described previously in chapter 3).

	Less ambitious		Ambitious	
	Million euros	Per cent	Million euros	Per cent
European Union	68,274	0.27	119,212	0.48
United States	49,543	0.21	94,904	0.39
Total Other Countries	46,636	0.07	99,171	0.14
Whereof:				
Other OECD, high income	15,942	0.08	36,322	0.19
Eastern Europe	1,019	0.14	2,328	0.33
Mediterranean	237	0.02	1,063	0.08
China	3,810	0.02	5,487	0.03
India	946	0.02	2,338	0.04
ASEAN	15,081	0.45	29,834	0.89
MERCOSUR	624	0.01	1,545	0.03
Low Income	1,064	0.09	2,366	0.20
Rest of World	7,913	0.05	17,887	0.12

Figure n°21: Effects on GDP for rest of the world in 2027, 20 per cent direct spillovers[46]

The only two studies which analyse more in detail TTIP's potential impact on third countries are presented in the two following paragraphs.

5.1.1 THE BERTELSMANN STUDY

The Bertelsmann study (Felbermayr et al., 2013b), which forecasts a much higher economic impact of TTIP on contracting parties, esteems also a more relevant trade diversion effect. The study analyses the impact of the TTIP on per capita income for

[46] Source: Francois, J., et al. (2013). *Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment,* p. 80.

virtually all third countries in the world takes in consideration the same two scenarios described before (tariff removal only and deep liberalisation). The first scenario would cause a major trade diversion phenomenon, which will concern almost all countries with substantial trade flows with the European Union or the Unites States. The main exception would be represented by Brazil, which are very strong economic and financial links with other BRICS countries, and Kazakhstan, which exports mainly goods with a rigid demand, such as oil and natural gas (Bendini, De Micco, 2014). The map below illustrates the effects of a tariff-only agreement and clearly shows that, apart from very limited exceptions, all third countries are projected to experience a reduction of per capita income, on the base of the PTAs and tariff agreements they have now with the US or the EU and the presence of alternative markets to explore (West Africa, for example, could take advantage of its closeness to China and Australia and find new markets easier than East African countries).

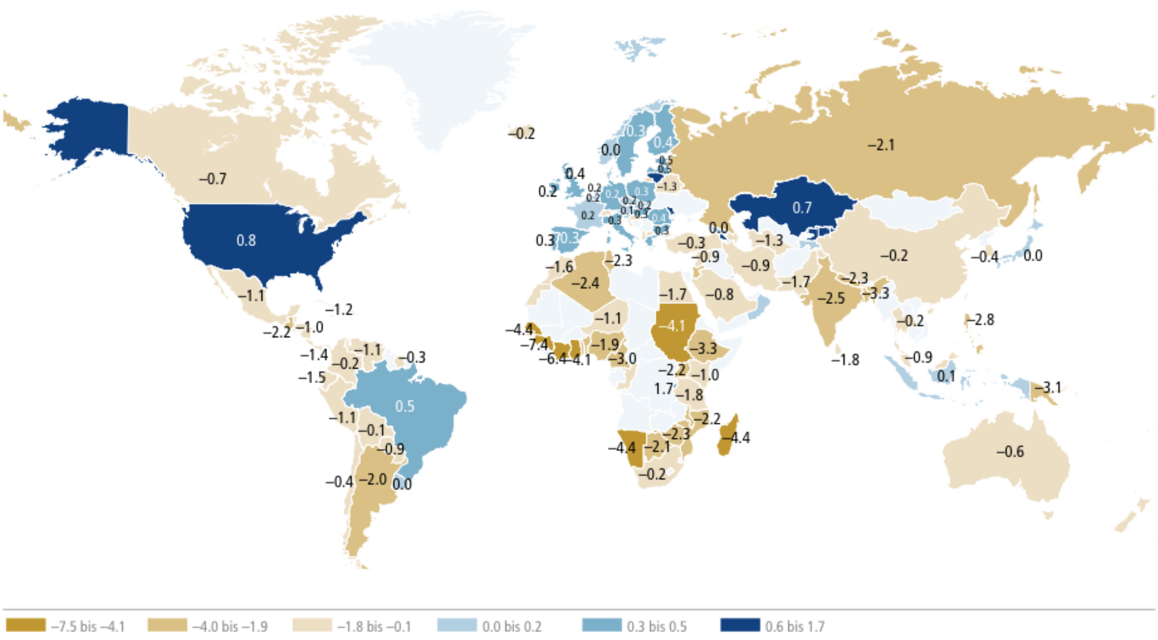


Figure n°22: Change in real per capita income, tariff-only scenario[47]

[47] Source IFO Institute, taken from Felbermayr, G., et al. (2013b). *Transatlantic Trade and Investment Partnership (TTIP): Who Benefits from a Trade Deal? Part 1,* p. 28.

The effects of a deep liberalization agreement are calculated 'ceteris paribus', that is to say maintaining all other variables the same, hence, the envisaged negative welfare effects may be exaggerated. This assumption seems, however, unrealistic, given that an ambitious agreement would probably push the main trade partners of the EU and the US to voluntarily adapt their norms to the new rules emerged from TTIP. The figure shows both the trade creation effect on the EU and, even more, on the US, and the dramatic trade diversion consequences, concentrated in particular on traditional trading partners of the EU and the US, such as Canada, Mexico, Japan, Australia, Chile or Norway, which would experience substantial losses. However, at the global level, the deep liberalization scenario would generate a rise in average real income of 3.27%, which means that there could be enough resources to adequately compensate the loser countries.

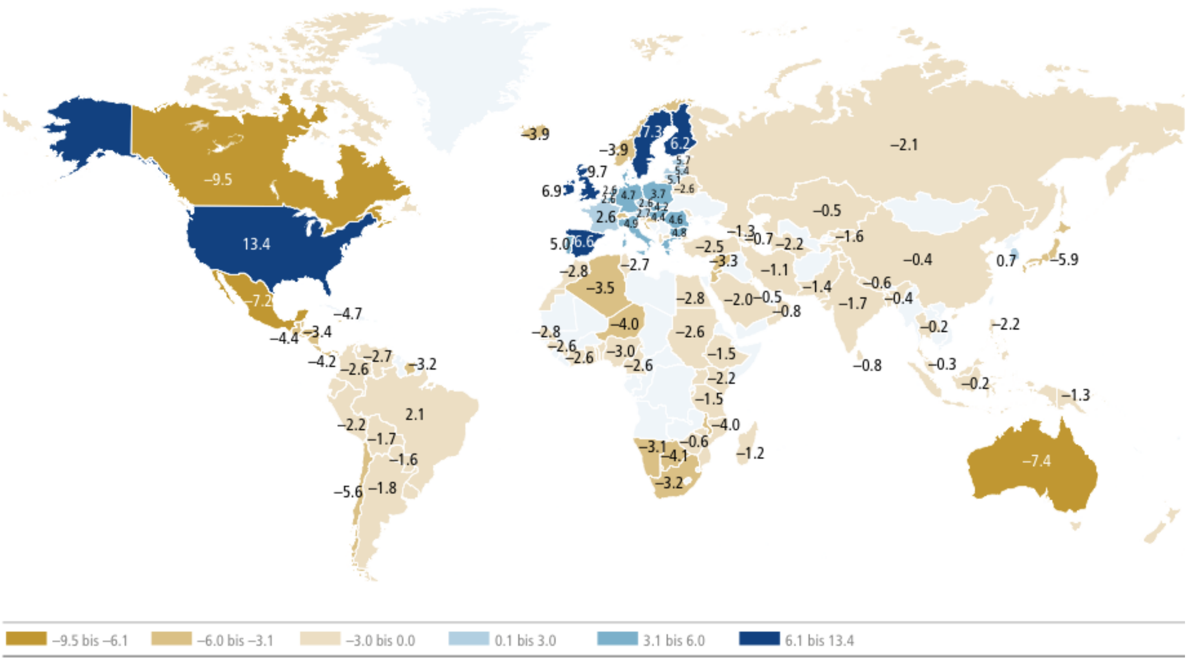


Figure n°23: Change in real per capita income, deep liberalization scenario[48]

[48] Source IFO Institute, taken from Felbermayr, G., et al. (2013b). *Transatlantic Trade and Investment Partnership (TTIP): Who Benefits from a Trade Deal? Part 1,* p. 30.

5.1.2 CARIS STUDY

A third study (Rollo et al., 2014) was carried out by the Centre for the Analysis of Regional Integration of the University of Sussex (CARIS) and assesses in detail the potential effects of a TTIP that removes tariffs and increase the compatibility of non-tariff measures on 43 developing countries classified by the World Bank as low-income countries.

The EU and the US are in the top ten export destinations of the examined states and for Bangladesh, Pakistan and Cambodia, the top three exporters of non-fuel goods, the EU and the US are among the top three destinations. These countries risk to be deeply affected by the agreement and to lose market shares. However, the conclusion of a comprehensive TTIP would not likely seriously disrupt European and American imports from Bangladesh, Pakistan and Cambodia. Small countries that are specialised in the export of raw materials and agricultural products would probably be concerned by the results of the negotiations, given that their export would probably be affected by the new SPS standards.

The study focuses its attention on the limited policy options opened for these developing countries, which could ask for ex ante compensations, for PTA with TTIP's contracting parties (if they do not already have it), or autonomously try to comply and to align with new standards fixed within TTIP and ask to participate in the mutual recognition agreements concluded between the EU and the US.

5.2 TTIP'S POTENTIAL INFLUENCE ON MULTILATERAL NEGOTIATIONS: AN ANALYSIS ON FOUR GROUPS OF COUNTRIES

5.2.1 THE METHODOLOGY CHOSEN

This last part paragraphs aims at finally answering to this work's research question. As in Dür analysis that has been previously presented, the starting point is to accept that both positive and negative effects of PTAs are empirically relevant, but that, at the same time, neither of the two descriptions can capture the complexity of the phenomenon. The two perspectives need to be integrated in a comprehensive model in order to yield a satisfying explanation, since the available evidence does not provide a unique answer.

The following reasoning, as the model proposed by Dür, considers that the direction of a PTA effect depends mainly on the distribution of bargaining power between the excluded states and the deal's member states and the evaluation of these variables by both sides (Dür, 2007). According to the theory, the bargaining power of a country in this field depends mainly on its balance of trade, which can be seen as shortcut of the relative strength of the import-competitors and exporters' interests, the degree of regional concentration of the country's exports and the importance of trade relative to the economic size of the country. The higher the trade surplus, the degree of regional concentration of export in countries involved in the PTA and the importance of trade relative to the economic size are, the lower is the country's bargaining power.

In the next paragraphs, in order to analyse the countries' balance of trade it is used the external balance on goods and services data (% of GDP), which equals exports of goods and services minus imports of goods and services (source: World Bank national accounts data and OECD National Accounts data files for 2013). To esteem the degree of regional concentration of export, it is used the breakdown in merchandise's total exports by destination of the analysed countries (source: WTO Statistics Database for 2013); then the US and EU28 data are summed up to obtain the level of TTIP regional concentration of export. In all the following tables, this data is not present when the EU or the US do not appear among the first five destination of merchandise export. To conclude, to evaluate the importance of trade relative to the economic size of a country is used the esteem of trade openness. Even if the term openness could be misleading, given that a low level does not necessarily imply the presence of high barriers to trade, the trade-to-GDP ratio is commonly used to measure the relevance of international transactions in relation to domestic transactions. In this case I used the merchandise trade as a share of GDP, which equals the sum of merchandise exports and imports divided by the value of GDP in current U.S. dollars (source: World Trade Organization and World Bank GDP estimates for 2013). To these variables, I added the esteem of the so-called TTIP openness (Lejour et al., 2014), which is calculated as the country trade openness multiplied by the TTIP share of the merchandise's total export.

The evaluation of these criteria for all world countries would have been surely possible but it would have probably been not particularly useful, given the fact that multilateral trade negotiations are greatly influenced by the preferences of the most important commercial players. However, instead of focusing only on the biggest traders, I decided to analyse TTIP's impact of four groups of countries. The first group includes the so-called closest neighbours of the EU and the US, including states which share with TTIP contracting parties not only geographical closeness but are already linked with them through strong commercial relations and legal agreements (Canada and Mexico are members of NAFTA, together with the US, Norway, Switzerland and Island compose the European Free Trade Association and are members of the European Union's internal market, while Turkey has been linked to the EU through a Custom Union agreement since 1995). The second group is probably the most relevant for the evolution of world trading system, since it includes the most important commercial players, on the basis of their relative contribution to global trade (Brazil, China, India, Indonesia, Japan, Republic of Korea, Russia and South Africa). The third group comprise other developed economies that, mainly because of their size, cannot hope to assume leadership in world trade negotiations but could, nevertheless, be crucial in the process of negotiation and for the emergence of a global consensus. To these three groups, already chosen in a recent study on the economic incentives for indirect TTIP spillovers (Lejour et al., 2014), I added a fourth group in order to represent the position of the middle and low-income countries in relation to the deal. I selected, in an arbitrary way, the countries with the highest GDP among the middle-income (excluding the countries already included in the second group) and the low-income ones (according to the World Bank division based on 2013 data). Even if these countries alone are not able to orient world trade negotiations, their number could make their reaction stronger and worth to be considered, even more because many among them are former European colonies and preserved a special relationship with their motherlands.

Before passing to the groups of countries' analysis, I need to underline an important caveat, since this model only concerns preferential trade agreements, while the effects of preferential financial arrangements on multilateral framework may require a different type of analysis and the evaluation of another set of data (Dür, 2007).

5.2.2 THE CLOSEST NEIGHBOURS

This first group includes the countries that have already special and strong commercial links with the EU or the US; therefore, even before analysing the data, it is to be expected that they could suffer from the conclusion of TTIP and would be ready to ask for membership or otherwise offer concessions in MFN negotiations in order to not lose access to markets that are crucial for their economies. The economic data presented by figure 24 show how all these countries' economies, with the partial exception of Turkey, are characterized by an incredibly high regional concentration of export towards TTIP members (each country towards its neighbour obviously). There is no evident basis to define a critical threshold beyond which the bargaining power a third country could be considered very low, but 66.5% (or including Turkey 46%) to 86.3% shares are so high that it is possible to speak of TTIP countries dominance in trade relations.

		External trade balance (%)[49]	**Merchandise Exports by destination (%)**[50]			**Trade openness (%)**[51]	**TTIP openness (%)**[52]
			US/ Total	EU 28/ Total	TTIP/ Total		
NAFTA	Canada	- 1.7	75.8	7.0	82.8	51.1	42.3
	Mexico	- 0.7	78.9	5.2	84.1	61.2	51.6
EFTA	Switzerland	12.1	11.7	54.8	66.5	62.7	41.7
	Iceland	8.3	4.7	74.3	79	63.8	50.4
	Norway	10.7	4.5	81.7	86.3	47.6	41
	Turkey	- 6.6	3.7	42.3	46	49.1	22.5

Figure n°24: Relevant economic variables for closest neighbours to TTIP negotiating countries[53]

[49] External balance on goods and services (% of GDP), 2013. Source: World Bank national accounts data, and OECD National Accounts data files. The same definition and sources are used in the following three tables.
[50] Breakdown in merchandise's total exports by main destination, 2013. Source: WTO Statistics Database, 2013. The same definition and sources are used in the following three tables.
[51] Merchandise trade as a share of GDP is the sum of merchandise exports and imports divided by the value of GDP, 2013. Source: World Bank national accounts data, and OECD National Accounts data files. The same definition and sources are used in the following three tables.
[52] The "TTIP" openness is calculated as the country trade openness (Merchandise trade as a share of GDP is the sum of merchandise exports and imports divided by the value of GDP, 2013. Source: World Bank) multiplied by the TTIP share of the merchandise's total export, source WTO Statistics Database, 2013. The same definition and sources are used in the following three tables.
[53] Source: own elaboration based on WTO and World Bank data.

In addition, these countries are characterized by a very high level of trade openness compared to the other groups, where rarely we find a country that exceeds 50% share of this parameter. This is particularly significant for countries such as Mexico and Canada, which are very big countries, where usually a high level of openness is typical of small countries heavily dependent from external trade. EFTA countries have also a high commercial surplus, which makes them more dependent from trade and their exporters' interests particularly powerful. Turkey could be included in this group because it still has a consistent regional concentration of trade towards the EU; however, with a lower level in this data together with the 6.6% deficit, the country seems a bit less interconnected with TTIP economies and dependant from export to the EU. This is not surprising given that the country is currently reorienting its policies towards former Soviet Republics and Middle Eastern states.

From these data, is seems manifest the limited bargaining power of these countries, which cannot afford losing their privileged relationship with the US or the EU. Therefore, this group will probably be ready to offer concessions in MFN negotiations or even to ask for membership or an association agreement with TTIP. However, these countries have already in place channels for cooperation with the US and the EU which they could use to directly negotiate new conditions at bilateral level, the NAFTA countries with the US, while the others with the EU. The Bertelsmann study (Felbermayr et al., 2013b), in case of deep liberalization, forecasts, for example, 9.5% loss for Canada, 7.6% for Mexico, 3.9% for Island and Norway, as it is shown in figure 23, and corroborates the idea that TTIP could represent a risk for these countries.

5.2.3 The bigger traders

Table 25 summaries the same data presented in last paragraph for the eight biggest traders in the world, apart from TTIP countries. The group holds a key importance given that these countries, together with the EU and the US, could assume a leading role in multilateral negotiations and orient WTO agreement towards their main objectives.

Even if, as it has been highlighted before, it is not possible to establish a specific threshold beyond which the bargaining power of a country consistently changes, it is clear at first sight how different the condition of these states is from the group analysed before.

	External trade balance (%)	**Merchandise Exports by destination (%)**			**Trade openness (%)**	**TTIP openness (%)**
		US/ Total	EU 28/ Total	TTIP/ Total		
Brazil	- 2.5	10.3	19.7	30	21.9	6.6
China	2.6	16.7	15.4	32.1	45.0	14.4
India	- 3.6	12.5	16.7	29.2	41.5	12.1
Indonesia	- 2.0	8.6	9.2	17.8	42.7	7.6
Japan	- 2.8	18.8	10.0	28.8	31.5	9
Korea Rep.	5.1	11.1	8.8	19.9	82.4	16.4
Russia	5.9		45.8		41.3	
South Africa	- 2.8	7.2	17.7	24.9	63.4	15.8

Figure n°25: Relevant economic variables for the biggest trading countries (apart from TTIP countries)[54]

[54] Source: own elaboration based on WTO and World Bank data.

The majority of them has a relatively small trade deficit, which makes their export sector comparatively less influential than the import competing interests; the average of their regional concentration of merchandise trade towards TTIP countries accounts to around 26%[55] (against a 61.5% of the closest countries, including Turkey) and the level of trade openness is averagely not particularly high.

Given the relevance of these states in the world trading system, it is worth to consider some specific data more in detail. Brazil seems to have a particularly strong bargaining power, given that it has both a low level of trade openness and a relatively low level of export to the US and the EU, which makes its TTIP openness extremely low. South Korea, indeed, has a very high level of openness and a consistent surplus of trade but only 19.9% of its merchandise export goes to Europe or to the US.

China seems to represent the most interesting case, both for its increasing economic power and its relations with TTIP countries. China's trade openness accounts to 45% and its merchandise export to the US and the EU to 32%; it has a total surplus of 2.6% that, however, becomes incredibly higher if only the economic transactions with TTIP countries are taken into account. Until now, I have only considered the general country's balance of trade in order to esteem the relation of power between import and export' sectors but it seems now the case to add a new element in the discussion. In 2013, the US balance of trade with China registered a deficit of 318,711.3 million of dollars[56]; in the European Union the situation is less extreme but similar, since in 2013 the EU deficit accounted to 131,798 million of euros[57]. Given the negative US balance of trade, the country does not experience high a deficit only with China, but also with other bigger traders, first of all Japan, its NAFTA partners and some European countries. However, the American deficit

[55] Russia is not included in this calculus and in the following analysis given that its export in manufacturers is very limited.
[56] Source: US Census Bureau.
[57] Source: European Commission, DG Trade.

with China is particularly extreme given that it is almost five times higher than its second highest trade deficit (with Germany), as figure 26 clearly shows.

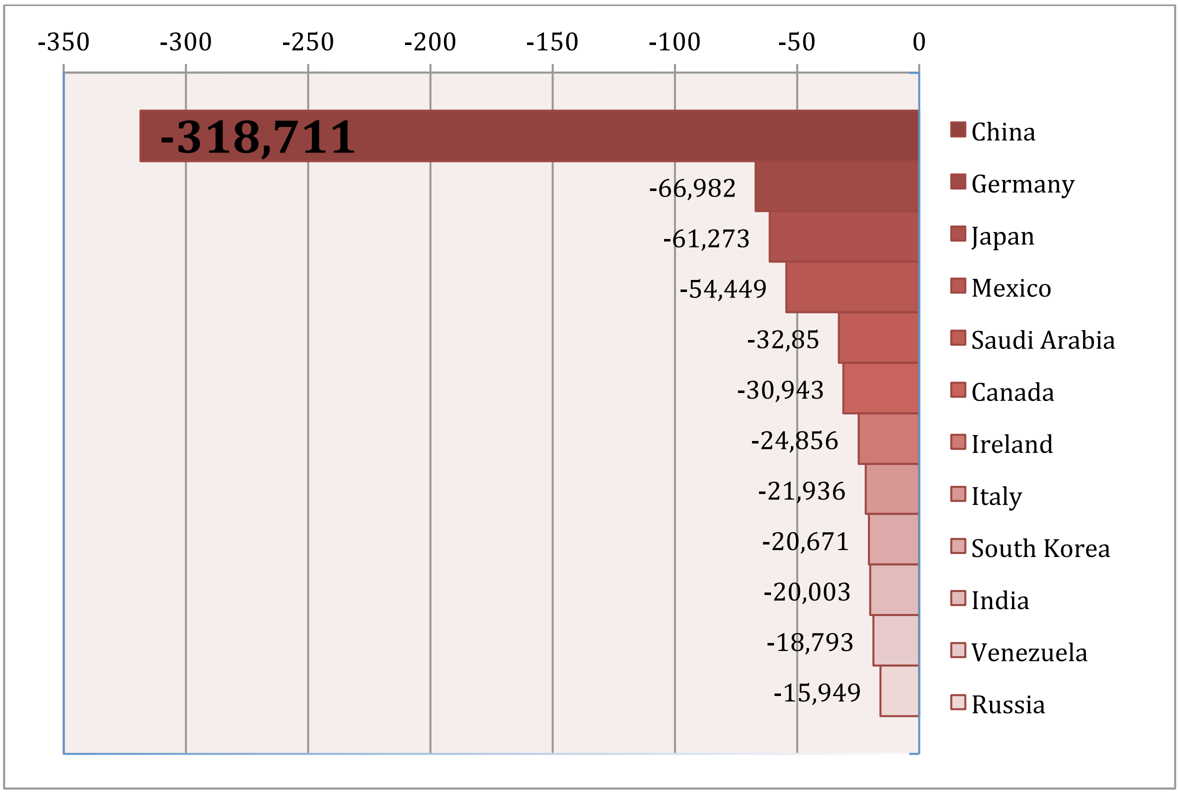


Figure n°26: Top countries with which the US has a trade deficit, in billion US dollars (2013)[58]

This implies that the bargaining power of China could still be considerably high, given that the regional concentration of trade in TTIP countries is relatively low, but the enormous surplus that the country enjoys with regards to the US and, to a more limited extent, with the EU makes China particularly concerned by the outcome of the agreement. China's interest in the process has already clearly been demonstrated by the proposal made on March 2014 by Chinese President Xi Jinping to open the negotiations for a comprehensive China-EU PTA (Bendini, 2014), which followed the launch of the negotiations for a Bilateral Investment Treaty (BIT) in November 2013, few months after the beginning of

[58] Source: own elaboration based on US Census Bureau.

TTIP negotiations. Even if China would probably have the bargaining power to lead a rival block, the huge commercial surplus could push the country to offer some concessions either in bilateral negotiation (more probably with the EU, since it is a topic that is being discussed) or in the multilateral framework. However, according to the Bertelsmann study (Felbermayr et al., 2013b), (figure 23) TTIP deep liberalization scenario would have only a minimal impact on China's real income (-0.4%), while even favours Brazil (+2.1%) and South Korea (+0.7%) and have a consistently negative impact over Japan (-5.9%) and South Africa (-3.2%).

5.2.4 OTHER DEVELOPED COUNTRIES

This group of developed countries deserves to be taken into consideration since they have consistent links with TTIP countries and are well integrated into world trading system. In addition, they would probably not be able to hold a leading role in multilateral negotiations but their approval could be vital in order to promote further liberalizations.

However, there are strong differences among these countries that do not allow making a common analysis and inferring some general conclusions. Among these countries, it is immediately evident the strong link between TTIP countries and Israel, to the point that the country has similar data to the closest neighbours. The fact that it has robust relations both with the EU and the US, differently from NAFTA and EFTA countries, which have a privileged partner, makes Israel highly sensitive to the effect of the agreement that involves its two main trading partners. The high level of trade openness of Singapore and Hong Kong is obviously motivated by the reduced dimension of the states, but their relatively low level of trade with TTIP members preserve them from the negative influence of the deal.

	External trade balance (%)	Merchandise Exports by destination (%)			Trade openness (%)	TTIP openness (%)
		US/ Total	EU 28/ Total	TTIP/ Total		
Australia	- 1.2		4.4		31.7	
New Zealand	1.8	8.5	9.3	14.8	42.6	6.3
Singapore	23.0		7.8		262.9	
Hong Kong	0.8	8.9	8.8	17.7	422.5	74.8
Israel	1.4	26.2	27.4	53.6	48.8	26.2
Chile	- 0.3	14.6	12.7	27.3	56.2	15.3

Figure n°27: Relevant economic variables for the other leading developed countries[59]

The same happens also for New Zealand and, even more, Australia, which are strongly linked to Asian economies and more dependent from them. Singapore, Australia, New Zealand, Chile and Japan are, moreover, already involved in the TTP negotiation, which could eventually constitute a rival trading block, even if in an anomalous way, since the US is the leader in both negotiations. Apart from Israel, these countries share a notable level of bargaining power towards TTIP members and would probably put much more efforts in building a strong pacific partnership rather than reacting to TTIP.

5.2.5 Selected developing countries

To conclude this analysis on the clustered groups of countries, I deemed interesting and even necessary to include a reference to medium and, even more, low-income countries (as

[59] Source: own elaboration based on WTO and World Bank data.

classified by the World Bank). These countries, even if without having any leading role, are generally part of the WTO, contribute to the definition of multilateral agreements and may also have an important role in the evolution of world trading system and policies. They would not be able to define world response to TTIP alone, but their voice, especially if shared and common, could help in building successful proposals. Yet, also this group's countries, which has been selected in an almost arbitrary way including the three middle-income and the three low-income countries with the highest total GDP[60], is far from homogeneous.

	External trade balance (%)	Merchandise Exports by destination (%)			Trade openness (%)	TTIP openness (%)
		US/ Total	EU 28/ Total	TTIP/ Total		
Argentina	- 0.3	5.6	12.9	18.5	25.5	4.7
Nigeria	5.1	9.2	41.5	50.7	30.5	15.5
Thailand	3.3	10.1	9.8	19.9	123.8	24.6
Kenya	- 12.4	5.5	23.9	29.4	40.2	11.8
Ethiopia	- 16.6		28.4		31.4	
Tanzania	- 18.0		11.5		51.7	

Figure n°28: Relevant economic variables for some selected middle and low-income countries[61]

However, apart from Nigeria, the selected countries export a moderate amount of goods to the EU and a very scarce one to the US; moreover, the three African low-income countries (Tanzania, Ethiopia and Kenya) have a consistent trade deficit and, therefore, much stronger interests in the import sector rather than in export. Nigeria, which is a rising

[60] World Bank data, 2013.
[61] Source: own elaboration based on WTO and World Bank data.

country with a huge population, seems the only one with a very restricted bargaining power, given that it enjoys a trade surplus and exports more than 50% of its merchandise to TTIP members.

5.3 CONCLUSIONS

From the analysis of the countries' data it does not emerge a clear-cut scenario. However, it is possible to gather some conclusions and to highlight some critical aspects that could be worth of a more detailed analysis and should be carefully taken into account by TTIP negotiators.

What can be clearly stated is that the only group of countries which have an evidently low bargaining power relatively to the EU and the US are their closest neighbours, as it could have been imagined. The other groups have a higher bargaining power, since they are not so strongly dependant from trade with the EU and the US and, therefore, would not be compelled to offer concessions in order not to lose access to TTIP's countries markets. Moreover, any of the biggest traders show a particularly high surplus that proves the power of its exporters' interest at domestic level. However, the situation is more complicated since the framework is not homogeneous and some countries enjoy a high level of trade surplus with the US or the EU, which makes their exporters particularly interested in these markets. Among these countries, China stands out for its enormous surplus with the US.

Taking into account the scenarios envisaged by Dür (figure 20), it needs to be excluded the first option (ask for membership and become a contracting party of TTIP) since, differently from TPP, TTIP is a closed agreement and the only way to join it, it is through accession in the European Union. This could have been the best solution for the closest neighbours of NAFTA and EFTA; however, their strong links with the US and the EU could help in reaching some sort of association with TTIP. It is possible to argue that, in any case, these countries, together with some others characterized by a consistent commercial relation with TTIP members such as Israel, would be ready to offer concessions in MFN negotiations. However, the high bargaining power of the majority of the countries, included many of the biggest traders, do not create a particularly favourable scenario for further liberalization. In fact, TTIP conclusion does not seem to be sufficient in order to push many countries to offer concessions at multilateral level, which could have been the case if they were more dependent from trade with the US and the EU and they had a lower bargaining power. In this context, the reaction of the countries that see themselves as rising powers, such as China, India and Brazil, could be crucial since they will probably react faster to the perceived systemic repercussions of the agreement, while the majority of smaller countries would not see themselves able to substantially affect the system. The emergence of rival trading blocks would depends mainly on the political choices of this rising countries, which should combine their geostrategic ambitions to their economic needs. China has the second biggest economy in the world and its decision would be crucial: even if the country is considering the possibility of reinforcing its area of influence in Asia through trade agreements[62], its strong commercial surplus with both the EU and the US pushed it to propose the launch of a EU-China agreement and to study the convenience of China's entrance into TPP[63]. To conclude, from the analysis of the economic data of the selected countries and according to Dür model, TTIP does not produce enough incentives to engender a process of liberalization, since only few countries are extremely dependent from its members and have a very low level of bargaining power. However, the sizes of the

[62] See for example: Kirk, D. "China Promotes Its Own Asian Eco Zone After Obama At APEC Fails To Press For Trans-Pacific Partnership", in *Forbes*, 14/11/2014, access on http://www.forbes.com/sites/donaldkirk/2014/11/14/china-promotes-its-idea-of-its-own-asian-bank-rival-to-u-s-backed-trans-pacific-partnership/

[63] See for example: Tiezzi, S. "Will China Join the Trans-Pacific Partnership?", in *The Diplomat,* 10/10/2014, access on http://thediplomat.com/2014/10/will-china-join-the-trans-pacific-partnership/

US and EU economies and their interconnections with all the world areas makes difficult to imagine the emergence of many closed rival trading blocks. This would probably only be possible through a strong Chinese commitment, while the country, as it has been shown, has consistent incentives in maintaining its commercial links with TTIP members. Therefore, without pretending to offer more than a fairly aggregate economic approach, and not examining the different regulatory options envisaged in TTIP, this analysis shows that there are no clear incentives for the majority of excluded countries to offer concessions in MFN negotiations, as result of TTIP negotiations.

However, according to Dür, the result of a PTA on world trading system does not depend only on third countries response, but also on its interaction with PTA members' policies. In order to promote global liberalisation, whatever the third countries' response is, the US and the EU would need to be ready to compensate them and the offer concessions at multilateral level. Even in the case of the emergence of some rival blocks, only US and EU readiness to compensate the losers from TTIP and to offer better conditions in multilateral negotiations could help in defining an overarching agreement.

Before concluding, some remarks are needed on the weaknesses of this model and on the eventual flaws of the analysis. First of all, it needs to be stressed that the model proposed by Andreas Dür, and here applied, is a smart attempt to combine the stepping stones and the stumbling blocks 'perspectives into a unique theory and it is a powerful tool to describe some process. However, from a scientific point of view "*no rigorous test of the argument*" has been done (Dür, 2007: 15). Moreover, even if the bargaining power of a single country perfectly reflects its response to a PTA, the aggregation of all the countries' data could result particularly challenging, since the interaction among their preferences could generate a new outcome. Lastly, we tend to think of countries as led by well-informed and independent specialists who will in each situation opt for the public interest, while, in practice, each country's response would probably be oriented by the weight of domestic political interests and how they perceive themselves influenced by the new trends and outcomes (World Economic Forum, 2014).

FINAL REMARKS

This work is focused on the recent proliferation of PTAs and their potential impact on the multilateral trading system. Among all the PTAs already concluded or under negotiation, I devoted my attention to TTIP, which quite suddenly, a bit more than two years ago became one of the greatest priorities of the European Union and, since that moment, has been incessantly debated, criticized and flattered. After a first part focused not only on the definition of PTAs but also on the, initially very different, American and European approach to the theme, the second part concerns directly TTIP and analyses in detail its background, in order to evocate the peculiarities of the deal and some important passages in the history of transatlantic economic relations. The third part draws some conclusions and, on the basis of some economic parameters, argues that the agreement does not produce sufficient economic incentives to foster a global liberalization process at multilateral level.

The analysis offers a fairly aggregate economic approach and it is plainly partial, since not all the countries are taken into account. However, it aims at offering some original reflections on a topic which has been quite neglected until now, since the debate has been much more focused on the content of the agreement rather than on the effects that could engender. Even if the chapters included in the deal clearly need to be carefully analysed and discussed, it seems important to draw the attention also on the bigger framework and to consider the strategic implications that the conclusion of an ambitious TTIP could generate.

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