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The Evolution of Trade Relations within the "Atlantic Lake"

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Contents

CHAPTER 3 *CETA, TTIP AND EU-MEXICO TRADE DEAL: SIMILAR AGREEMENTS, DIFFERENT OUTCOMES*

Introduction

The origin of the alliance between North America and Europe dates back to the First World War, but it only cemented itself after the end of the second in 1945 and with the establishment, by the United States, of plans for the reconstruction of the European continent, such as for instance the Marshall Plan. The architecture of the transatlantic integration process rests on the foundations of the cultural and political values that unite the United States and the European countries: the values of democracy, respect for human rights and the guarantee of political and economic freedoms. Two further fundamental elements in the alliance-building process were: on the one hand, the American economic interest in a rapid recovery of the European continent, in disastrous conditions following the end of the war; on the other hand, the need for an anti-Soviet strategic-military integration, which led to the signing of the Atlantic pact.

Following the election in 2008 of Barack Obama as president of the United States, the relationship between the two allies experienced a positive period, characterized by unity of purpose and close cooperation both at the political and economic levels. In 2013, in fact, Brussels and Washington began negotiations for a commercial treaty, the Transatlantic Trade and Investment Partnership, which could expand the terms of the alliance that still remains confined to the military. The TTIP was conceived as a tool that could integrate the markets of the two sides of the Atlantic in order to encourage investments and thus generate growth and jobs. Simultaneously, the EU and Canada initiated a similar cooperation project, the Comprehensive Economic and Trade Agreement, which has ultimately resulted to be more successful than its twin deal. The negotiations for the signing of the agreement with Washington, in fact, did not conclude before the election for the White House in 2016. Donald Trump's victory led to a disruption of the US political agenda. The decisions taken to date, in the field of foreign policy by the new American president, have been based on the belief that international cooperation and trade agreements signed by his predecessors were the main causes of an alleged US decline and that a protectionist and nationalist approach, together with a revision of all pre-existing treaties, could allow the United States to return to a romantic state of *grandeur* now lost according to the Tycoon. Allies and non-allies, therefore, ended up under the magnifying glass of the new president, including the European Union. On the foreign policy front this meant the definitive sinking of the TTIP, the imposition of duties on European imports (in order to equilibrate the balance of trade), the withdrawal from the Paris climate agreements and continued threats of NATO exit. Negotiations for a new trade agreement between the European Union and the United States are not expected to begin shortly. However, even if Washington and Brussels were to start new rounds of talks, the eventual project would have a structurally different nature than the TTIP (less inclusive and ambitious). Despite some level of cooperation on minor issues, it is impossible to assess positively the current state of relations between the two sides of the Atlantic.

Friction between the US and the EU are furtherly aggravated by the White House position on Brexit. The American president, in fact, despite the evident difficulties encountered by the United Kingdom in the process of leaving the EU, remains one of the few staunch external supporters of the "leave" option, even suggesting Great Britain to abandon negotiations, should the Brussels offer fail to meet Westminster's demands. Trump is also one of the few world leaders to had openly expressed a preference on Theresa May's replacement as prime minister: the name indicated is that of Boris Johnson, current leader of the British executive, a politically and temperamentally very similar figure to the tenant of the White House. The Tycoon has declared itself ready to offer a new commercial treaty to the United Kingdom, thus welcoming with open arms what is historically the closest ally in the old continent, clearly showing the strategy adopted towards the European Union: Divide et impera.

Evaluating Trump's approach to the European Union as exquisitely destructive would lead to a distorted picture of transatlantic relations. Nonetheless, there is no doubt that a less cohesive EU will offer Washington, as well as Moscow or Beijing, greater advantages in any negotiations.

The purpose of this research project is to investigate the theoretical, political and economic reasons which have contributed to the development of the current state of Transatlantic relations, offering a perspective of the benefits that are being left on the table due to lack of further integration. The first section of this work presents a general overview on the historical evolution of International Trade throughout the centuries, starting from Mercantilism and finishing with the latest contributions to the New Trade Theory. Furthermore, the first chapter present the institutional development of the multilateral trading system, highlighting the role played by the actors subject of this analysis.

The second chapter of this project has been dedicated to the analysis of the theoretical understanding of the evolution of regions as global actors, and their role as hubs for political and economic integration. The chapter goes on introducing the different development processes that North America and Europe have followed in their recent history.

The third part is focused on the trade agreements that have been negotiated or signed by the parties object of this thesis, namely the US, the EU, Mexico, and Canada. The chapter dives into the negotiation process, the content, and expected benefits of each of the three agreements.

The last chapter, instead, is headed toward the future and offers perspectives on the potential effects of the current pandemic of Covid-19 on the future of International Trade, clearly with a special focus on the two shores of the Atlantic.

CHAPTER 1 *RECENT DEVELOPMENTS IN INTERNATIONAL TRADE*

1.1 International Trade schools of thoughts

Identifying a single date, or event, which has undoubtedly started the flow of goods and labor between borders is to be deemed as an useless effort. Entities, whether public or private, have always conducted business and transactions across borders, and ideas on how to regulate these movements have been found in documents datable to periods in which the concept of State was not yet developed.

The purpose of this work is to offer an updated understanding of current economic relations between both sides of the Atlantic Ocean, and for its sake I will begin by focusing my efforts on presenting the academic developments on the subject of international trade since the emergence of Nation States as we know them nowadays.

During the period which I have chosen as the starting point of this preliminary analysis, the main actors of the selected research topic either did not yet exist or were far from being as they are known today. North American countries, in fact, were yet to declare their independence from the European kingdoms, and the discussion over the idea of a United Europe were marginalized within small groups of philosophers[1]. Nonetheless, the relevance of the 17th century is crucial for the development of Trade across borders as a research subject of its own.

The establishment of the principle of state sovereignty with the Peace of Westphalia has led to development of Nation States as the primary actors in International Politics, which would now be capable of defending their regime and their territories from foreign interventions. This sentiment of fear and mistrust towards what came from abroad was translated in polity as well as in policy decisions.

As a result, commerce across borders at the beginning of the 17th century presented some precise characteristics. To begin with, the main actors in this period were the States and their companies, for instance the East India Companies of Holland and England.

Secondly, the most dominant ideology on the subject, that of Mercantilism, suggested that Nations were in a perpetual state of political and economic conflict and, as a consequence, International Trade was intended as a zero-sum game.

[1] https://www.economist.com/special-report/2003/12/30/the-history-of-an-idea

Finally, the wealth of a State was believed to be directly, and exclusively, related to the amount of valuable assets possessed by that specific economy. As a result, precious metal and a positive trade balance were highly considered.

1.1.1 Mercantilism

The birth of economy as a science of its own has been typically identified with the publishing, by Adam Smiths, of the Wealth of Nations, the work which has definitely elevated the discussion over the allocation of resources as a topic deserving of its own academia, rather than being part of the whole political philosophy. International Trade, being a branch of Economics, has not always been addressed by ad hoc scholars.

Transnational commerce, as subject of researches and studies, has in fact begun to be tackled by merchants as the main actors. Consequently, when speaking of Mercantilism, it could be imprecise to address it as a school of thought, since there is no unified body of writings universally accepted by mercantilists. Instead, it would be more accurate to speak of most widespread ideas on how to tackle the economic problems of the period of reference.

The first, and among the most relevant, exponents of Mercantilism has been Thomas Mun, director of the British East India Company, who has contributed to the shaping of this group of ideas through his two main works: *England's Treasure by Forraign Trade*, and *A Discourse of Trade*. Mun's argument, as well as the majority of mercantilists, revolved around the role of the balance of trade for the growth of an economy. To be more specific, running a positive delta between exports and imports, according to Mun, would allow an economy to accumulate more wealth and prosper.

Furthermore, high relevance was attributed to the type of goods to be exported and to those which, on the other hand, could be imported without any particular risks. The mercantilist writers, in fact, suggested that raw materials and agricultural products should be kept within borders, while manufactured goods were the ones which should be sold abroad. Otherwise, country A would endow country B with the opportunity to produce goods at a lower cost. Consequently, great relevance has been put on the role of tariffs and duties as means to achieve the above presented objectives.

As previously mentioned, Mercantilism was never a fully structured school of thought on which to elaborate precise policy prescriptions. The clear objective was universally clear, to ensure national prosperity over other countries; yet, great variety of answers have been presented to the question of what are the best means to secure such a goal. During the XVI century, for instance, observing the success obtained by the Spanish empire, scholars have concluded that the accumulation of precious metal and valuable objects in general was the key to supremacy over other States. This argument, however, was firstly replaced by the case of Holland, which has developed great political and economic power by running a large balance of trade surplus; and secondly, by the example of England, which prosperity was attributed to the strong industrial system it had built.

1.1.2 Liberalism

Up to the XVIII century, the term "liberal" was mostly used to qualify pre-political concepts, such as arts or education. The term started to acquire the sense known nowadays in 1769, as a result of the works of a Scottish historian: William Robertson[2].

Few years later, it was another Scot to further develop the concept of liberalism. With the publishing of the *Wealth of Nations* in 1776, Adam Smith contributed not only to the diffusion of a new meaning of the adjective "liberal", but also to the birth of economics[3] as a science of its own.

Many are the major areas in which this book has resulted to be innovative. To begin with, the title itself clarifies the object of political economy as a science: that of generating a theory for the growth of national wealth. Secondly, Smith has addressed in this book numerous topics: productivity, labor, prices, wealth, growth; never before issues of political economy have been addressed in such a comprehensive way. Lastly, *The Wealth of Nations* supported the redefinition of the concept of wealth, not to be conceived anymore as the value of precious metal, but rather measuring annual produce (or consumption).

At the heart of Smith's theory lies the individual and its natural liberty, and the entire book is presented as an antidote against the monopolizing goals of Mercantilism. Human beings are seen as independent actors from one another, free to pursue their personal goals and, during this process, to compete with other individuals. While acting in order to maximize their personal welfare, members of society also contribute to the growth of wealth of the whole community.

[2] https://www.theatlantic.com/politics/archive/2014/02/the-origin-of-liberalism/283780/

[3] Mark Blaug, Economics, Britannica, 2020

“Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of man”.

In addition to the pursue of self-interest, the second restriction posed by mercantilist policies on growth was on the dimension of the market. International trade has the direct consequences of expanding the pools of consumers and resources accessible to all types of actors in an economy, including the labor market. For Adam Smith the division of labor, or specialization, is at the core of economic growth, and legislations which disincentivize market expansion are unnecessary. Import restrictions, generate advantage to protected industries, but are detrimental for the development of prosperous competition in an economy, making industries lazier and raising prices.

The work of Adam Smith, in addition to everything mentioned thus far, has provided the world with the concept of absolute advantage. According to this criterion, when comparing the ability of two countries to produce a certain good, the one capable of producing the most of that commodity possesses an absolute advantage.
Smith used this concept to specify how countries should behave in International Trade, suggesting that they should specialize in the production of goods in which they have an absolute advantage while importing other commodities from foreign countries.

1.1.3 Ricardian model of international trade

The concept of Absolute Advantage served as new lenses through which to analyze and interpret International Economy. It remained the main tool to study trade among countries until the second half of the XIX century when David Ricardo, building on Adam Smith research, built on it the idea of Comparative Advantage. In developing this notion Ricardo includes in the analysis an evaluation of countries’ opportunity costs of production. As a result, A country has a comparative advantage in producing a commodity if the opportunity cost of producing that good in terms of other goods is lower in that country than it is in other markets.

The starting point of this model is the consideration that every country faces opportunity costs when allocating resources for the production of goods and services: if a country has to distribute resources across two industries, dedicated to the production of commodities A and B, the opportunity cost of allocating an extra unit of labor to the production of good A would be the amount of good B that the same units of resources could have contribute to produce if assigned to industry B. As a result, every country faces the following trade-off: “how many units of good A and good B do I choose to produce?”

In developing this model, Ricardo specifies the assumption underneath it:

1. Labor is the only resources necessary for the production of both goods
2. Labor productivity differs among countries
3. Labor supply remains constant in both markets
4. Only two goods are produced in only two countries (model 2x2x1)
5. inserisci equazione produttività labor

Following the principle of comparative advantage, a country best allocates its resources when it chooses to destine them to the production of the good with the lowest opportunity cost. In autarky, however, despite being the most efficient, this solution is impossible because it would leave the citizens of that country without one of the two products.

It is right in this situation that the role of International Trade comes into play: when countries specialize in the production of the good in which they have a comparative advantage, the overall outcome increases.

1.1.4 Heckscher - Ohlin trade theory

A theoretical update to Ricardo’s model was proposed by two Swedish economists, Eli Heckscher and Bertil Ohlin, who presented their work in 1924. The innovative aspect of this new proposal was its focus on countries’ endowments, and the consequences of these differences on trade across borders. To be more specific, the two Swedish economists argued that differences in resources endowment result in diverse production capacities which create incentives for countries to trade with one another.

Unlike Ricardo’s theory, the HO model is structured following the scheme 2x2x2, which means that is elaborated considering: two countries, two goods, and two factors of production (Labour and Capital). Heckscher and Ohlin furtherly assumed that supply of L and K are different, but constant, in the two countries; the combination of L and K required for the production of a commodity is different in the two markets; and that in the long term resources can be moved across industries.

These premises served for the introduction of two innovative concepts: factors abundance and intensity. According to HO, the instrument of comparative advantage was not sufficiently exhaustive to explain why countries engaged in commerce with one another. Instead, they argued that a country which, for instance, is abundant in K will maximize productivity by allocating as much resources as possible to the industry which intensively uses K. Likewise, if in a certain market the supply of Labor is far superior to that of capital, the industry which uses intensively L should be the one where most of the resources should be allocated. As a result, countries should specialize in the production of those commodities which require high amounts of their abundant factor, while importing other goods.

The incipit of their research lies on the question: "what is the effect of trade on wages and rental rates?". Ohlin's research conclusion was that the immediate consequence of trade is the convergence of goods prices between the two countries involved in the transaction.

The economists Paul Samuelson and Wolfgang Stolper decided to elaborate on the consequences of this convergence on wages and rental rates. They started their analysis where Hecksher and Ohlin interrupted theirs: what happens in each country once they choose to specialize in the production of a single commodity while importing the other? Since each market will shut down the realization of the good which production process intensively uses the resource which is not abundant in that country, the price of that resource will fall. For instance, in labor abundant contexts, the price of capital will drop while that of labor will increase, and vice versa.

The theorem elaborated by Stolper and Samuelson[4], therefore, affirms that in the HO model, the abundant factor will become more valuable because of trade, while the less available resource will lose value.

According to this conclusion, certain features should be witnessable in International Trade. First of all, growing trade patterns between rich and developing countries should be registered. However, unlike in the HO model, according to Stolper and Samuelson these new patterns would not increase Gross National Product in both countries, but benefits would be experienced almost exclusively in the more developed economy.

Secondly, Leamer and Levinsohn (1995) have shed lights on the most common policy prescription for inequalities among skilled and unskilled workers: improved training and education. If wages under free trade are effectively set on a global market, then skilled and unskilled wages in a small, open economy will be insensitive to changes in relative factor endowments.

1.1.5 Limits of Traditional Theories

Traditional theories of international trade introduced thus far explain the flow of goods between countries in terms of:

1. A variation in countries' productivity (or the relative state of technology) within and across industries, as in the case of the Ricardian comparative advantage.
2. Cross-country differences in relative availability of factors that sectors use with different relative intensity, as conceived in the the Heckscher – Ohlin framework

The larger the relative differences two countries feature in terms of technology or factor endowments, the larger the volume of trade between them and the implied gains from trade. This is a neat and powerful theoretical prediction that explains quite well the international exchange of goods supplied by different sectors (inter-industry trade), which is especially relevant between countries at different levels of development.

However, this implication is at first sight hard to reconcile with the observation that a dominant share of global trade takes place within sectors[5] (intra-industry trade) between countries at similar (advanced) levels of development and thus with arguably similar opportunity costs of production.[6]

In order to explain intra-industry commerce, trade models started to embed imperfect (rather than perfect) competition and increasing (rather than constant) returns to scale at the firm level.

In models of monopolistic competition[7], known as "New Trade Theory", similar countries exchange similar goods because consumers demand a broad range of differentiated varieties of the same commodity, concept which acquired the name of "love of variety". However, due to increasing returns to scale (fixed costs of production), economically viable production of each variety requires its supplying firm to reach a minimum scale of operations able to cover fixed costs.

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[6] Grubel, H.G. and Lloyd, P.J. (1975) Intra-Industry Trade: The Theory and Measurement of International Trade in Differentiated Products. Macmillan Press, London.

[7] Krugman, Paul R., 1979. "Increasing returns, monopolistic competition, and international trade," Journal of International Economics, Elsevier, vol. 9(4), pages 469-479, November. & Krugman, Paul, 1980. "Scale Economies, Product Differentiation, and the Pattern of Trade," American Economic Review, American Economic Association, vol. 70(5), pages 950-959, December.

As a country's factor endowments are limited, such minimum scale implies that the amount of varieties the country can offer on its own is itself limited, as the market size can support the operations of only a limited number of firms. Trade and gains from trade then arise because international exchange allows consumers in any given country to tap a richer set of varieties through imports, spurring two-way trade between countries within industries, that is, intra-industry trade.

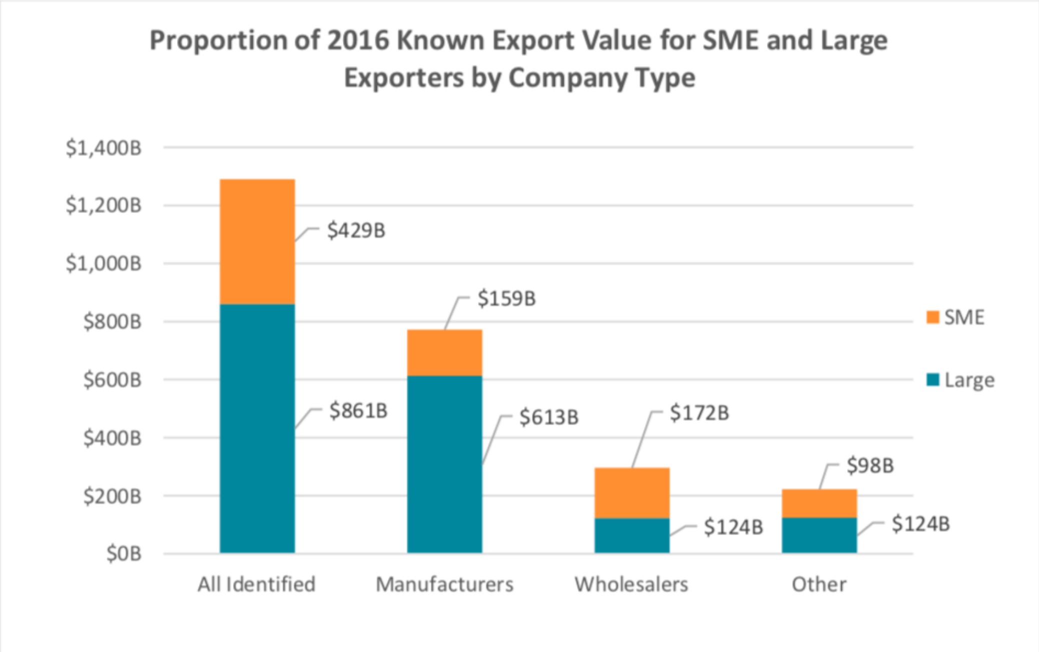
In reality, countries engage in two-way trade at the same time as they are net exporters of some goods and net importers of others. In recognition of this fact, Helpman and Krugman (1985)[8] integrated old and new trade theory by embedding horizontal product differentiation and increasing returns to scale in a model featuring endowment-based comparative advantage. Varieties remain unique to firms, while firms are otherwise identical.

1.1.6 Most recent contribution to the New Trade Theory

Despite the innovative contribution apported by these scholars, still traditional (both "old" and "new") trade models based on representative firms cannot explain a number of relevant findings of the data. There is a lot of variation both across and within industries in terms of export ability[9]

Evidence shows how only few firms are able to export and thus the export activity is highly concentrated: the top 10 percent of largest exporters in Germany or France, for instance, account for some 90 per cent of total German or French exports[10]. Similar figures are there for the US[11].

8 Market Structure and Foreign Trade, Increasing Returns, Imperfect Competition, and the International Economy; Paul Krugman and Helpman; MIT Press; 1985.
9 Bernard, Andrew, B., J. Bradford Jensen, Stephen J. Redding, and Peter K. Schott. 2007. "Firms in International Trade." Journal of Economic Perspectives, 21 (3): 105-130.
10 Mayer, Thierry, Marc J. Melitz, and Gianmarco I. P. Ottaviano. 2014. "Market Size, Competition, and the Product Mix of Exporters." American Economic Review, 104 (2): 495-536.
11 A profile of U.S. Importing and exporting companies, 2015-2016; Release Number: CB 18-54; U.S. Census Bureau, Economic Indicators Division, International Trade; April 2018.



This implies that 2,200 firms in the US, the top 1% of exporters, most of which are multinational firms, accounted for more than 80% of total US trade; while in France some 1,000 individual exporters represent almost 70% of the country's total exports.

Traditional Trade Theories can explain why a country is a net importer in one set of industries and a net exporter in another set, but cannot explain intra-industry trade. Similarly, the New Trade Theory framework addresses the above mentioned issues, yet is not helpful to explain why only some firms export and others produce solely for the domestic market, why a firm's exporter status is associated with better economic performance, or how the firm-level decision to export interacts with comparative advantage. Under Krugman's frame, firms are identical but for the variety they produce. Hence, if love variety is presumed, every identical firm should export equally.

The most recent developments on the path of answering these questions have been carried out introducing firm heterogeneity regarding marginal costs and productivity into the New Trade Theory framework. One class of models has been developed by Melitz[12] (2003) within the

[12] Melitz, Marc J. The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity. Econometrica, vol. 71, no. 6, 2003

Krugman (1980) setting. An alternative with variable markups, under linear demand functions, has been developed by Melitz and Ottaviano (2008)[13].

These models emphasize the importance of productivity heterogeneity and the role of reallocation across firms as a result of trade liberalization.

1.2 Institutional Developments of International Trade

The end of the 19th century witnessed an increasing tendency of countries around the world to move away from free trade policies, and the first World conflict did not completely reverse this process: at the Allied Economic Conference, held in Paris in 1916, the winners of the conflict chose to declare invalid all commercial treaties between the allied and enemy powers, and that the latter should receive no benefits from the "most favored nations" obligations.

The beginning of the roaring 20s, as a result, have been characterized by quantitative restrictions, high barriers and exchange controls on trade, despite the increasing efforts of the League of Nations to stop the crisis of multilateralism.

The tension risen from these uncooperative relations eventually contributed to the beginning of World War Two. Consequently, already when the conflict had just started, the feeling that political security could not be separated from international economic stability was globally spread, which led the United States to hold the Atlantic Conference in 1941. The agreements resulting from this meeting posed the basis for the "Special Relationship" between the United Kingdom and its former colony. Crucial in this process has been the contribution of the two finance ministers, White and Keynes, whose plans eventually resulted in a joint statement expressing the importance of the establishment of an International organization responsible for global financial stability.

The International Monetary Fund eventually came alive, alongside the International Bank for Reconstruction and Development, as a result of the Bretton Woods conference held in 1944.

Since the end of the Second World War, a long and remarkably stable period of peace between the major industrial democratic powers has been registered. Even imagining armed conflict between the U.S, European countries, and Japan is to be deemed as an idea not

[13] Marc J. Melitz, Gianmarco I. P. Ottaviano, Market Size, Trade, and Productivity, *The Review of Economic Studies*, Volume 75, Issue 1, January 2008, Pages 295–316

worthy of consideration. Furthermore, it is in the aftermath of the second global conflict that the foundations of the Transatlantic Alliance were established, which was then cemented with the establishment of the Marshall Plan. The architecture of the transatlantic integration process rests on the foundations of the cultural and political values that unite the United States and the European countries: the values of democracy, respect for human rights and the guarantee of political and economic freedoms. Two further fundamental elements in the alliance building process were: on the one hand, the American economic interest in a rapid recovery of the European continent, in disastrous conditions in the aftermath of the end of the war; on the other hand, the need for an anti-Soviet strategic-military integration, which led to the signing of the Atlantic pact.

1.2.1 Havana and the future of International Trade

Despite the considerable efforts put in place so far, yet no multilateral institution dedicated to foster collaboration on the commercial side was conceived. After a few smaller preparatory meetings, the United Nations Conference on Trade and Employment was held in Havana, Cuba, since late 1947 and for a period of five month, which resulted in the Havana Charter for International Trade.

This proposal was based on the principle that all distortion to trade should be removed, in order to avoid "beggar thy neighbour" policies approach to International Economy. The main obstacles encountered by the negotiators were the following two: to begin with, developed and developing countries, despite recognizing the importance of moving away from protectionists approach, were still cautious in allowing any kind of interference with internal sovereignty; and secondly, concerns were expressed by the less developed countries as to the advantage of unrestricted free trade for actors in their position, especially stressing the importance to retain some freedom to promote industrialization by imposing quotas. Regarding the latter issue, LDCs obtained an important concession, namely a provision allowing, in particular cases, them to impose restrictions in promoting the development of a new industry.

The death of the ITO as conceived in Havana came by the hand of the USA itself as President Truman refused to submit the Charter to Congress for ratification, well aware of the fact that, had it been turned down, it would have compromise the capacity of the United States to negotiate similar provisions in international fora.

1.2.2 General Agreements on Tariffs and Trade

The General Agreements on Tariffs and Trade, the instrument regulating international trade until 1995, was born as a result of this crisis. Its origins are identical to that of the ITO since the participants at the Geneva Conference in 1947 had separately initiated tariff negotiations which turned out to be the basis of the GATT.

Unlike the Havana Charter, the General Agreement on Tariffs and Trade did not require legislative approval of the contracting parties, and it remained provisionally in effect until January 1995. Although it eventually acquired some dedicated roles, such as a Secretariat, it mainly served as a mere framework within which negotiations for the removal of barriers to trade took place. The methodology adopted by the adhering countries to accomplish the objective set out in the agreement was to negotiate reduction of tariffs and trade liberalization by setting in place Rounds of negotiations on a regular basis. In total, there have been ten rounds:

- Geneva, 1947
  - The participants in the conference are considered the founding members of the GATT. During this meeting 45,000 tariff concessions were agreed covering
- Annecy, 1949
  - This round did not result in being as successful as its predecessor. In France, the contracting parties exchanged around 5000 tariffs concessions.
- Torque, 1951
  - The major successes of this round are the increased number of concessions on tariffs (8700), and the approval for four new members.
- Geneva, 1960
  - Started in 1956 and concluded four years after, it has been the most influential round since the founding of the GATT.
  - The complicated topic of the compliance of the recently founded European Economic Community was addressed.
- Dillon Round, 1961
  - Named after the US Secretary of the Treasury, it covered almost $35 billion.
- Geneva, 1964
  - The third round of negotiations taking place in Geneva raised to 50 the number of conctrating parties
- Kennedy Round, 1967

    - Named after the late US President, it brought to the establishment of an Anti-Dumping Code
- Geneva, 1973
    - nine years after the last meeting in Geneva the number of contracting parties doubled.
- Tokyo, 1979
    - In the aftermath of the financial crisis, contracting parties met in Japan willing to put extra efforts in order to escape the period of high inflation and low growth by boosting exports.
    - The round covered more than $300 billions of trade
- Geneva, 1986
    - 125 countries took part in the negotiations
- Uruguay, 1993
    - In Montevideo the original agreement was revisited into GATT 1994 and the WTO was established, an International Organization endowed with a stronger Dispute Settlement Mechanism.

The conclusion of the Uruguay Round and the establishment of its successor, the World Trade Organization, generated widespread enthusiasm, leaving no apparent signs of crisis. C. Fred Bergsten, writing in 1998 for the Peterson Institute for International Economics, showed deep appreciation for the conclusion of the negotiations, and presented five lessons to bear in mind for the future of the multilateral trading system. To begin with, he has stressed the importance of "keeping the bicycle moving", suggesting that momentum had previously demonstrated to be essential for the prosperity of the International Community. Secondly, Bergsten argued that "big is beautiful", suggesting that large scale negotiations had proved to work better than more restricted ones. Thirdly, the PIIP scholar took a clear stance on the "building blocks vs stumbling blocks" debate, expressing his position in favor of Preferential Trade Agreements. The fourth lesson concerned the importance of global macroeconomic stability. Lastly, Bergsten stressed the importance of leadership, showing much enthusiasm for the much more relevant role played by the European Union in the agenda setting.

Ironically enough, all of these key issues haven proven to be, to various extents, crucial for the WTO in the two decades which have followed.

1.2.3 Functioning of the WTO

The GATT was conceived as an International Organization in which countries came together to "do business", leaving political rhetoric to the United Nations and other IOs. The rounds of negotiation worked by consensus and were mainly conducted by developed countries, especially the US and the European Community/Union, which drove the agenda since full participation by all members was not required. This allowed developing countries to not impose restrictions on new industries without blocking progress in trade talks.

Since the signing of the General Agreement on Tariffs and Trade, the rule of consensus has not been changed, and has been transferred to the World Trade Organization. Yet, the process to create consensus has been profoundly revisited. Two were the main problem encountered by the recently born WTO in this regard:

To begin with, membership had already greatly expanded, reaching developing countries that previously remained marginal, or inactive, in the negotiations. The GATT was originally signed by 23 countries (1948), but this number grew to 135 at the beginning of the 21st century. As a result, developing countries have now gained a greater piece of the pie in the world trading system and claim a more relevant role at the negotiation tables.

Secondly, starting with the Uruguay Round deal, members can no longer elude the agreements' provisions having to participate in all of the negotiated accord as part of a single undertaking. Consequently, developing countries need to be better informed about issues under negotiation before committing to substantially greater reforms. The Uruguay Round, for example, required all members of the GATT to bind themselves to obligations developed in previous rounds without their participation. All these provisions required some sort of implementation as well as the enforcement of regulatory policies that they have had a great difficulty in fulfilling.

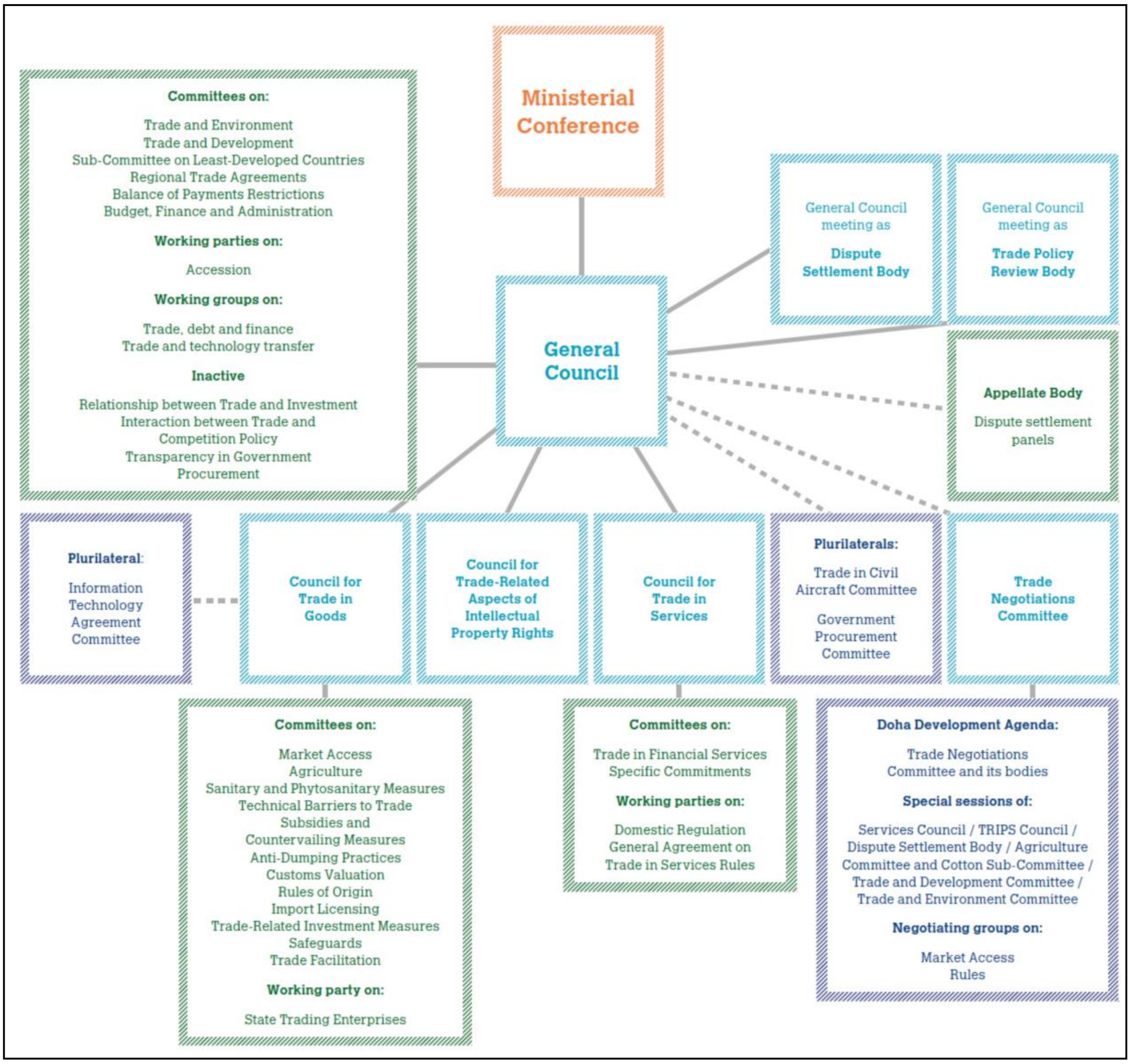
The WTO's two most relevant decision making bodies are the Ministerial Conference and the General Council. The former is the highest body and includes all WTO members, represented by their respective trade ministers. It meets at least once every two years and might make decisions on all matters with respect to any of the WTO's multilateral agreements. The latter, on the other hand, is responsible for the WTO's day-to-day decisions in between ministerial conferences. Most members appoint a permanent representative or ambassador to serve on the council. The General Council meets in three different capacities:

- as the Dispute Settlement Body

- as the Trade Policy Review Body
- as the General Council

Furthermore, three subordinate councils have been established:

- The Council for Trade in Goods
- The Council for Trade in Services
- The Council for Trade-Related aspects of Intellectual Property Rights



The General Council is also convened, as previously mentioned, as the Dispute Settlement Body (DSB). This is responsible for dealing with disputes among fellow negotiators of the WTO which may arise in relation to any deal contained in the Final Act of the Uruguay Round which is subject to the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU). The addition of the Dispute Settlement Mechanism (DSM) has been a major accomplishment in the establishment of the World Trade Organization, as it endowed the entity responsible for the management of the International trading system with a revolutionary element of supranationality.

When a member state is convinced that a fellow negotiator has breached one of the WTO rules, it can request the intervention of the organization and bring the question to the DSB attention. Due to limited resources, conflicting parties are always firstly encouraged to find an informal resolution of the. In case of failure of diplomatic attempts, the DSB establishes a formal Panel comprising experts in trade and competition law. Once the panel has reached a conclusion on the case, it communicates it through a final report to the DSB which must accept it, unless all members argue otherwise.

In the latter case, the Dispute Settlement Body requests the intervention of the WTO’s Appellate Body, a panel comprising seven members, elected for a four-year term, in charge of reviewing the first decision. The DSB must, once again, decide whether to accept the panel’s position or to refuse it by consensus. In case it establishes that a violation has, in fact, been committed, the member state responsible for that violation must either revert the policy object of the dispute or compensate the other party. If the responsible country decides not to comply with the DSB decision, the WTO authorizes the damaged actor to adopt retaliation measures.

The Director-General and the Secretariat complete the puzzle. The DG is in charge of the WTO’s professional staff and serves as the organization's public face and spokesperson.

The Secretariat is based in Geneva, and includes more than 600 professional staff members. It is responsible for the planning of all ministerial conferences and provides technical expertise and support to the WTO’s various councils and committees.

1.2.4 Hurdles on the path to liberalized trade

As of today, the World Trade Organization is still involved in the resolution of the Doha Round, which officially started in November of 2001. Undoubtedly, the failure of the Doha round can today be considered a severe crisis of the International trading system, which causes are numerous:

First of all, with the establishment of the WTO the aim of advancing on development issues gained new relevance. The new size of the WTO membership and the broad differences among them regarding the path to development have made it more difficult to reach agreements than in the previous GATT's rounds attended by a much smaller number of negotiators.

Secondly, key topics of international economy have been unsuccessfully addressed, among which the most controversial has been that of agricultural trade. Negotiations particularly focused on: export incentives, domestic support, storage of food for security reasons, safeguard instruments, state trading entities, and subsidies for the textile sector. Although partial success has been obtained on the topic of export subsidies, its effectiveness might be less than what suggested as it remains challenging to unequivocally define these instruments. Subsidies can, in fact, be structured in various ways and, as a result, an export subsidy can be replaced by an identical instrument labelled as domestic subsidy.

Lastly, the most worrying disagreement among WTO members remains the future of the round itself. As of today, the international organization responsible for the management of the global trading system is split between those who believe that officially renouncing any further attempt to revive the Doha round is not an option, and those who, on the other hand, argue that new issues should be addressed.

The final act of the Ministerial Conference held in Nairobi in 2015 presents both positions, stating:

> "We recognize that many Members reaffirm the Doha Development Agenda, and the Declarations and Decisions adopted at Doha and at the Ministerial Conferences held since then, and reaffirm their full commitment to conclude the DDA on that basis. Other Members do not reaffirm the Doha mandates, as they believe new approaches are necessary to achieve meaningful outcomes in multilateral negotiations. Members have different views on how to address the negotiations. We acknowledge the strong legal structure of this Organization."

Among the members who believe that alternative paths to proceed with multilateral negotiations figure the United States and the European Union. At the beginning of the negotiations in Doha, American and European officials set an agenda which meant to deliver a trade agreement that would promote growth in less developed countries, without imposing barriers reductions to the same extent as richer nations. But as LDCs, particularly China, began running large trade surpluses, developed countries started demanding the reduction of the benefits originally granted in light of the different levels of industries development. China and India, the most advanced countries benefitting from ad hoc regimes, refused insisting on sticking with the original principles.

1.2.5 Preferential Trade Agreements and the WTO

Since the very first signs of crisis in the multilateral negotiations system, countries have developed the tendency to turn to preferential trade agreements to boost transactions across borders. Until 1994, last year in which the International Economy was disciplined by the General Agreement on Tariffs and Trade, the number of PTAs notified was of 124; while, since the establishment of the WTO, that number has more than doubled in a much shorter time frame.

The first noticeable difference between this kind of agreement and those resulting from GATT/WTO negotiations rounds is clearly the number of actors involved. PTAs may, in fact, be concluded between two countries (ex: CETA), or on a regional basis therefore involving multiple actors (ex: TPP).

However, these instruments present innovative characteristics not only in their structure, but also in their scope. Preferential Trade Agreements signed before 1995, and now commonly referred to as 1st generation trade deal, mainly concerned exclusively trade in commodities and took the form of free-trade areas (FTAs) or custom unions. New PTAs, on the other hand, have been expanded in reach in order to include not only trade in services, but also to address regulatory and harmonization issues.

Economic scholars have been arguing for some time about the relationship between Preferential Trade Agreements and the multilateral trading system. In order to better understand the technical differences which a PTA delivers in a specific relationship between a group of countries, compared to the WTO provisions, two concepts have been introduced: WTO+ and WTOx. These two terms define the extent to which a trade deal improves the level of liberalization between the negotiators. WTO+ is used to label those agreements which cover the same topics addressed by the World Trade Organization improving them. WTOx, on the other hand, is used to categorize deals which cover areas yet to be addressed in any multilateral fora. As a result, the scientific community is split between those scholars who believe that PTAs, especially those labeled as belonging to the “second generation”, represent a threat to multilateral architecture; and those economists who, on the contrary, argue that the proliferation of bilateral agreements is not incompatible with a globalist approach and can actually turn out to play the role of a “stepping stone”.

Mark Manger believes that:

> “current North–South PTAs are not primarily about liberalizing exports as is usually assumed. Rather, they are driven by the needs of foreign direct investment. The interests of multinational firms in investing in developing countries converge with the desires of the host countries to attract foreign capital. Yet to be politically feasible in the developed country, North–South PTAs must discriminate against third countries”.

Members of the WTO are allowed by the rules of the organization to enter in Preferential Trade Agreements as long as the deals concern all kind of trade, therefore without cherry-picking the industries from which to discriminate other members. Article XXIV elaborates a clear distinction between the two kinds of agreements: free trade areas (FTAs) and customs union (CUs). The fundamental difference between the two is that, to be considered a CU deal, an agreement must, besides liberalizing trade between the singing actors, institute a common trade policy toward other WTO members.

The General Agreement on Tariffs and Trade establishes the condition for a bilateral trade deal to be admissible. To begin with, the PTA should cover substantially all trade; secondly, the objectives of the agreement should come into force within a reasonable time frame; and lastly, no barrier should be raised against any third country above those agreed in the last round of negotiations.

Aggarwal and Evennett (2013) have identified four characteristics of today's global trading system which led to its crisis. To begin with, developing countries are convinced that the terms of multilateral trade deals need to be redrawn in their favour to correct perceived biased outcomes of the negotiation rounds. Secondly, and consequently, these developing countries have gained leverage at the table and cannot so easily be pressured by wealthier countries. Third, the US and the EU have come to see PTAs as superior instruments for the pursuit of their interests; which has led to view at the two economic allies as “regulators of the world”. Lastly, the established consensus regarding government intervention and industrial policy has been undone in view of the economic successes of emerging markets.

“RTAs are a phenomenon that is here to stay. An ever-growing part of international trade takes place within such areas. They fulfil an important role both as a surrogate for further liberalization steps on the multilateral level and as a stimulus to proceed globally on the liberalisation path.51 As integration becomes ever deeper within these zones, the inclusion of rules on competition policy becomes a natural consequence.”

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CHAPTER 2 *THE RISING ROLE OF REGIONS*

2.1 Regionalism

Since the conclusion of the Uruguay Round by the GATT 25 years ago, major changes have been witnessed in technology and trade policy which have contributed to the lowering of trade costs, benefiting consumers around the world.
These changes have profoundly restructured business dynamics around the globe, leading to the rise of what are now commonly known as Global Value Chains (GVCs). As a result, today's trading system has assumed peculiar and unprecedented characteristics, and can be summarized as "trade in tasks".

This profound metamorphosis has furtherly contributed to radical political changes regarding the approach to International Trade. To begin with, regional cooperation in the form of Regional Trade Agreements (RTAs) has become the main political path toward liberalization, resulting in the proliferation of over 300[14] regional trade deals. As of today, every member state of the WTO has signed at least a bilateral/plurilateral trade deal with neighboring countries.

Secondly, the capacity of multilateral institutions to reach any sort of progress toward economic liberalization has been compromised; raising the question whether the WTO is an obsolete instrument or not. According to Scott Miller (CSIS) The main concern with this young International Organization is that it was established to regulate arm-length transactions, while 80% of trade today is carried out by firms.
Furthermore, the GATT has worked over the years through single undertakings, meaning that "nothing is agreed until everyone agrees". Consequently, the capacity of the WTO to regulate the world of GVCs results seriously compromised.

Considering the role that trade plays in today's global economy, a cure for the ill multilateral trading system is necessary. In the 1950s, exports accounted for less than 10% of global GDP while today its value has increased to around 30% [15](Source: World Bank).

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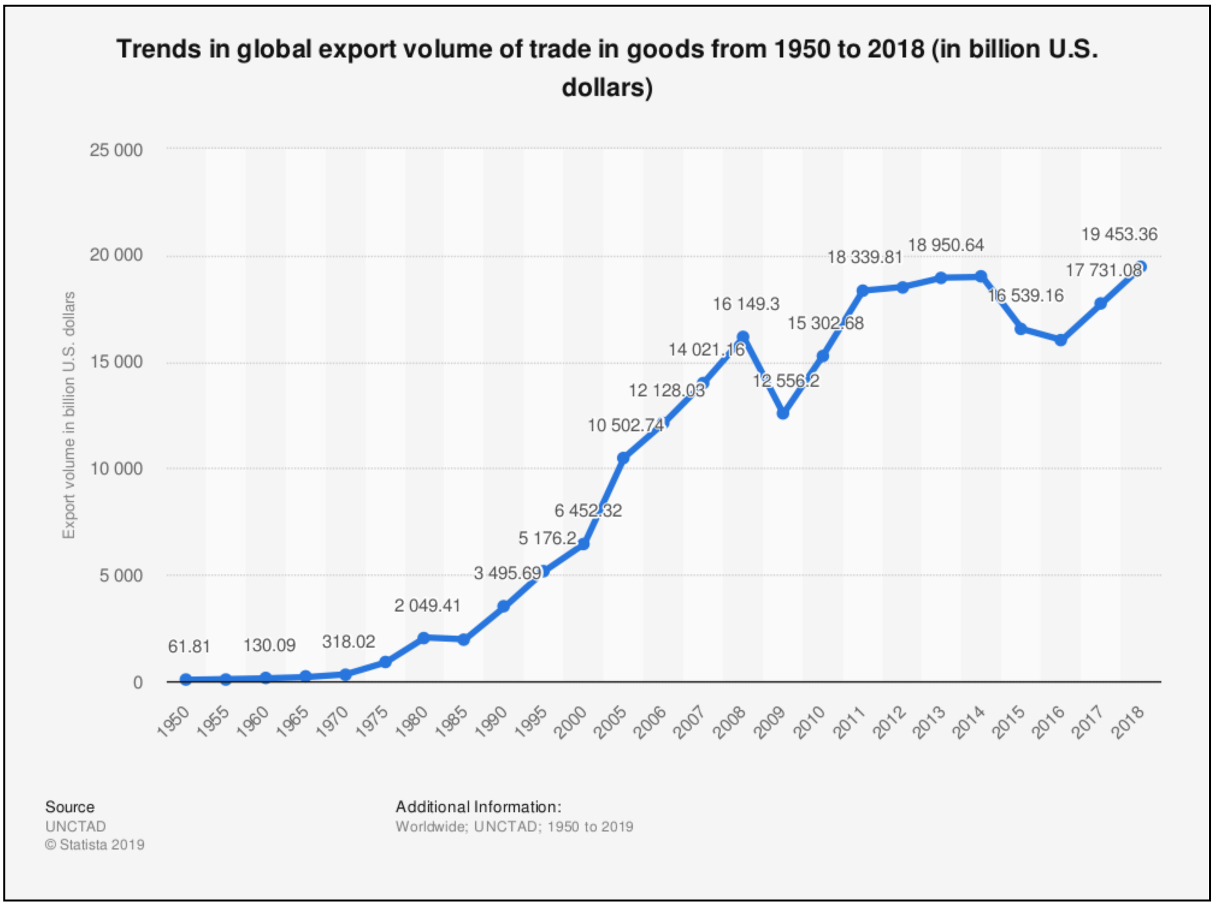
[14] https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx
[15] https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS



A major part of this global expansion of trade can be attributed due to the growing participation of Less Developed Countries (LDCs) and developing countries in the trading system. As previously mentioned, not all countries chose to participate in GATT's round of negotiations, but with the establishment of the WTO the single undertaking principle has become a central pillar of the negotiations.

Developing Countries and LDCs' participation in exports was less than 15% in 2005, but, according to the WTO[16], this value has increased to more than 25% in 2017. However, the most interesting aspect of this growing level of involvement is how these countries participate, rather than how much. In fact, in the last two decades an important part of this data is that this growing participation of LDCs is carried by south-south trade, meaning a growing number of less developed countries has chosen to take the path of liberalization not only with rich countries[17].

Manufacturing takes place through GVCs. When you look at the specific linkages between countries it is relatively easy to see how there is a pattern of regional value chains.

[16] https://www.wto.org/english/tratop_e/serv_e/workshop291019_e/s1_andrea.pdf
[17] https://unctad.org/en/Docs/itcdtab11_en.pdf

As a result of this revolutionized scenario, it is worth wondering how these new patterns are being regulated. Regional rules, through RTAs, are proliferating at a much higher pace than multilateral rules. Consequently, the percentage of global trade which is today regulated by Regional or Preferential Trade Agreements lies between 40 and 60 percent[18]. The problem which arises from this fragmented picture is now commonly known in the scientific community as the "Spaghetti bowl"[19] problem, and represents the high level of uncertainty regarding how these various instruments relate and interact to one another.

Furthermore, the architecture of global trade looks unfinished. Despite the numerous agreements concluded in the last two decades, or the ones currently in phase of negotiations, two crucial links seem missing: First of all, the one among the most developed economies such as the US, the EU, Japan or the BRICS; and secondly, a strategy on how to transform the Spaghetti bowl into a Lasagna, meaning how harmonize the overwhelming amount of preferential agreements which have been signed by all WTO members.

2.1.1 European and North American Regionalisms

Since the signing of the North American Free Trade Agreements by the USA, Mexico, and Canada, the global trading architecture has evolved toward Regionalism. As previously mentioned, the second generation agreement covered a much larger number of issues, including extensive binding commitments, comprising a much smaller number of negotiators.

Pier Carlo Padoan has offered a valuable perspective on the proliferation of these kinds of agreements. Although, standard trade theories have firmly expressed how full liberalization is the only scenario in which (economically speaking) utility is maximized, the former Italian finance minister, building on previous research, argues that:

> " [...] A satisfactory theory of regional integration should explain the optimal number of members through the interaction of economic, institutional, and political variables"

[18] https://unctad.org/en/PublicationsLibrary/ditctab2015d2_en.pdf
[19] https://www.cigionline.org/sites/default/files/pb_no.87.pdf

The result of his analysis is an understanding of regional agreements as "Clubs", in which marginal costs increase with the extension of club membership because management problems are directly proportional to the number of members.

> "As Fratianni and Pattison (1982) stress, decision theory suggests that the addition of new members will raise the costs of reaching agreements in a more than proportional manner. Costs will also arise more than proportionally for organizational reasons and because, for political balance, each new member will have to be given equal opportunity, irrespective of its economic size"

2.1.2 NAFTA

Canada, Mexico, and the US are inextricably connected by several links, starting with the geographical one. Yet, after more than two decades since the North American Free Trade Agreement, regionalism in this continent has not moved forward much. Originally, the NAFTA project did not include Mexico, which is testified by the signing of the US-Canada Free Trade Agreement in 1989, which liberalized the bilateral trade between the two already similar countries. On the foundations laid by this agreement, five years later the two Governments decided to invite Mexico to be a part of the project.

The signing of NAFTA has had a revolutionary impact in many aspects since not only it created the largest free-trade area in the world, but it also opened up the season of North-South trade deals increasing access to an historically highly regulated market such as the Mexican. Overall, the history of this framework can be depicted as a successful one having increased trilateral trade by almost 350% and supported the creation of 14 million jobs in the United States.

The United States never planned to emulate the European Integration process with its neighbors, feeling which might be very well reciprocated by both Ottawa and Mexico City, yet the margins for further cooperation remain broad. Analyzing the unexploited potential of further cooperation between the "three amigos", Meacham et al. (2014) identify three realms on which the US, Canada, Mexico should restart negotiations in order to evolve NAFTA into a framework capable of dealing with new challenges. Although NAFTA has recently ceased to exist, and its successor USMCA deal just entered into force, the substantial nature of the agreement has not varied. Therefore, the points advanced by Meacham remain valid. The new deal, in fact, has failed to address the topics of continental energy infrastructures, movement of people, and the harmonization of trade relations with other partners.

2.1.3 USMCA

As previously anticipated, the North American Free Trade Agreement has officially ceased to exist. The election of Donald Trump as President of the United States in 2016 has generated radical changes both in foreign and domestic policy, including trade policy. His rhetoric revolved around the idea of allowing the US to regain what was once its, namely the undisputed role of hegemonic power in the International Community. According to the Tycoon, the loss of grandeur experienced by Washington is due to several bad policy decisions carried out by his predecessors, such as generous trade agreements which generated loss of wealth and loss of jobs in the United States. He went as far as defining NAFTA "a nightmare" and "most disastrous agreement ever signed by the United States"[20]. As a result, since stepping foot for the first time in the oval office he has committed himself and his administration to the establishment of a new deal.

The negotiations officially started in May of 2017 and lasted until December of 2019, when the agreement was signed. The agreement can be considered as an update of the previous treaty since it has been built on the same structure. Several, and noticeable, additions have been made in previously uncovered fields, such as those of intellectual property protection, the internet, investment, state-owned enterprises and currency.

The old agreement required car industries to produce 62.5% of a vehicle in North America to qualify for zero tariffs. The new agreement raises that threshold to 75% as an attempt to force automakers to source fewer parts for an "Assembled in Mexico" car from Europe or Asia. Furthermore, the agreement requires 70 percent of a vehicle's steel and aluminum to originate in North America. According to a study carried out by the International Monetary Fund, most of US and Canadian auto production is capable of meeting such a requirement, but the same might not be true for more than 60% of Mexico's production.

To continue with, the USMCA also mandates that 40 to 45% of the components of any tariff-free vehicle must come from a high-wage factory. To meet this requirement factories must pay a minimum of $16 an hour in, average, salaries for production workers. This value is almost three times the average wage in a Mexican factory as of today. This provision was

[20] http://www.businessworld.in/article/Trump-calls-NAFTA-China-entry-into-WTO-as-most-disastrous-deals-in-history-/08-09-2020-317884/

included by administration officials in hope that it would either force automakers to buy more supplies from Canada or the United States or cause wages in Mexico to rise. On this issue, Burfisher et al. suggest that following this requirement, labor cost in Mexican auto industry will rise only by 50%, yet such an increase will not generate the expected benefits so that paying Most Favoured Nation tariffs on imports from Mexico will remain the preferred strategy. Moreover, as Ana Swanson and Jim Tankersley of the New York Times point out:

> “The final provision, as written, could also prove relatively ineffective at shifting production, because it is not indexed to inflation. An average wage of $16 an hour will be less constraining in 2023 dollars than it is today.”

The USMCA updates environmental and labor legislation in comparison to NAFTA, requiring more protections for workers and improving blocking provisions for imports of commodities made with forced labor. Enforcement monitoring mechanisms have also been established to ensure that these new requirements will be respected.

Of particular relevance for the US economy are the concessions obtained by the Trump administration concerning the access of dairy products into the Canadian and Mexican markets. Canada did, in fact, agree to eliminate a program that helps sellers of certain milk products, at home and abroad, opening its market to American milk, cream, butter, cheese and other goods. In return, the United States expanded access to its market for Canadian dairy and sugar.

The USMCA treaty entered into force officially on July 1st of this year and therefore its effects are yet to be witnessable. Yet the conclusions of the study operated by Burfisher et al. for the International Monetary Fund are not hopeful:

> “According to the analysis of this paper, key provisions in USMCA would lead to diminished economic integration in North America, reducing trade among the three North American partners by more than US$4 billion (0.4 percent) while offering members a combined welfare gain of US$538 million. Effects of the USMCA on real GDP are negligible. Most of the benefits of USMCA would come from trade facilitation measures that modernize and integrate customs procedures to further reduce trade costs and border inefficiencies.
>
> [...]The results show that the tighter rules of origin in the auto sector and the labor value content requirement would not achieve their desired outcomes. The new

rules lead to a decline in the production of vehicles and parts in all three North-American countries, with shifts toward greater sourcing of both vehicles and parts from outside of the region. Consumers would face higher vehicle prices and respond with lower demanded quantities. Higher labor costs in Mexico's vehicle sector would lead to greater-capital intensity as Mexico's producers substitute capital equipment for higher-cost labor."

Furthermore, the study has been elaborating assuming that the entering into force of the treaty would result in the removal of all the tariffs imposed by Washington on the two partners. Yet, as reported by CTVNews[21] on August the 16th:

> "U.S. President Donald Trump's 10-per-cent tariff on Canadian aluminum imports takes effect today, despite Canada's plan to hit back with $3.6 billion in countermeasures."

2.1.4 The European Union

The path followed by the European Union started right after the end of the second global conflict from the ashes of what was left of the continent. Several factors contributed to the start of the process of European integration, yet as Walter Hallstein, first President of the EEC Commission, said: "Europe was not an invention. It was a rediscovery". Among these inputs which restarted the continental engine, the first came from two French economists: Jean Monnet, and Robert Schuman. The famous declaration released by the latter officially started talks and negotiations for what will become the European Community of Coal and Steel. The creation of a common market among Italy, Germany, France and the Benelux countries of the two commodities necessary for armed conflicts generated unpredictable results, and boosted the reconstruction of what was left of Europe after World War II.

The enthusiasm generated by this initiative was massive, and created desire all over the continent for further integration. This spill-over effect resulted less than ten years after the establishment of the ECCS in the signing of the treaties of Rome, which officially gave birth to the European Economic Community.

[21] https://www.ctvnews.ca/politics/new-u-s-aluminum-tariff-on-canada-now-in-effect-1.5066333

For the purpose of this study, it is crucial to highlight the relevance that this last institutional transformation has had. First of all, this treaty created the largest Free Trade Area in the world in terms of number of countries, eliminating all kinds of quantitative restrictions and tariffs. Secondly, EEC was endowed with a Common External Tariff, which meant that all imports would now happen on the same basis regardless of the point of entry. Moreover, the provisions went as far as prohibiting any practices and non-tariffs-barriers which could have distorted competition. Lastly, measures to allow not only the free movement of goods, but also that of people, services, and capitals were included.

Since Rome, the European Community/Union has therefore pursued a Common Trade Policy, an essential element for the correct functioning of the Common Market. The European Institution can operate in a context of exclusive competence when negotiating trade deals. However, there are two exceptions: the European Court of Justice has concluded the competence regarding portfolio investment and investor-state dispute settlement mechanism fall under shared competences, and provisions in these areas require ratification by member States.

Although with some exceptions, the approach followed by Brussels regarding trade policy has since been a liberal one, both in multilateral and plurilateral negotiation tables. In the last 25 years, however, most of its efforts have been focused on bilateral deals with partners from every continent. According to Leblond and Viju-Mijlusevic (2019), behind the choice by Brussels to pursue more comprehensive agreement among few members lies the need to respond to three major structural changes that the system of International Trade has undergone: To begin with, services have become the most important commodities to be traded across borders for the European Union, especially considering the rising of new manufacturing powers such as China; secondly, Global Value Chains have required the establishment of new set of rules to deal with international businesses in a more efficient way; Lastly, commodities are now traded in digital rather than physical form. Consequently, the amount of topics that free trade deals need to cover has increased, requiring negotiators to focus on “beyond-the-border” barriers to commerce.

2.2 European-North American Integration

This section has been dedicated to the presentation of the attempts and progresses made in the last 25 years concerning further integration of the Atlantic Lake, highlighting the successful experiments and, most importantly, the obstacles which have blocked these attempts.

The European Union has pursued a strong policy of Interregionalism in this time frame. Yet, it has not been able to solidify the economic relations with its closest ally since World War II: The United States. I will present an academic review of the reasons thus far presented on why Brussels and Washington have not been able to repeat between them the successes obtained with other regions of the world.

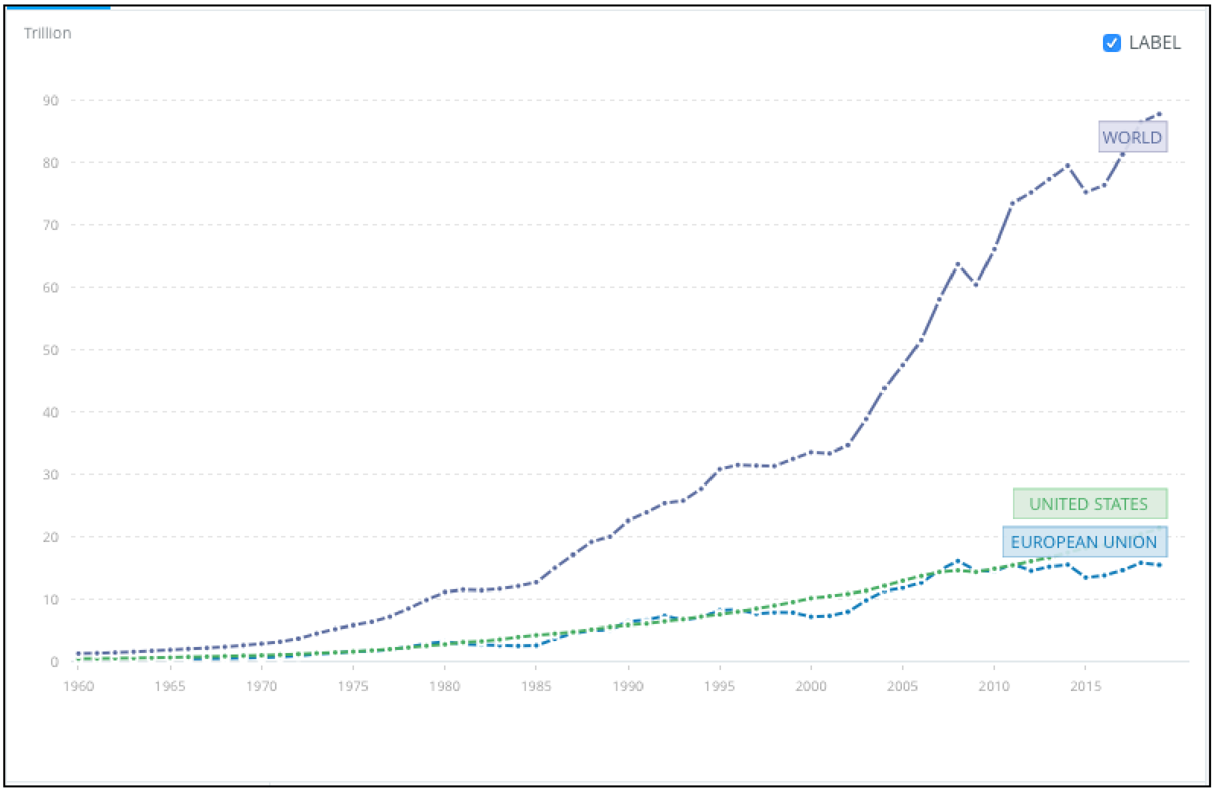
The most evident difference between the European Union and USMCA is the ultimate goal of the integration process. No North American scholar, politician or party, has expressed interest, and probably never will, in a potential federal union between the USA, Canada, and Mexico. In Europe, the idea of further political integration may not be the most popular as of now, yet proposals in this sense periodically reemerge gaining new visibility and interest. The European Union has evolved since the ECCS times into a much more institutionalized entity, and as of today it is endowed with an elected parliament, a Commission, a Central Bank, and several other bodies and agencies. USMCA, on the other hand, has developed very limited institutional structure.

This latter issue already poses an important question concerning who should Brussels approach in case the EU wanted to pursue further integration? Formally, there is no direct interlocutor: The High Representative Of The Union For Foreign Affairs And Security Policy has no equivalent on the other side of the Atlantic Ocean. Yet, analyzing the status of bilateral relations between the EU and the three members of the USMCA, and considering the asymmetric distribution of power within the latter, it becomes clear that any discussion for further integration should be addressed with Washington.

2.2.1 History of EU Trade Relations with North America

The most established and most successful relationship, in terms of agreements generated, is that with Mexico. Up until the 1990s, considering the rapid pass at which multilateral negotiations were concluded, European interest towards Latin American countries was rather weak. Less-developed countries and developing countries in general did not occupy an important spot in the trade policy agenda of the European Community. The signing of NAFTA, however, generated a sense of urgency to strengthen economic ties with these potential vast markets. Mexico itself, in fact, represented a pool of 100 millions of potential consumers of European commodities, and the fear that the US could now play an even bigger role in the Mexican market pushed the EU to pursue the path of liberalization with the least developed North American country. The fear of losing an already loose connection resulted in Europe witnessing its share of Mexican trade drop from almost 10% in 1993 to 6% in 2000. On the other hand, Mexico feared the consequences of such a dependent relationship with its northern neighbor. As a result, Brussels initiated negotiations for a bilateral free trade area with Mexico, which were concluded in 1999 in a deal officially known as "Economic Partnership, Political Coordination and Cooperation Agreement", the most comprehensive treaty signed by the EU at that point.

The European Union and the United States remain tightly connected, and their relationship plays an enormous role in the entire International Economy. These two superpowers represent the biggest economies and markets in the world, accounting for more than 40% of global GDP (source: World Trade). Yet, their markets have not been integrated by a free-trade agreement. A first attempt in this sense was done in 1990, when Washington and Brussels announced a Transatlantic Declaration meant to institutionalize dialogues for commercial purpose. However, the results of this initiative have been fairly poor, and brought the EU and the United States to develop a New Transatlantic Agenda (NTA) in 1995. Once again, the NTA set goals too ambitious compared to the poor commitment shown by both sides in the pursuit of further integration.



Europe’s bilateral relationship with Canada has unfortunately followed a path similar to that witnessed with the United States. During the 1990s similar instruments to the Transatlantic Declaration and the NTA were put in place, which resulted in 1996 to the 1996 EU-Canada Action Plan to set the framework for further bilateral cooperation. Most efforts have been deployed to settle the disputes risen throughout the years over fishing right off Canada’eastern coast.

2.2.2 The Role of The Private Sector

Many explanations have been proposed as of why the EU and the United States have not been able to complete the puzzle adding the missing links. One of them concerns the size of the actors involved: both Washington and Brussels are not used to sitting at the negotiations table not being the biggest player in the room. Furthermore, considering that the US and the European Union absorb roughly 20% of the other’s exports, and that a major part of these transactions are intra-firm, it is worth analyzing how pressure from the private sector might have shaped any attempt for further liberalization.

Dur and Lechner (2015)[22] have analyzed more than 200 contributions submitted by entities of the private sectors during four rounds of consultations held by the European Union , DG Trade in particular, and the US Office of Information and Regulatory Affairs, regarding the establishment of a free-trade area between the US and the EU. The results of their analysis showed that, overall, the private sector is much more worried about non-tariff barriers rather than actual tariffs. Furthermore, while on both sides of the Atlantic much emphasis has been placed on the removal of all kinds of barriers to trade in services, not on all issues American and European firms' interests matched.

Sectors such as financial services, high tech, and knowledge-based industries in general, would highly benefit from the cut of tariffs between the two markets since they already operate internationally. However, most of the contributions delivered to the European Union and the United States, according to Dur and Lechner (2015), came from the food and agricultural sector. These kinds of businesses, which operate more on a local basis, push strongly for the inclusion of provisions protecting the respective sanitary and phytosanitary standards. Moreover, the European car industry has forwarded a substantial number of surveys emphasizing unfair procurement regulations.

> "Technical regulations are an important barrier to trade for all sectors besides the financial services and IT services industries. The same is true for standards, an issue mainly pushed by US food producers that worry about the EU's sanitary and phytosanitary regulations"

2.2.3 The Origins of TTIP

Brussels and Washington have recently negotiated the establishment of a free trade area between the US and the EU known as Transatlantic Trade and Investment Partnership (TTIP). Negotiations officially started in February of 2013, and since then the TTIP has attracted the attention of domestic and international actors generating much debate around its content, and potential economic and political implications.

[22] Chapter 6 of *Morin, J.F., Novotná, T., Ponjaert, F., Telò, M. (2015). The Politics of Transatlantic Trade Negotiations. London: Routledge,*

The launch of TTIP negotiations can be considered a renewed commitment to transatlantic trade relations by both the European Union and the United States. The two parties met in Washington in November of 2011 in a meeting which resulted in the establishment of the High-Level Working Group (HLWG) on Jobs and Growth in charge of identifying policies and measures to increase transatlantic trade and investment. On February 11, 2013, the HLWG released a report with its findings, summarized as follows:

> "The HLWG has reached the conclusion that a comprehensive agreement that addresses a broad range of bilateral trade and investment issues, including regulatory issues, and contributes to the development of global rules, would provide the most significant mutual benefit of the various options we have considered. We therefore recommend to Leaders that each side initiate as soon as possible the formal domestic procedures necessary to launch negotiations on a comprehensive trade and investment agreement[23]."

On March 20, 2013, the Obama administration submitted a formal notification to Congress communicating its intention to start TTIP negotiations with the EU. Meanwhile, Cecilia Malmström, European Commissioner for Trade at the time, obtained, with the support of the Parliament and the Council, the mandate to negotiate the deal. The latest of 15 rounds so far took place in New York from 3 to 7 October 2016. The drafting work continued at technical level until January 2017 and a joint report was drawn up by the European Commission and the USTR to document the state-of-play of the negotiations.

The Transatlantic Trade and Investment Partnership was considered unique for several reasons, for instance the number of issues covered or the relevance of the parties involved. However, what made this deal unexpectedly peculiar was the response it generated within the public opinion. No trade agreement before reached such a high level of politicization. As a result, despite the commitment of both parties to conclude the negotiations before the end of the Obama administration in 2016, the pressure experienced (both internally and externally) by the negotiating parties, as well as the numerous disagreements emerged over the course of the talks, did not allow for the conclusions of the talks before the presidential elections in the United States. With the nomination of Donald Trump as President, radical changes have been deployed in every field of policy, including

[23] https://ustr.gov/about-us/policy-offices/press-office/reports-and-publications/2013/final-report-us-eu-hlwg

trade policy. Its administration, in fact, not only put the negotiations on hold but also generated high tensions between the allies raising tariffs on European products.

2.2.4 The Origins of CETA

In May 2009 The European Commission and the Government of Canada started negotiating a free trade deal, The Comprehensive Economic and Trade Agreement (CETA). The content and scope of the agreements were almost identical to that of the TTIP, they were labelled as “twin deals”, yet, its destiny has been luckier thus far than that of its American brother. Negotiations were, in fact, concluded in August of 2014.

The origins of CETA are also similar to that of the TTIP: At the 2007 EU-Canada Summit the leaders decided to give birth to a group of scholars entitled to study and analyze the eventual benefits and costs of further integration between Brussels and Ottawa. The result of this study was released in October 2008. The European Union is Canada's second-biggest trading partner after its northern neighbor, accounting for 10 % of its trade in goods with the world in 2018. Furthermore, almost 2% of the EU total external trade in goods in 2018 was directed toward Canada. Negotiation were officially launched at the Canada-EU summit held in Prague in 2009 leaders:

> “The European Union and Canada confirm that delegations representing the European Union and Canada have defined the scope of a comprehensive economic partnership agreement, as outlined in the Joint Report on the EU-Canada Scoping Exercise16, and obtained mandates necessary to launch negotiations.
>
> Accordingly, the European Union and Canada are pleased to confirm a launch of negotiations with the intention to conclude an ambitious comprehensive economic partnership agreement within two years.”

CETA negotiations were successfully concluded in August 2014, five years after their launch, and resulted in a 1634 pages-long text which was published on both parties' websites. Canadian Prime Minister Harper and the President of the European Commission Barroso introduced the agreements at the EU-Canada summit of 25 September 2014, in Toronto

> “Today marks a truly historic moment in the evolution of the Canada-EU relationship as we celebrate the end of negotiations of the Canada-EU Trade

> Agreement. The Agreement delivers on the 2009 promise of a very comprehensive liberalization of trade in goods and services, significant new opportunities in government procurement, provisions to enhance and encourage investment, and improved and modernized rules on other trade- related issues. The Canada-EU Trade Agreement also establishes a range of cooperation mechanisms that will ensure continued collaboration between Canada and the EU as we continue to strengthen and deepen our economic partnership. At the same time, Canada
>
> and the EU place a strong emphasis on sustainable development, on cultural diversity, and on the right to regulate in the public interest within their territories[24]"

The agreement entered into force after the European Parliament voted in favor on February 15, 2017. However, the deal is still, as of today, only in force provisionally since September 21, 2017. CETA is still pending ratification from EU member states' national parliaments before it can take full effect. Despite trade policy being exclusive competence of the European Union, the European Court of Justice ruled that since the agreement includes provisions to regulate investors-state dispute settlement mechanism, the ratification of national parliaments is necessary. The outcome of this long process is far from certain, considering the opposition registered by few new executives in Europe. On the Canadian side, instead, CETA underwent and successfully passed the required ratification process which culminated in the Royal Assent by the Canadian Parliament in May 2017.

In June 2019, the Government of Canada released an analysis of the available data concerning the effects of CETA, even though entered into force only provisionally.

> "CETA has been in force for almost two years with merchandise trade data available for 21 months. From October 2017 to June 2019, bilateral merchandise trade between Canada and the EU rose 14.6% or $26.3 billion over the equivalent pre-CETA period (October 2015 to June 2017) to reach $206.6 billion in value. Canada's merchandise exports to the EU totalled $77.6 billion (up 9.1% or $6.5 billion) and merchandise imports grew by 18.1%. Gold is an important export for Canada to the UK, but it is volatile in value for reasons not related to CETA.

[24] EU-Canada su…

> Excluding gold, Canada’s exports to the EU advanced 14.0% since CETA came into force.”

Similar enthusiasm has been expressed by the European Commission through the words of former Commissioner for Trade Cecilia Malmström:

> “The EU-Canada trade agreement has now been in action for a year and I'm pleased with the progress made so far. The preliminary data shows there is plenty to celebrate, even at this stage. Exports are up overall and many sectors have seen impressive increases. This is great news for European businesses, big and small.”

2.2.5 The Origins of EU-Mexico Trade Agreement

Negotiations between Mexico and the European Union for the update of the trade deal signed in 1999 started in May 2016, and both sides reached an overall agreement on the trade part in April 2018. The new deal was signed in April of 2020 and, once ratified, will replace the existing EU-Mexico Global Agreement, which entered into force twenty years ago.

Mexico is currently the EU’s biggest latin american trading partner, while only the US and Canada trade more goods with Mexico than Brussels. Since the entering into force of the Global Agreement in 2000, trade in goods alone rose by 148 percent and 2018, being now worth more than €66 billion. Trade in services also plays a valuable role being worth another €19 billion. These values have more than tripled since the entry into force of the original agreement in 2000, and the modernised trade deal is promised to furtherly help boost this strong historical growth.

The signing of the agreement happened in spite of the ongoing pandemic, testifying the strong commitment by both parties to further cooperation. Former EU Trade Commissioner Hogan has expressed his enthusiasm about the agreement:

> “Openness, partnerships and cooperation will be even more essential as we rebuild our economies after this pandemic," said Mr Hogan: "I am very pleased, therefore, that together with our Mexican partners, we share similar views and that our continued work could now come to fruition. Today's agreement is clear evidence of our shared commitment to advance our agenda of partnership and cooperation. This agreement – once in force – will help both the EU and Mexico to support our respective economies and boost employment."

Mexico’s President Andrés Manuel López Obrador has heavily betted on the role of trade agreements to help the Mexican economy recovery from the coronavirus related crisis, having signed the agreement with the EU and pushed for the entering into force of the updated USMCA free-trade pact with the US and Canada in July to help businesses bounce back after the pandemic.

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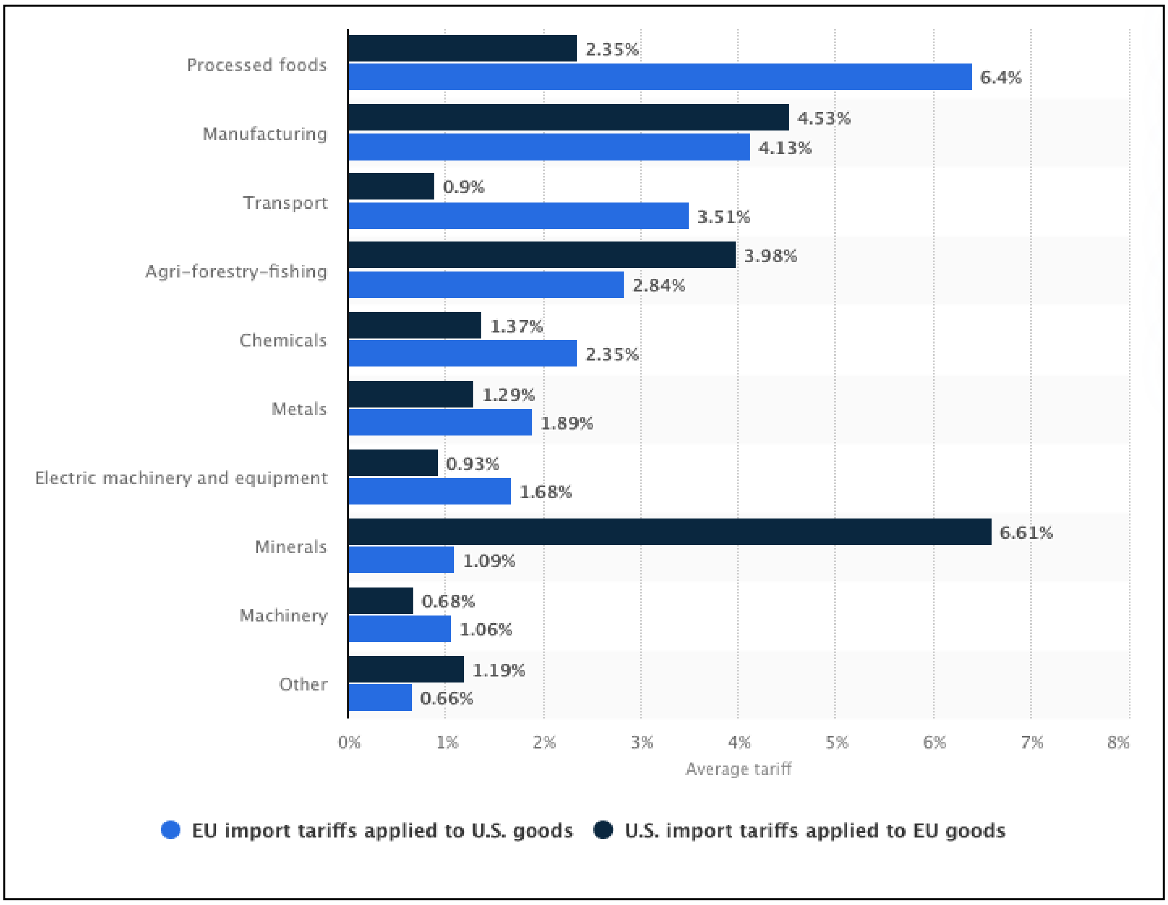
CHAPTER 3 *CETA, TTIP AND EU-MEXICO TRADE DEAL: SIMILAR AGREEMENTS, DIFFERENT OUTCOMES*

3.1 TTIP Structure and Previsions

According to documents released by the European Commission, the Transatlantic Trade and Investment Partnership was meant to be structured in 25 chapters, divided in four broad areas: Market Access, Regulatory Cooperation, Rules, and Institutional.

3.1.1 Tariffs and Market Access

This segment concerned the provisions for the establishment of market access rules, both for goods and services, and the elimination of tariffs. Average custom duties between the European Union and the United States are registered below the 2% threshold, a value which is to be considered generally low. However, this data by itself does not show the whole picture. More than half of trade happening between the EU and the US is, in fact, not subject to custom duties, which are instead concentrated within a few sectors, making negotiations more delicate.



The clothing sector, for instance, is subject to 30% import tariffs on both sides of the Atlantic, while tobacco imports into the United States face 350% duties (Source: EU Trade Market Access Database).

For what concerns services, most of the efforts have been dedicated to the elimination of quantitative restrictions currently in force, especially on limits of shareholding of companies for investors from the other coast of the Atlantic Ocean. Furthermore, both parties shared interest in reducing technical barriers for professionals wanting to operate in the US or European market. For this latter issue, however, it needs to be highlighted how it is still very difficult for European professionals to operate in other member states' market, and that TTIP's provisions in this sense might were meant to be directed only to a few categories of professionals.

The third section of this Chapter should have regulated Public Procurements. The goals of both parties in this area remained general and limited to commitments to find agreements on how to ensure European and US companies were not discriminated against, and that transparency would be maximized.

Lastly, parties negotiated Rules of Origin (ROOs). These provisions are essential to determine when a product can be considered as realized in the countries that have signed the agreement, guaranteeing that only products genuinely linked to those countries can benefit from the trade deal.

3.1.2 Non-tariffs Measures

This second part of the negotiations was dedicated to reducing non-tariffs obstacles to trade: the costs, deriving from rules and regulations, for firms desiring to export to the other side of the Atlantic ocean. As will be furtherly explained later, the provisions included in this part are among the ones which have generated the most turmoil in the public debate. Furthermore, cooperation on regulatory issues has been complicated by the threats which they might have generated in relations to state sovereignty. The EU has stressed in several circumstances how the objective of this chapter was that of cutting costs without lowering the levels of protection valid in the European Union for people's health, rights of consumer and environment protection.

A specific section has been dedicated to technical barriers to trade (TBTs) which exist in all sectors of an economy. These standards concern all sorts of characteristics of a good, such as: design, labelling, shape or size. Increased cooperation on these technicalities between two markets allows for a drastic reduction of costs through the elimination of unnecessary obstacles to trade.

The chapter moves on with a module dedicated to Food safety and animal and plant health, also known are sanitary and phytosanitary issues (SPS). The intent of the negotiators was that of integrating the SPS assessment procedures, avoiding costly duplication tests on goods which have already proven to be safe.

According to Frode Veggeland (2016), two are the possible approach when negotiating cooperation on TBTs: the latter can, in fact, be carried out either through harmonization, which implies that new regulations are developed to be uniform for the parties involved in the agreement; or convergence, in which case parties initiate a more long-term process which ultimate goal is that of making regulatory requirements more similar. The approach chosen by the negotiators follows the convergence approach, mainly based on international regulations. The second section of the TTIP was, in fact, set along the lines of the WTO's SPS Agreement (Agreement on Sanitary and Phytosanitary measures) and the TBT Agreement (Agreement on Technical Barriers to Trade). Furthermore, the TTIP was meant to be built on the pre-existing framework established by the two sides of the Atlantic. Since the 1990s, in fact, the EU and the United States have tried to launch negotiations to elaborate a more trade-friendly set of regulations. However, all attempts have resulted in little due to lack of ratification by one of the two parties.

3.1.3 Institutionalization of the TTIP

The third and fourth parts of the TTIP are the ones in which the least progress was achieved at the time in which negotiations fell through. They were meant to be the legal ground for the establishment of rules and bodies to regulate the new flow of trade between the United States and Europe. As a result, the only documents available were released by the EU Commission and present the goals that the European negotiators wanted to obtain.

The chapter starts off with a section dedicated to the issue of sustainable development. The EU has stressed its will to include provisions on labor and the environment in the text, while ensuring that each party retains the right to maintain the current level of protection unchanged. Furthermore, the proposals presented by the EU throughout the negotiations included other issues, such as the ecological management of chemicals and waste, the development of fair and ethical trade systems, opportunities to carry out joint initiatives in third countries in favor of workers' rights and environmental protection. The third section then continued covering the issues of energy security and raw materials, on which, however, no relevant progress has been obtained.

In the SME section, the parties essentially discussed the provisions on "information sharing". The EU has proposed a “one-stop-shop” system with the creation of an online portal dedicated to informing small and medium enterprises about the opportunities enabled by the TTIP. This proposal, however, has not encountered US enthusiasm, at least on the content of the information to be provided and on how this service should be introduced.

The part concerning Customs and the facilitation of commercial exchanges has also generated little success. Clarifications were made on the terminology in view of the preparation of the consolidated text and the respective regulations and general procedures were discussed in detail, but not much else. The EU has indicated, in particular, the difficulties associated with the US procedures for the entry of goods and customs sanctions, while on the American side the attention has been paid to the Community rules on temporary admission.

On intellectual property rights and geographical indications, the discussion was divided according to the main aspects of the chapter: trademarks, patents, copyrights, data protection, enforcement, IIGG. On copyrights and trade secrets, the parties exchanged updates on their respective internal legislative processes and on the ratification procedures of the various international agreements on the subject. On trademarks and patents, the dialogue on general cooperation methods continued, mostly reviewing the provisions in the agreements that each party has already signed with other partners. On data protection, the discussion focused more specifically on the impact of the incentives in place.

On the IIGG, the EU reaffirmed the priority that they hold in the general negotiating position, insisting on the shortcomings of the American system to guarantee them adequate protection and indicated the need for the negotiations on this aspect to be at levels of ambition comparable to those achieved in other chapters, in particular on tariffs.

In terms of competition, the parties continued the analysis of their respective proposals in view of the consolidated text. The first progress in this direction is recorded in the identification of some areas of the text including the general principles, the references to the respective legislative frameworks, the methods of cooperation and revision in progress of the chapter itself. However, negotiations stopped a long way from an acceptable degree of consolidation and, if discussions were to start again, much would remain to be done in some sensitive areas, such as confidentiality and procedural correctness, transparency of investigation procedures, rights of participants and possible exceptions to the application of the regime.

The talks on State-owned enterprises (SOEs) and subsidies have been constructive, identifying a number of converging positions for the adoption of common terminologies, definitions and provisions, but only to a general extent and details were far from being agreed, especially as regards subsidies.

The last part of the deal concerned the hot topic of the ISDS system. EU member states already have signed numerous bilateral trade agreements that employ the ISDS system, a mechanism entitled to grant foreign investors the right to initiate dispute settlement proceedings against host-country governments. The ISDS system is considered to be key to the enforcement of investment protection in many delicate sectors, especially oil, gas, and renewable energy sectors.

Proponents of the ISDS system argue 1) that by offering increased legal predictability for firms, investment protection is also a tool for states to attract and maintain FDI to underpin their economy; and 2) that the system will not significantly increase the ability of foreign corporations to circumvent various EU and Member State regulations. The main features of this instruments are the following:

- **Access to the procedure**. The ISDS is directly accessible by investor, while in the WTO, only member states can bring cases before the panel.
- **Compensation**. ISDS allows investors to seek for monetary compensation, while the WTO’s DSU does not provide for any damages.
- **Appeals**. Review of ISDS decision depends on the on the composition of the panel to which the dispute was initially brought and can involve the ICSID annulment procedure or national court review.
- **Composition of the panel**. ISDS generally relies on ad hoc panels.
- **Compensation of panel members**. The parties to the dispute compensate the arbitrators.
- **Code of conduct**. No universally valid rules book exist for ISDS, but the ICSID Convention and various arbitral rules require independence and impartiality.

Opponents of TTIP within the EU, on the other hand, have strongly criticized the ISDS system, and expressed grave concern that it will enhance the abilities of foreign corporations to circumvent government regulations by sueing or threatening to sue in an international tribunal the EU and its Member State governments for claimed regulatory expropriations.

3.1.4 Economic Previsions

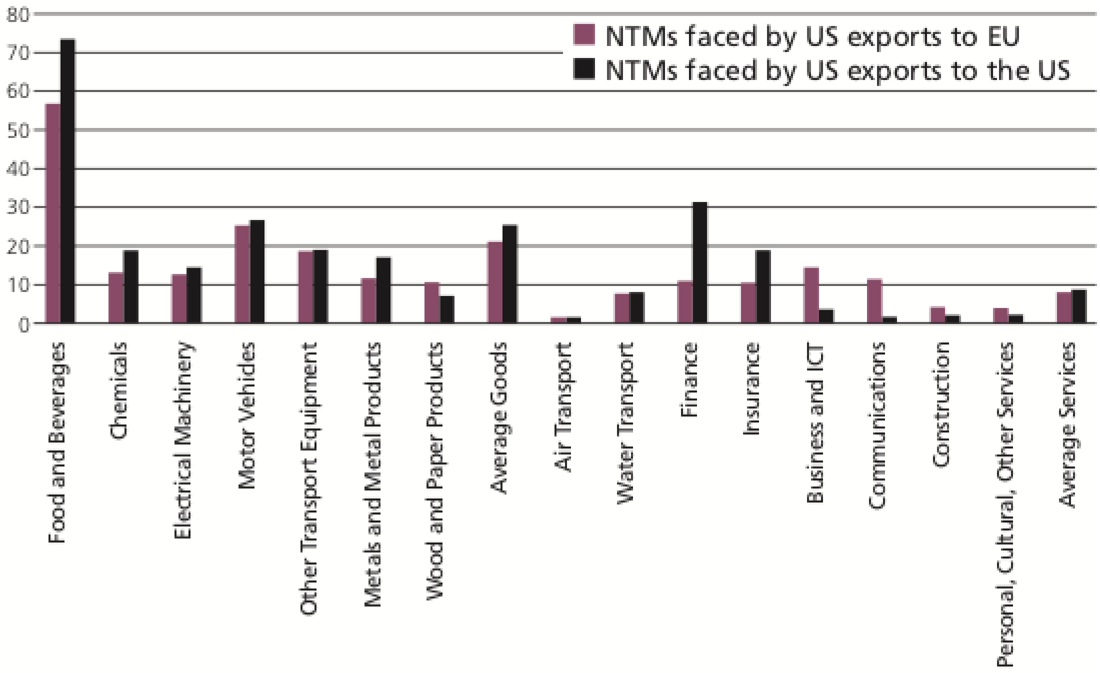
In order to analyze the economic effects that the Transatlantic Trade and Investment Partnership could have delivered to the two regions, I will present two studies on the issue elaborated by the Ludwig-Maximilians University’s Center for Economic Studies, and the Economic research company Ecorys (study conducted for the European Commission). All of these studies have used CGE models which have allowed them to combine economic theory with real economic data in order to derive computationally the impacts of TTIP in both the economies. CGE models fit economic data to a set of equations which aim to capture the structure of the economy and behavioral response of agents (firms, households, government). This enables us to simulate policy changes and record the impact on the selected economic variables.

A further clarification needs to be elaborated, before presenting the results of the studies, on trade flows measurement systems. As already discussed, The rise of globalization has led to increasingly complicated supply chains. Raw materials and intermediate goods now move strategically throughout the world before a final good reaches the consumer. Common measures of trade, such as those which record exclusively gross trade flows, often do not fully capture the complexity of goods and commodities movements along the supply chain. Traditional trade measures record gross, or total, flows of goods and services every time they cross a border, which include not only the cost of inputs, but also the value added by each country. These traditional trade indexes to misleading picture due to double counting, since countries trade intermediate goods for further processing. One solution to this problem is to analyze the value added, such as wages and profits, by each actor at each step of the production chain. This provides a better way of incorporating the intricacies of today's global supply chain into trade accounting.

3.1.5 Overall Effects on the US and the EU

According to the study conducted by the research company Ecorys "Trade SIA on the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the USA" (an update of the previous CEPR work of 2013), which has considered a time frame running until 2030, an increase in GDP is expected to be experienced in both economies. In the case of the EU the value of this increase is estimated to be 0.5%, while that of the United States of 0.4%. Bilateral trade should, on the other hand, witness a considerable increase in both directions: European exports to the United States are estimated to increase by 27%, while an even sharper increment (35.7%) should be witnessed in the opposite route. The model elaborated by CEPR has simulated a scenario in which Tariffs are completely removed, technical barriers to trade are reduced by 25% on goods and services and by 50% on public procurements.

Figure 1. Estimated levels of EU and US NTBs, by broad economic sector (%)



Fuente: Ecorys (2009).

It is worth highlighting how most of the benefits predicted by the model would result from reduction in TBTs, rather than tariffs elimination. Regarding variation in output levels, the results range from almost unaffected to modest decline, as is the case of the electrical machinery and are a result of negative effects resulting from lowering in tariffs, balanced by positive stimulus generated by TBTs reduction.

In addition to this prediction, the study analyzes the possible effects that the TTIP could have on the labor market taking into consideration changes in wages, and reallocation of jobs in the economy. The results suggest that an FTA between the US and the EU should have a positive impact on both skilled and unskilled workers, which should experience an increase in wages close to 0.5%. When considering this latter estimation, however, the deficiencies of a CGE model need to be taken into account: the model as structured is not capable of internalizing the frictions which arises for employees who need to transition to another sector. The reallocation of labor across an economy, in fact, depends on several national and individual factors. The results still remain more than useful for analyzing reallocation of workers within industries.

The results of the study conducted by Felbermayr et al. (2014) present a different scenario, but just as encouraging. The differences in terms of results are caused by different assumption such as the degree of liberalization, which is higher in CES study, and the base year used for the simulation. The entering into force of a free trade agreement between Washington and Brussels is, in fact, expected to yield a long term increase in real per capita income in both economies. In the EU this value should be of 2.12%, while in the US of 2.68%. Aichele, Felbermayr and Heiland's model predicts a relevant amount of trade increase between the European Union and the United States: EU exports to the US are expected to roughly triple, while US exports to the EU are expected to increase by 212%. These increases are witnessable in all sectors, but are higher for Transport Equipment since tariffs in this area are still heavy. Overall, growth in value added exports tend to be higher than growth in gross exports, the only exception being the manufacturing sector.

Intra-EU trade and commerce with non-TTIP countries are expected to decline. The former by 5% in gross exports and by 7% in value added exports, while the latter offers a more complicated picture: in the case of Canada and Mexico, interesting examples as also part of this research project, even though EU gross exports are expected to decrease severely, the opposite is true for absorption of European value added exports.

Worth of attention are the effects of TTIP on Washington and Brussels trade balances. The Trump administration has, in fact, also referred to them as an example of American generosity towards allies and trade partners, and has considered them as a relevant parameter in evaluating current and potentially new trade agreements. The study elaborated by the CES suggests that the structure of trade imbalances will be modified with the implementation of a FTA between the US and the EU. The trade deficit that the United States currently runs with the European Union would increase from 118.4 bn USD to 179 bn. However, the US deficit with most of the other trade partners would be reduced.

3.1.6 Consequences for the Multilateral System

The European Commission has directly addressed the issue of how the implementation of the TTIP could affect third countries. Concerns have been expressed for possible loss of competitiveness for developing countries in both the European and the American markets such as Bangladesh, Pakistan, Cambodia, Chile and Ivory Coast. Former Commissioner for Trade, Cecilia Malmström has personally addressed the issue in 2016:

> “When the EU and US economies grow, that drives demand and growth in the rest of the world. We saw the negative side of this during the recent financial and economic crises. TTIP, by making our economies stronger, will bring out the positive side.
>
> This happens indirectly: when we grow, we import more, including from developing countries. It also happens directly: many developing countries are now part of the supply chains of European and American exporters. Today, on average, every billion euro that we export from the European Union supports 8 600 jobs in the rest of the world. For instance, EU exports support 800 000 jobs in Brazil and over 2 million in India. The more we export, the more our suppliers in developing countries benefit.
>
> That's all very well, some may say. But won't TTIP lead to trade diversion? Won't TTIP mean that European and American exporters have advantages over developing country exporters?
>
> We believe today that the answer is no.”

The argument presented by the EU is that overall risk of exports losses for third countries is low considering that the EU and the United States are already unable to compete in the raw materials economy and that tariffs on goods like banana, fish or sugar from developing countries are already low.

The study by Aichele, Felbermayr and Heiland also elaborates on the possible effects that the implementation of the TTIP would have had on third countries. Their conclusion is that, overall, non-TTIP countries would have also experienced benefits from the entering into force of an FTA between the US and the EU, with an expected increase in world real income of 1.3% on average. The main benefits would have been experienced by countries with close ties to the European Union, especially Turkey since it is a member of a custom union with Brussels, while US neighbors would witness an almost insignificant increase in real income. On the other hand, the main losers, according to the CES model, would have been the Asian actors.

Table 11: Simulated changes of real income due to the TTIP

	(1)	(2)	(3)	(4)	(5)	(6)
	Welfare growth (in %)					
Scenario:	Base	Tariffs only	Shallow TTIP	Spillovers direct	Spillovers indirect	TTIP + Doha
TTIP	*2.37*	*0.00*	*1.79*	*2.88*	*2.98*	*2.49*
USA	2.68	0.01	2.06	3.25	3.37	2.77
EU27	2.12	0.00	1.57	2.57	2.65	2.26
Non-TTIP	*-0.03*	*-0.00*	*0.05*	*0.23*	*1.21*	*0.44*
Rest of World	0.40	0.00	0.36	0.65	3.37	0.57
Rest of Europe	0.29	0.01	0.28	0.74	2.16	0.46
Central Asia	0.20	-0.00	0.19	0.50	2.38	0.21
Eurasian Customs Union	0.17	-0.00	0.13	0.28	1.59	0.89
SACU[a]	0.15	-0.00	0.14	0.38	1.85	0.67
EFTA[b]	0.15	-0.00	0.19	0.55	1.70	0.48
Canada	0.12	-0.00	0.13	0.49	1.60	0.19
MENA[c]	0.12	-0.00	0.14	0.38	1.87	0.65
Latin America & Caribbean	0.11	-0.00	0.11	0.38	1.54	0.44
Sub-Saharan Africa	0.10	0.00	0.12	0.37	1.95	0.81
Turkey	0.10	-0.01	0.10	0.35	1.16	0.30
Oil exporters	0.09	-0.01	0.19	0.45	2.35	0.71
Australia & New Zealand	0.08	-0.00	0.08	0.20	1.12	0.55
Oceania	0.06	-0.00	0.09	0.34	1.94	-0.02
South Asia	0.06	-0.00	0.09	0.23	0.98	1.25
MERCOSUR	0.00	-0.00	0.03	0.18	0.84	0.20
Pacific Alliance	-0.07	-0.01	-0.02	0.25	1.12	-0.16
East Asia	-0.13	-0.00	-0.08	0.01	0.48	0.32
ASEAN[d]	-0.19	-0.01	0.05	0.28	2.15	0.42
China	-0.23	-0.01	0.05	0.20	1.14	0.41
World	1.32	0.00	1.02	1.72	2.20	1.60

Note: The regional real income change is a GDP-weighted sum of the respective countries' real income changes. An overview of the classification of countries into regions is provided in the online appendix. Base: deep TTIP scenario. Direct spillovers: deep TTIP scenario plus trade cost reduction for non-TTIP countries' exports to the EU and US by 20% of the trade cost reduction within TTIP. Indirect spillovers: Direct spillover scenario plus trade cost reduction between third countries and TTIP countries' exports to third countries of 10% of the trade cost reductions within TTIP. TTIP+Doha: deep TTIP scenario plus elimination of all tariffs between WTO member states.
[a] Southern African Customs Union, [b] European Free Trade Association, [c] Middle East & North Africa, [d] Association of Southeast Asian Nations.

3.2 CETA Structure of the Agreement and Previsions

The Comprehensive Economic and Trade Agreement was signed by Ottawa and Brussels in late 2016 and ratified by the Canadian and EU parliaments in September of 2017. Therefore, it can be considered, thus far, a more successful story compared to that of the TTIP. However, the treaty has been implemented so far only provisionally and is waiting for the ratification by all EU member states national parliaments. Despite Trade Policy being exclusive competence of the European Union, the European Court of Justice has declared that since in the Agreement are included provisions concerning portfolio investment and Investor-State dispute settlement mechanism, ratification by national parliaments is necessary.

3.2.1 Duties and Procurement

The Comprehensive Economic and Trade Agreement is the first second generation trade deal signed between the EU and a G7 country and is among the most important for the ambition of its objectives and scope of application.
Similarly to what negotiated with Washington, CETA establishes the elimination of 98% of the barriers and customs duties existing in trade between the European Union and Canada, the liberalization of the services market between the two sides of the Atlantic, and the granting of access to public procurement both at federal and local government level, for Canadian and European companies. Tariffs have been completely eliminated on industrial goods, while some restrictions, mainly in the form of quotas, have been retained for the agricultural sectors. In addition to duties elimination, the treaty provides for the simplification of customs procedures and entry of goods through the definition of common rules and transparency, as well as cooperation between the respective customs authorities. CETA also provides for the recognition of designations of origin, a point that greatly benefits European companies with 143 recognized labels from the agri-food sector.

3.2.2 TBTs

The chapter on technical barriers to trade contains provisions to promote regulatory transparency and convergence between the EU and Canada. In introducing this chapter on the dedicated portal, the EU starts off with an important premise: “This cooperation is voluntary. It can't in any way force the EU or Canada to lower their standards.”

Similarly to the TTIP, the agreement has been negotiated on the basis of the provisions of the «WTO TBT Agreement on Technical Barriers to Trade». With regard to TBTs, the agreement provides for the harmonization of "good manufacturing practices" (GMPs) relating to pharmaceutical products and the recognition of technical standards established by the United Nations Economic Commission for Europe (UNECE) in the automotive sector. Furthermore, an ad hoc Protocol governs the mutual recognition of conformity assessment procedures, including those on marking and labeling of products. In this context, the EU and Canada have agreed to mutually accept conformity assessment certificates in areas relating to electrical, electronic and radio equipment, toys, machinery and measuring instruments. Through the recognition of certificates of conformity by both the EU and Canada, both parties will avoid carrying out the same tests, therefore eliminating the costs associated with such duplications. With regard to sanitary and phytosanitary rules (SPS), CETA does not modify the laws and regulations in force in the EU and Canada but transposes the respective obligations under the "WTO SPS Agreement" within the WTO.

3.2.3 The Services Market

The trade agreement with Canada is by far the largest agreement ever concluded by the EU in the service sectors. The chapter on services and investment establishes the liberalization of a large number of sectors including financial services, maritime services, environmental services, telecommunications and e-commerce. The protection of public services has been a crucial pillar in all trade negotiations conducted by the EU, and CETA is no exception. Again Canadian investors and service providers will have to comply with applicable EU regulations. In addition, in the field of professional services, Canada has removed a series of restrictions on citizenship and residence for Italian professionals who intend to practice in Canada, such as lawyers, architects, engineers. In this context, the agreement provides a framework to facilitate the mutual recognition of professional qualifications whose organizations can negotiate mutual recognition agreements (MRAs) for their respective professions. As with TTIP, the number of qualifications which will be able to freely operate on the other side of the Atlantic is still unclear, and every category will require further agreements between Canada and the EU.

3.2.4 The Investor Court System

The turmoil and discussions generated by the inclusion in the TTIP and CETA of an investor-state dispute settlement mechanism has been already introduced, and will be furtherly discussed later. However, following the strong opposition which the EU has faced on this issue during the negotiations with the United States, Brussels has worked on a new proposal to improve the highly criticized ISDSM which has been ultimately included in the Comprehensive Economic and Trade Agreement.

The first main characteristic of this new system is its nature, as it will not be based on ad hoc courts but will be an actual public body. Secondly, the tribunal will be composed by independent judges appointed by the two negotiating parties. Thirdly, the establishment of a Court of Appeal has been included and transparency has been increased through public hearings and reports.

The reform of the ICS is a novelty in trade agreements, but a potentially revolutionary one. The same system has been, in fact, adopted for the FTA between the EU and Mexico. As previously mentioned in many countries the public debate on the issue is still open, and the Member States, with the support of the Commission, have chosen to exclude the ICS from the provisional scope of the CETA. As a result, the ICS will therefore only be implemented once all Member States have completed their national ratification procedures.

3.2.5 Economic Impacts of CETA

A study published by the DG Trade in 2017 presents a simulation based on the CGE model. The scenario considered for the simulation take in consideration tariff cuts and limited reduction in TBTs.

The results suggest that, once fully implemented, both the EU and Canada would experience significant gains through tariffs reduction, FDI liberalization, and services bindings, which would generate annual increase in bilateral trade flow of at least 8%, amounting to approximately to €12 billions per year by 2030. Foreign Direct Investments into the European Union are expected to increase by €630 million while Canada should witness an increase in FDIs by almost €1.2 billions. In terms of GDP, both parties should experience an increase by some €2 - €3 billions per year until 2030.

Bilateral exports

millions of 2015 Canadian dollars	**$ change**	
	Canada to EU	**EU to Canada**
Paddy rice	0.0	0.0
Wheat	705.6	0.3
Cereal grains nec	1.5	0.2
Vegetables, fruit, nuts	6.8	13.4
Oil seeds	-6.5	0.0
Sugar cane, sugar beet	0.0	0.0
Plant-based fibers	0.0	0.0
Crops nec	7.1	7.2
Bovine cattle, sheep and goats, horses	0.3	0.1
Animal products nec	6.6	11.7
Raw milk	0.0	0.0
Wool, silk-worm cocoons	0.0	0.0
Forestry	0.1	0.0
Fishing	20.2	0.2
Coal	-0.3	0.0
Oil	-0.9	0.0
Gas	0.0	0.1
Minerals nec	-5.1	0.7
Bovine meat products	31.3	7.0
Meat products nec	5.0	72.9
Vegetable oils and fats	15.3	15.5
Dairy products	26.7	175.6
Processed rice	0.0	0.0
Sugar	18.5	0.3
Food products nec	627.8	877.6
Beverages and tobacco products	2.1	28.1
Textiles	32.2	249.8
Wearing apparel	136.3	929.0
Leather products	16.9	403.4
Wood products	19.7	166.5
Paper products, publishing	-4.4	1.4
Petroleum, coal products	53.7	38.0
Chemical, rubber, plastic products	449.3	452.1
Mineral products nec	11.1	111.8
Ferrous metals	3.3	2.5
Metals nec	528.4	5.0
Metal products	69.9	129.8
Motor vehicles and parts	119.6	2018.3
Transport equipment nec	434.5	289.3
Electronic equipment	95.5	16.9
Machinery and equipment nec	524.2	297.0
Manufactures nec	16.1	147.0
Total	**3,968**	**6,469**

Sources: GTAP CGE model and PBO calculations.

Note: "nec" refers to "not elsewhere classified". The construction and dwellings sectors have been combined for this analysis.

These results are also confirmed by a similar study conducted by the Government of Canada, which suggest that both the EU and Canada experience export gains in numerous sectors. A greater level of integration is predicted in the automotive sector, as bilateral exports are expected to increase by some 30%. Similar results are also reached in terms of GDP growth which are expected to increase both in the European Union and in Canada by, respectively, 0.2% and 0.16%.

Since the provisional implementation of the agreement, some effects of the CETA are already witnessable. According to the Government of Canada, in fact, in 2018, merchandise exports to the European Union increased by nearly $3 billion (+ 7%) compared to 2017.

Benefits of CETA have also been registered in terms of bilateral merchandise trade in 2018, which increased by more than 9% from 2017 after the removal of tariffs on 98% of products that the European Union trades with Canada. The sectors which experienced the highest growth in terms of exports in 2018 were: aluminum (up 378%), motor vehicles and parts (up 89%), mineral fuels and oils (up 84%), inorganic chemicals (up 82%) and wood pulp (up 45%).

3.2.6 Consequences on the Multilateral System

Research on the consequences of trade liberalization between Canada and the EU is not among the richest. In 2011, Kirkpatrick et al. published a Trade Sustainability Impact Assessment based on the CGE model simulation. The study was commissioned and financed by the EU Commission and exploited four different scenarios with different degrees of liberalization, assessing the effects of the establishment of the CETA on the signing parties, the US and Mexico, and several LDCs with different ties with Ottawa and Brussels.

Kirkpatrick et al.'s model suggests that the establishment of an PTA between Canada and the EU will have little negative effects on African, Caribbean and Pacific (ACP) Countries in all scenarios analyzed. The lowest degree of losses (0.01% of GDP) is expected in case of full liberalization of trade in goods with limited liberalization in the service sectors, while the highest is predicted to happen in the opposite scenario. The same results hold for the rest of Less Developed Countries. The reasons behind these results concerns the effects that a full liberalization in the trade services would have on prices of electricity, air transport, communication, financial services.

As with all the CGE simulations presented so far, even the one presented in this section only accounts for the consequences deriving from trade reductions, without considering other exogenous factors which might affect trade flows. Besides reducing tariffs and TBTs the CETA has, in fact, the potential to shape global rules on investment protection, environmental protection, public procurement access, and labor legislation. In this sense, the simulation thus far summarized does not present the full potential of the agreement. Draper (2017) in a study elaborated for the DG External Policies builds on Law (2014) research suggests that standard convergence in the CETA should have negative consequences on countries not part of the Agreement since the both EU and Canada’s standards will not change, and therefore no trade distortion should be experienced by third countries. However, the agreement does establish a cooperation forum which is meant for future development of common standards. If these harmonization efforts will include non-CETA countries, the risk of generating negative consequences on them will be diminished.

Another aspect in which the CETA could potentially affect the global trading architecture concerns the dispute settlement mechanism. If the Investor Court System conceived for the Agreement with Canada will be actually implemented after the national ratification process, the EU will be engaged in trade agreements which deploy three different dispute resolution schemes: WTO Judicial Body, Investor-State Dispute Settlement Mechanism, and the ICS. As a result, high uncertainty will be generated on how these different systems would interact with one another, and most importantly the consequences they would have on the already fragile WTO.

3.3 EU – Mexico Trade Agreement

The EU-Mexico Global Agreement entered into force in July of 2000 and was, at the time, considered one of the most comprehensive and innovative trade agreements established globally as it was the first trade agreement concluded by the European Union with a Latin American country. Formal negotiations began in late 1996 and resulted in the Economic Partnership, Political Coordination and Cooperation Agreement between the then European Union and its member states, on the one hand, and Mexico on the other, signed in December of 1997.

However, 20 years into its establishment, its flaws had become evident, leaving potential increments in bilateral trade flow unexploited. As a result, In May 2015 the Secretary of Economy of Mexico and the Commissioner for Trade of the European Commission shared common intention in advancing preparations for the modernization of the Global Trade Agreement between Mexico and the European Union.

Negotiations were officially launched on 30 May 2016, and the first two rounds of talks took place in the same year, between June and November, first in Brussels, and then in Mexico

City. On April 28, 2020, following strong commitments by both parties, Mexico and the European Union concluded negotiations for the modernization of the Trade Agreement.

3.3.1 Structure of the Agreement

The EU - Mexico Free Trade Agreement set the rules for trade in eleven areas:

1. **Tariffs Liberalization and Market Access**

   This Chapter has established the rules relating to tariffs, quantitative restrictions licenses, and price requirements for imports or exports that have regulated trade in goods between Mexico and the EU. Furthermore, a legal framework has been established to ensure certainty of market access for goods produced and traded in the free trade area. Relevant aspect of this chapter is the acknowledgment of different levels of development between the two parties which has led to the establishment of different time frames in which to enforce the provisions established in the deal.

   The Agreement concluded in April of this year promises to deliver valuable updates to this section. The new Deal will, in fact, eliminate tariffs on most of the remaining commodities and goods such as poultry, cheese, pork, chocolate and pasta. However, several clauses will remain in place in order to protect sensible industries, allowing both parties to implement restriction in case of reasonable threats. Furthermore, it will deliver relevant improvements in terms of rules harmonization, making it easier for business to meet the requirements of both markets.

2. **ROOs**

   The Rules of Origin contained in the agreements have established that the goods will be considered originating in the region when they are produced in their entirety in any of the then 15 EU countries or in Mexico.

   Commodities that contain inputs that do not come from the area will also be considered originating from the region, as long as the inputs imported from outside the region are transformed in any partner country of the FTA, but under the condition that said transformation must be sufficient to modify its tariff classification in accordance with the provisions of the Agreement.

3. Safeguards

Provisions in this section established measures which could be adopted in case imports from the other signing party results in a threat to cause severe damage to the domestic industry of the importing party. Countermeasures to such a risk have been allowed as long as they do not exceed what is necessary to safeguard the industry in question and can be adopted for a maximum period of one year, or three in extremely exceptional circumstances.

4. TBTs

This chapter aims at increasing the use of international standards, while safeguarding the levels of protection deemed appropriate by each of the parties. Under the agreement, mutual recognition of certifications is envisaged, which will result in significant savings for companies. Moreover, thanks to the agreement, exports of cars and car parts will benefit from the convergence of technical regulations and the temporary export of goods for the purpose of repairs will be simplified.

5. SPSs

The Global Trade Agreement between Mexico and the EU has established an ad hoc committee entitled to supervise the application of the provisions on Sanitary and Phytosanitary measures as regulated by article 20 of the Joint Council Decision No. 2/2000. Furthermore, the Committee was conceived in order to provide a forum to better identify and address problems concerning the application of SPSs measures through the exchange of information.

6. Public Procurements

In the EU countries and in Mexico, government purchases are an important part of their economies. The public procurement systems in the 15 community countries constituted very broad markets that offered Mexican and European exporters opportunities to expand the scales of operation in many sectors. Provisions in this chapter dealt with coverage of the agreed liberalization, measures to ensure non-discrimination in public procurements, threshold values, transparency of procedures and the use of information technology. The results of this chapter were significant, however they remained limited to the federal level for what concerns Mexico.

In this sector the new EU-Mexico agreement establishes revolutionary improvements, securing access for EU firms to public procurement also to the state and local level, making it the first time that Mexico opens its procurement to the sub-federal level.

7. Competition

The singing Parties agreed to promote competition and combat monopolistic practices. However, the EU and Mexico retain the right to adopt or maintain measures, in accordance with their own laws, against non-competitive commercial practices. In addition, the commitment to cooperate in the application and execution of the laws that each of the signatory countries of the Treaty have on this matter is established.

8. Trade in Services

The Chapter on Trade in Services covers two major topics: cross-border trade in services and financial services. The first covers activities as diverse as construction, professional services, computer services, transportation, telecommunications, port services, specialized air services, repair and maintenance services, and tourist services, among others.

The new Agreement provides Mexico and the EU with a new framework to furtherly liberalize trade in financial, postal, telecommunications and transport services; providing deeper recognition of the other party professionals. Moreover, the updated deal regulates new industries such as that of digital services.

9. FDIs

Overall, no specific provisions related to investment was included in the agreement other than those related to payments and capital flow. The coverage of investment promotion is, in fact, left to bilateral ad hoc treaties (BITs) between Mexico and EU Member States. Yet, other relevant investment-related measures are established in this section, mainly referring to: Information mechanism on legislation and opportunities, guidelines for reaching more uniform procedures, and instrument for encouraging reciprocal investment.

10. Intellectual property

In terms of Intellectual Property, the agreement between Mexico and the EU provides the establishment of a consultation mechanism and the absorption of the most important international conventions on the matter which have been signed by the two parties. However, each country reserves the right to adequately and effectively protect Intellectual Property Rights based on the principle of "National Treatment", and will ensure the effective enforcement of those Rights, both at the national level and at the borders.

The new EU-Mexico FTA defines specific commitments on the protection of: copyright, including phonograms; patents; brands; plant breeders' rights; industrial designs; industrial secrets; integrated circuits; and geographical indications. Relevant progress has been achieved in this field by the new Agreement, which has, for instance, expanded the list of protected geographical indications.

11. ISDS

A specific procedure, compatible with the mechanisms for the settlement of disputes of the WTO, was established in case of disputes over issues covered in the Trade Agreement. The procedure consisted of three phases: consultations between the parties involved, intervention of the Joint Committee in case after 45 days of consultation no solutions to the dispute was found, and lastly initiation of the procedure before the courts.

Following the controversies raised in the last decade regarding the legitimacy of Investor State Dispute Settlement Mechanism in Trade Agreement, the EU has chosen to include in the new deal with Mexico the new instrument of the Investor Court System, already introduced in the section dedicated to CETA.

3.3.2 Economic Impacts of the Agreement

A study carried out by Ecorys for the European Commission has evaluated the ex post impact of the Free Trade Agreement between Mexico and the EU. In order to better grasp the effect of all measures included in the deal, the research has been conducted utilizing two different statistical models, namely the already introduced CGE model and a gravity model. The latter is, in fact, better suited to evaluate the effects of non-tariffs measures, and provides estimates of how much social, legal, and institutional distance between the partners affects bilateral trade.

The results of the simulation of the gravity model suggest that the old EU-Mexico FTA did not generate additional trade beyond what was expected based on tariffs reduction by itself. The authors affirm that: “[...] There is no statistical support for the case of trade creation effects beyond those due to tariffs alone”. However two exceptions are found, namely transport equipment and petro-chemicals, in which the results suggest that the non-tariffs measures of the Agreement have generated an increase in bilateral trade.

In order to evaluate the overall impact of the Agreement on the two economies involved, the authors have carried out a simulation using the CGE model, which allows to estimate how Mexico and the EU would have performed economically speaking if the deal did not come in place. The results suggest that benefits have been marginal for the European Union, while slightly more significant for Mexico. The estimated increase in trade due to tariffs liberalization accounts for about 1.5-1.7% for Mexico, while 0.05% in the EU's aggregate trade flow. EU exports to Mexico are, however, expected to increase by 19%, while for Mexico the increment is predicted at 15%. As a result of tariff reduction, both parties are estimated to have experienced some losses in terms of duties revenues, respectively 0.01% for the European Union and 0.14% for Mexico. Concerning wages, the effects from the trade deal have been passed in terms of real wages. In fact, according to the simulation, increments in cost of labor have been experienced for all categories of workers. However, the biggest increase has been experienced by the highly skilled ones.

Table 3.8 GDP, percent impact

Country	value, million euros (2011)	% change
European Union	13,217,925.95	0.01
Mexico	875,224.00	0.34
Turkey	579,516.11	-0.01
Canada	1,330,416.77	0.00
United States	11,619,282.40	0.00
MERCOSUR	2,143,452.16	0.00
Andean Pact	459,179.87	0.01
Central America	127,578.12	0.00
Chile	187,743.53	0.01
ACP countries	1,134,822.26	0.00
China	5,471,059.09	0.01
Japan	4,410,803.31	0.00
Rest of World	11,547,862.61	0.00

Effects on third countries are negligible, with the most affected country being Canada with a 0.12% decrease in exports and imports value.

Table 3.10 Value of exports and imports, percent impact

Country	Value of exports, million euros f.o.b.	% change	Value of imports, euros dollars c.i.f.	% change	Terms of trade
European Union	4,826,440.08	0.1	4,956,292.13	0.1	0.0
Mexico	275,325.27	1.6	236,942.70	1.7	0.1
Turkey	125,349.14	0.0	172,127.74	0.0	0.0
Canada	349,070.40	-0.1	342,966.48	-0.1	0.0
United States	1,443,984.36	0.0	1,845,500.01	0.0	0.0
MERCOSUR	268,188.60	0.0	243,406.70	0.0	0.0
Andean Pact	89,527.79	0.0	92,280.74	0.0	0.0
Central America	56,466.27	0.0	69,256.21	0.0	0.0
Chile	79,224.42	0.0	56,690.67	0.0	0.0
ACP countries	352,470.69	0.0	390,997.30	0.0	0.0
China	1,433,269.73	0.0	1,133,544.36	0.0	0.0
Japan	663,563.99	0.0	646,359.24	0.0	0.0
Rest of World	3,991,057.60	0.0	3,767,574.27	0.0	0.0

3.4 Politicization of Trade Policy

At the moment in which this project is being elaborated, the negotiations for the Transatlantic Trade and Investment Partnership can be considered as officially failed. the EU-Mexico FTA and the Comprehensive Economic and Trade Agreement, on the other hand, have been fully agreed on and either signed or approved by both Parliaments. However, despite the different outcomes achieved thus far in comparison with the EU agreement, both CETA and the deal with Mexico cannot be considered as completely successful yet, as a few complicated steps are to be achieved before the parties involved can celebrate and cut the red tape. As previously anticipated, in fact, following the opinion of the European Court of Justice, considering the inclusion in the Agreements of provisions concerning the establishment of a dispute settlement mechanism, the ratification by Parliament of all European Member States result necessary. The major cause of threat is that the pending issue,

the Investor Court System, is the same issue which has generated the most friction in the negotiations of the TTIP and which has met the toughest opposition from the public opinion.
This latter issue falls into a broader phenomenon experienced by the European Union in the last decade. Following the signing of the Treaty of Lisbon, which has reshaped the architectural structure of the EU, it was believed that Brussels would have become an even more autonomous entity in the field of Trade Policy. However, this realm of policy has also witnessed a profound transformation in the last ten years on the side of the public opinion, which has demonstrated unprecedented levels of involvement in issues related to commercial policy.
The new level of politicization of Trade-related issues however has not been registered at the same value for each deal. This has certainly been the case for the high profile CETA and TTIP, but less for the negotiation process with, for instance, Mexico, Japan, or Vietnam. These differences have raised the question of why Trade policy is much more contested in some cases than in others, considering that all trade deals recently negotiated by the EU cover the same issues and to the same extent. Brussels' response to this phenomenon has been to try to make negotiation processes more transparent. A major effort in this sense has been deployed by former DG Trade Commissioner Cecilia Malmstrom. Yet, the extent to which progress of negotiations can be shared is limited by the natural characteristics of the negotiations themselves as it is not always advisable to share information following the principle that nothing is agreed until everything is agreed.
Tereza Novotnà and Tim Oliver (2016) have presented arguments suggesting that the reasons behind the failure of Trade Agreements are not only to be found in the content or negotiating party of the deal in question, but rather in the choices of the EU itself. The due argue, in fact, that in case the TTIP was to fail, which then happened, it would not be because of the strength of anti-globalist arguments that have already been proven as lacking of solid foundation; and the same argument hold true for any other trade agreement, including CETA and EU-Mexico FTA. The real cause of failures to ratify or conclude the agreements are to be searched in the EU's system of governance which were supposed to be solved in Lisbon. The major flaw left by the EU's treaties revision process of 2007 concerns the marginalization of Member States in negotiation process, which has made them less prone to invest political capital in supporting the new Trade Agreements since they can still easily take the merit of success if this find the support of the public opinion, while blaming the faceless European bureaucrats in the opposite case.

3.4.1 To What Extent is the ISDS a Deal Breaker?

Investigating the reasons behind the resurgence of the anti-ISDS revolution is no easy task. These instruments have, in fact, been around since the 1950s generating no public chaos until recent times. The rationale behind the inclusion of these instruments lies in the idea that foreign investors should be allowed to turn to private arbitration tribunals if they believe they have been unjustly treated in countries where they are established and are unlikely to get a fair hearing in domestic courts. ISDS bodies were, in fact, conceived to promote FDIs among trading partners by giving investors additional reassurement on the treatment they would be reserved in the foreign countries. The relevance of a similar instrument becomes clear imagining the difficulties that foreign companies could experience in countries with poor levels of respect for the rule of law. In countries where corruption is widespread, and institutions are weak, the ability to rely on local courts to solve international-business issues is not granted. For this reason, since the 1950s developed countries, when establishing FTAs with LDCs, more developed countries have pushed for the inclusion of similar provisions in the treaties, without generating any turmoil in the public debate.

This has not been the case for TTIP and CETA, as the controversy around the establishment of an ISDS body has resulted detrimental for the establishment of the former, and still poses some doubts that the latter will be definitely approved. Two are the possible reasons behind the difference in acceptance of a mechanism which, has said, has been around for decades.

First of all, the relevance of the actors involved. Until the 1990s developed economies had not begun to concretely evaluate the possibility of establishing FTAs among them, which previously came into existence only between a fully grown and developed country and emerging ones. The latter were not conceived as potential threats to national regulations as lacking the means, it was in fact unrealistic to imagine companies from LDCs challenging EU or US provisions. But this conception changes in the moment in which two fully developed economic powers engage in such a negotiation. Considering the number and power of US companies, it is understandable to see them more as a threat compared to Mexican ones, for instance.

Secondly, well developed democratic systems, such as the US and the Canadian ones, do not theoretically pose any threat concerning the violation of the rule of law. Both countries have developed well established judicial systems and the possibility of investors having their rights violated seems less plausible, making the ISDS a superfluous instrument.

However, what these arguments fall short to include is, first of all, the geopolitical influence that further integration between the two sides of the Atlantic ocean would have on the rest of the world trading system. If the TTIP, along with its "twins" CETA and TPP, was to be established it would have generated the new rulebook for International Trade covering a vast majority of global GDP, allowing the western alliance to regain control over the agenda setting process in the multilateral fora. Excluding the ISDS Mechanism would have given the possibility to third countries to opt out of the inclusion of similar bodies when negotiating trade-related issues with countries such as China or Russia, where the respect of the rule of law and the risks of right violations are serious concerns.

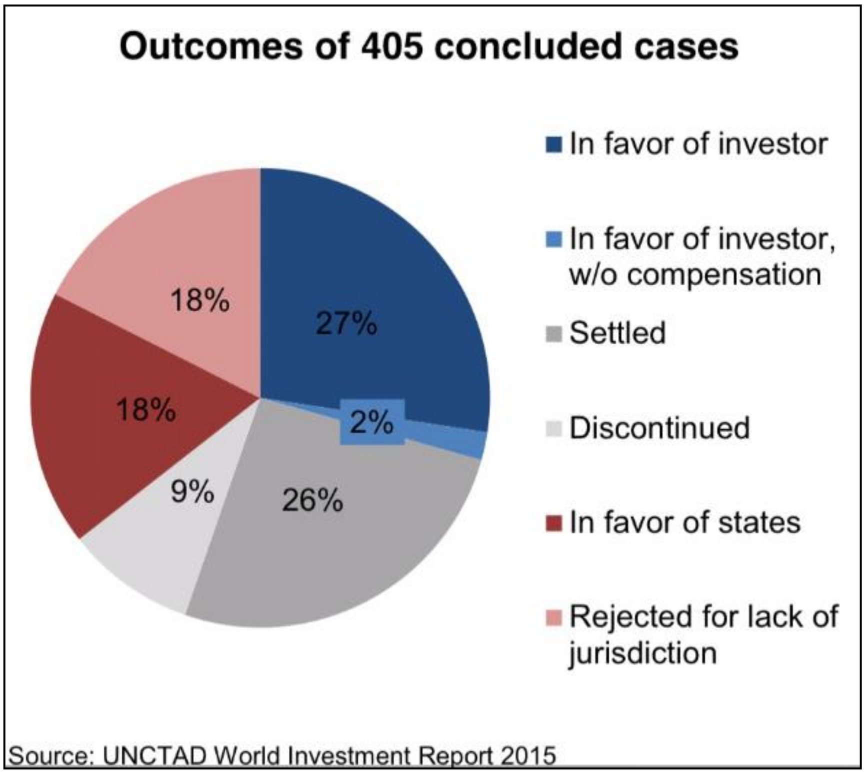
Secondly, the importance of an international system to settle dispute cannot be considered as superfluous even when the actors involved are full democratic systems such as the US or the EU. Within these entities, at the sub-federal level for the United States and at the Member States level for the European Union, judicial systems have different characteristics and levels of development. The inclusion of an independent supranational system for dispute settlement allows to even the playfield in terms of costs and time to seek justice.

The platforms and personalities which in the last decade have taken strong stances against the establishment of FTAs when discussing Investor-State Dispute Settlement Mechanism point to the facts that A) they represent a strongly biased type of institution in favor of private entities, and B) they comprise a State capacity to elaborate regulations of businesses. Pia Eberhardt, researcher and campaigner with Corporate Europe Observatory and one of the strongest anti-ISDS activist, has said:

> "From Europe to Africa and from Latin America to Asia, ISDS has been used as a corporate weapon against the public interest. Red carpet courts disincentive governments from changing policies to please investors, at the expense of environmental protection, social justice and human rights. This parallel justice system for corporations betrays citizens and the fight against environmental destruction and catastrophic climate change,"

However, despite some controversial cases which have raised concerns over the consequences of the decisions, a macro analysis of the results of the cases presented to ISDS does not support the arguments supported by strong critics. According to the UNCTAD World Investment Report of 2015, in fact, less than 30% of the cases have been concluded in favor of investors.

Furthermore, Koeth (2016) highlights three relevant elements to further investigate the foundations of anti-ISDS claim. To begin with, the majority of the cases which have thus far been presented to Investor State Dispute Settlement bodies have mainly concerned administrative provisions rather than actual legislative acts. Secondly, lawsuits that challenged government's policy choices have thus far never succeeded. Lastly, diving into the companies which have presented the most cases to ISDS shows that a relevant majority of them are European companies.



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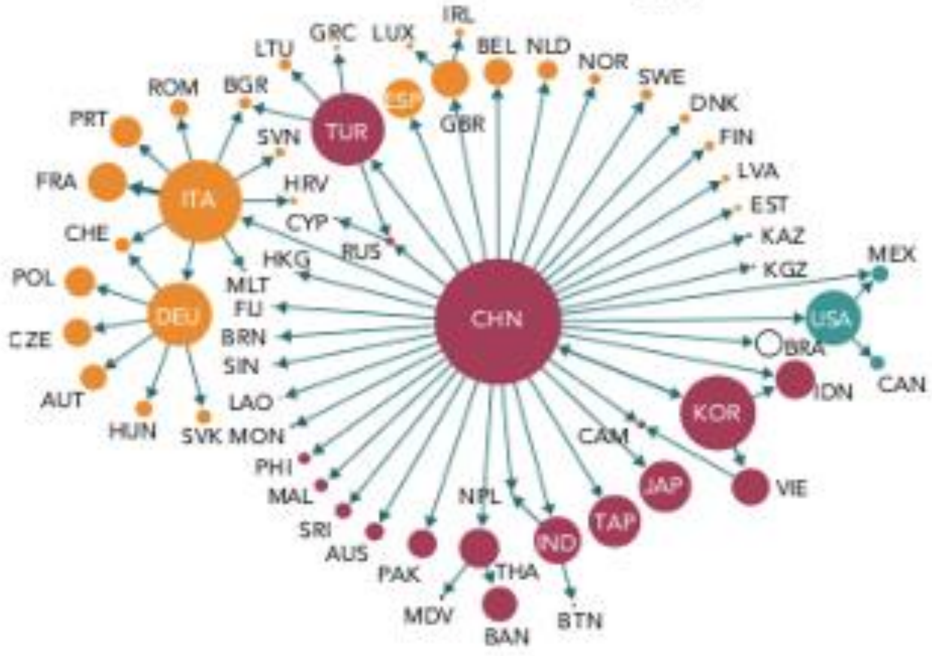
CHAPTER 4 *THE FUTURE OF THE TRANSATLANTIC ALLIANCE POST COVID-19*

The complex phenomenon of globalization is not, and cannot be, reducible to the mere integration of the markets which took place in the last 25 years, which has, in fact, been going on for the longest time. Globalization is much more and, although it is undeniable that it has contributed to the rapid spread of the virus that has upsetted our lives in the recent past, it is also true that it favors its cure through the sharing of data, health material, knowledge and skills. The Coronavirus is, therefore, a global crisis and only in part a crisis of globalization. However, several valuable lessons can be learned from the status quo.

A fundamental characteristic of contemporary business models is the fragmentation of single production processes in a large network of countries and companies apparently without borders: the realization of a product no longer depends, in fact, on a single industry in a single country, but involves a very broad group comprising a larger number of actors which has led to the specialization of production not according to the lines of the finished good, but according to those of the stage of realization of that commodity. These phenomena have already been introduced in this research project, and are known as Global Value Chains (GVCs), and already before Covid19 they were at the center of numerous discussions focused on rethinking globalization.

Figure 1 Three interconnected hubs in the world's supply chain for textiles



Source: WTO Global Value Chain Development Report 2019.

According to many, this system would be guilty of having removed production from Western countries, in favor of emerging countries mainly located in the Far East (including China), and of the consequences of such choices: loss of jobs and the start-up of an unsustainable logistics system from an environmental point of view. These criticisms, however well founded, describe the phenomenon only partially. If it is true, in fact, that the socio-economic realities of Europe and the United States have been distorted in recent decades, it is also true that globalization has helped to lift nearly a billion people from the state of poverty and that the GVCs system itself employs about 450 millions of individuals.

There are two main weak links in these chains, which have been the subject of in-depth evaluations even before the spread of Covid19: the differentiation of supply areas, and the just-in-time production model.

Wuhan, in addition to being the epicenter of the virus that is disrupting our lifestyles, is an important economic center, nationally and globally, positioned at the center of many Global Value Chains. It is, in fact, a large financial, mechanical, manufacturing and pharmaceutical center. In addition to the well-known health consequences that the spread of the virus has generated, the repercussions for foreign industries that depend on important intermediate products from the Hubei region have also been severe right from the start. Even if the virus was not to spread like wildfire in Europe, North America and the rest of Asia, therefore, the economic consequences would still have been heavy for these economies. Once the "black swan", a term used to refer to unpredictable exogenous shocks, will be casted out, it will be important to adapt production chains making them more malleable and less sensitive to such risks. Such an objective can be reached by following several roads, but the safest ones seem to be that of differentiating the countries of origin or that, less convenient, of in-shoring by bringing production back entirely into a single country. Politically, it will be important to reduce one's dependence on a single partner, in favor of more extensive and secure networks.

Beata Javorcik, chief economist of the European Bank for Reconstruction and Development, recently spoke on the subject in an interview with the Financial Times[25]. According to the scientific Head of the EBRD, the shock that the Coronavirus epidemic represents for the Global Value Chains system will not be as temporary as the Japanese one which took place almost ten years ago. According to Javorcik, climate change and the commercial crisis of recent years had already contributed to a rethinking of world production systems and Covid-19 could be the definitive step towards a new direction.

[25] https://www.ft.com/content/cc2ff3f4-6dc1-11ea-89df-41bea055720b

The post-pandemic reconstruction has just recently officially begun, and some important signs are already evident. Japan, for instance, is evaluating new possible Asian partners to be included in the TPP (Trans Pacific Partnership) project, a free trade agreement between countries bordering both Pacific coasts, in order to reduce its dependence on the Chinese giant; Mexico and Canada, on the other hand, had declared themselves ready to anticipate the entry into operation of the new North American Free Trade Agreement (USMCA); and even in Washington the hypothesis of further distance from Beijing seems to be under consideration.

4.1 Global Interconnection During a Pandemic

In order to develop a better understanding of how GVCs, and business model based on broads and international networks, have affected the spread the economic consequences of the current pandemic I will present a model elaborated by Alessandro Sforza and Marina Steininger in the study “Globalization in the Time of Covid-19”.

The scope of their paper is to quantify the welfare effects of global production shock generated by the pandemic, and study the role of global production chains in the diffusion of the Covid-19 shock across countries. Three aspects make this shock unique: firstly, it is one of the biggest production shock in recent history; secondly, it is not an economic shock per se, therefore its origin do not concern economics fundamentals; and lastly, it is a truly global shock as production is not affected only in the epicenter (Wuhan) as is the case of natural disasters.

Sforza and Steininger solve the model to highlights relative changes in the deltas in welfare indexes, as a result of the Covid-19 shocks under three different scenarios:

1. A “snap-shot” scenario in which the current numbers at the time of their writings (03/2020) are taken under consideration
2. A quarantine scenario, in which restrictions are limiting 60% of the workforce considering that workers in the service sectors would still be capable of conducting their tasks in smartworing
3. A closed world scenario, which estimates the effects of Covid-19 shock in a less integrated world

The results of the second scenario show that a vast majority of the countries in which the labor force has been quarantined a drop in real income up to 14% is to be experienced, with China, the UK, and Finland registering the most severe drops. In case of quarantine workforce also in these trading partner countries, a further drop up to 3% in real income is expected.

Table 1: Welfare Change across Countries, in Percent

Country	(i)	(ii)	Δ	Country	(i)	(ii)	Δ
Austria*	-0.65%	-13.80%	-13.15%	Australia	-0.17%	-1.67%	-1.50%
Belgium*	-0.72%	-13.68%	-12.96%	Brasil	-0.06%	-1.16%	-1.10%
China*	-0.10%	-16.26%	-16.16%	Bulgaria	-0.19%	-3.37%	-3.19%
Croatia*	-0.27%	-13.92%	-13.66%	Canada	-0.17%	-2.74%	-2.56%
Cyprus*	-0.30%	-13.68%	-13.38%	Greece	-0.19%	-2.31%	-2.12%
Czech R.*	-0.26%	-13.77%	-13.51%	Hungary	-0.15%	-4.21%	-4.06%
Denmark*	-0.34%	-13.70%	-13.36%	India	-0.04%	-1.31%	-1.27%
Estonia*	-0.38%	-13.60%	-13.22%	Indonesia	-0.06%	-1.75%	-1.68%
Finland*	-0.23%	-14.13%	-13.90%	Japan	-0.05%	-1.55%	-1.50%
France*	-0.53%	-13.87%	-13.34%	Korea	-0.20%	-3.20%	-3.00%
Germany*	-0.46%	-13.69%	-13.23%	Latvia	-0.22%	-3.14%	-2.92%
Ireland*	-0.42%	-13.22%	-12.80%	Lithuania	-0.22%	-3.70%	-3.48%
Italy*	-0.97%	-13.78%	-12.81%	Mexico	-0.07%	-2.41%	-2.34%
Luxembourg*	-1.05%	-13.14%	-12.10%	Poland	-0.15%	-3.66%	-3.51%
Malta*	-0.38%	-14.31%	-13.93%	ROW	-0.35%	-3.30%	-2.95%
Netherlands*	-0.38%	-13.52%	-13.14%	Romania	-0.18%	-3.15%	-2.97%
Norway*	-0.47%	-13.87%	-13.40%	Russia	-0.08%	-2.58%	-2.50%
Portugal*	-0.54%	-14.18%	-13.64%	Slovakia	-0.16%	-3.96%	-3.80%
Slovenia*	-0.33%	-13.80%	-13.47%	Taiwan	-0.11%	-2.35%	-2.24%
Spain*	-1.35%	-13.84%	-12.48%	Turkey	-0.17%	-2.63%	-2.46%
Sweden*	-0.31%	-13.94%	-13.63%	UK*	-0.28%	-14.08%	-13.80%
Switzerland*	-0.84%	-13.83%	-12.99%	USA*	-0.33%	-13.66%	-13.33%

Note: The * indicates that the country belong to the quarantine group in scenario (ii). We refer to this group of countries as treated, while countries that do not implement the quarantine regime in scenario (ii) are called untreated.

In the third scenario, a severe loss in real income is already to be expected due to lower degree of integration. However, this third model is particularly interesting to evaluate the effects of globalization on the diffusion of the shock. In a more integrated world, in fact, the authors have found that for some countries the shock has a stronger effect, while for other markets it has marginally less intense consequences. This result suggests that inter-sectoral linkages do play a role in the transmission of the shock, as a higher degree of integration implies that shocks in one country directly diffuse to others integrated economies.

The results of this latter model, however, does not point in any way to the idea that closing economies might have overall improved welfare levels during the pandemic. Stellinger et al. have analyzed the role of International Trade in the public sector, highlighting the severe negative consequences that closed borders could have generated in the current situation. International companies working in the sectors of medical supplies and pharmaceutical, in fact, operate through a business model which involves an globally spread network for the creation of commodities much needed in these times. These networks involve several different actors with different comparative advantages ranging from research and development, as is the case of the US or the EU, to manufacturing of components and distribution of final goods, which are mainly carried out in China, Mexico, Singapore and other developing countries.

International trade furtherly contributes to improving public health by expanding the market. Without a certain level of global integration, in fact, products which require large investment programs would not be profitable if the firms investing in R&D could not export the finished commodities. To secure safe access to supply of medicines and medical supplies, open borders are essential.

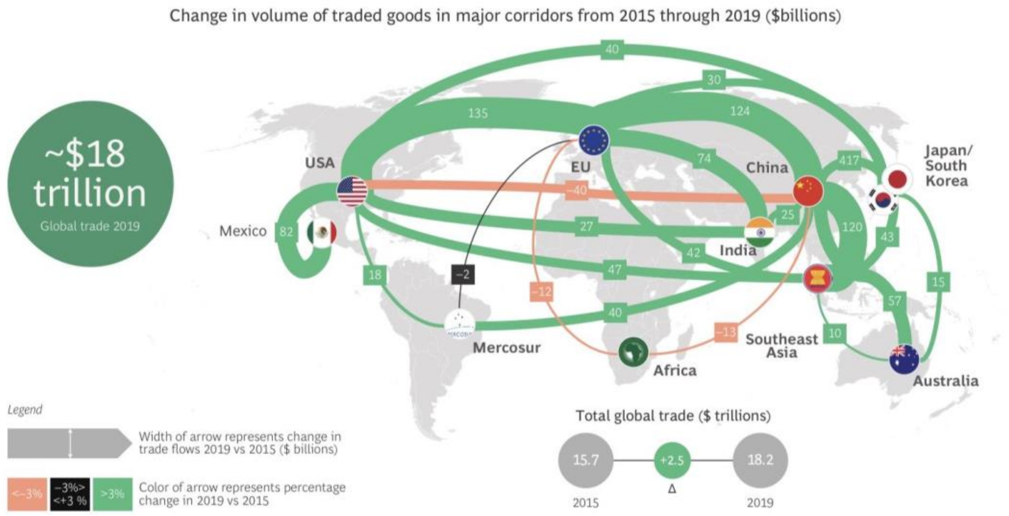
4.1.2 The effects of Covid-19 on International Trade

The global pandemic currently still in place has generated the greatest shock to the global economy since the Great Depression. What started off as a local sanitary crisis in Wuhan, China, has resulted in a global economic crisis, which is estimated to have contributed to a decline by 20% in global trade (Source: BCG). Relevant changes in International Trade patterns were already visible before the outbreak of the global pandemic such as the ongoing Trade disputes between the United States and other major global actors, or the stallment of plurilateral and multilateral trade deals negotiation processes. Furthermore, since 2010, trade flows growth was registered to a much smaller level relative to global GDP increase.

The biggest drop in International Trade since the 08-09 crisis is therefore expected to be registered. However, unlike the current one, the 2009-08 trade crisis was less influenced by supply-chain integration since the demand shock back then was synchronized worldwide forcing producers everywhere to shut down together.

“This time, the fact that the pandemic first struck ‘Factor Asia’, then struck ‘Factory Europe’, and then struck ‘Factory North America’ is creating a separate cause of collapse (Baldwin 2020). Manufacturing sectors in less-affected nations are finding it harder and/or more expensive to acquire the necessary imported industrial inputs from the hard-hit nations, and subsequently from each other.” (Richard Baldwin)[26]

Exhibit 1 - Global Trade Generally Enjoyed Booming Growth in 2015–2019



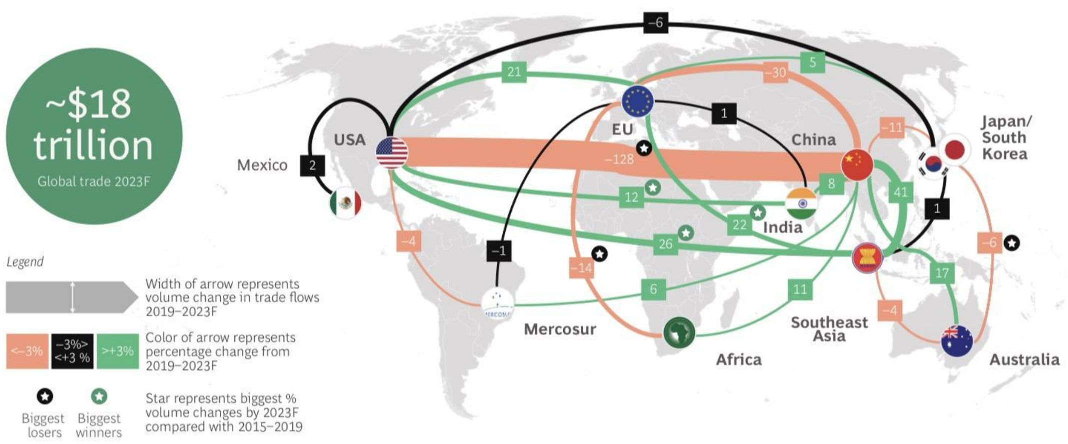
Source: UN Contrade; OECD; World Economic Forum; IHS; TradeAlert; BCG analysis.

Note: Corridors represent ~30% of global trade. Not included are: intra EU = ~20%; intra NAFTA = ~8%; China (including Hong Kong) = 4%; intra Southeast Asia = 3%; rest of world = ~35%.

[26] https://voxeu.org/article/greater-trade-collapse-2020

Exhibit 2 - Even If Trade Recovers by 2023, Expect Flows Between Blocs to Shift Dramatically

Change in volume of goods traded in major corridors from 2019 through 2023 under baseline scenario ($billions)



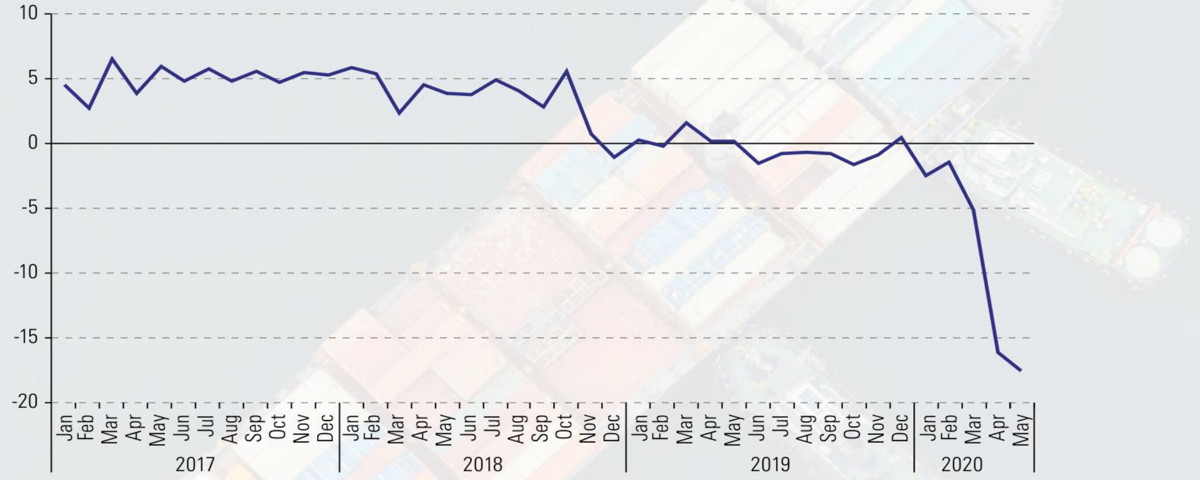
Source: BCG Trade Finance Model 2020; UN Contrade; OECD; World Economic Forum; IHS; TradeAlert; BCG analysis.

Note: Baseline scenario assumes a U-shaped global economic recovery by 2023. Corridors in the map above represent ~32% of global trade. Intra EU = ~20%; intra NAFTA = ~8%; China (including Hong Kong) = 4%; intra Southeast Asia = 3%, rest of world = ~32%.

Maliszewska et al. (April 2020) have operated for the World Bank the first simulations to evaluate the potential impact of Covid19 on GDP and Trade utilizing a CGE model. In doing so, they have considered two scenarios: a global pandemic and an amplified global pandemic. At the time of their writing it was not yet clear what extent the spread of the virus would reach which we know today can be better represented by the amplified global pandemic scenario. Under this latter scenario, global exports were expected to decline by just 4.6%.

However, according to the Special Report Covid-19 by Economic Commission for Latin America and the Caribbean the consequences have been much worse. According to the latter report the volume of trade in commodities grew at an average rate of 6.2% annually between 1990 and 2007, the same data was registered at a much lower level between 2007 and 2019 (2.3%). Similarly, the share of exports in commodities and services in terms of global GDP fell from 31% in 2008 to 28% in 2015. The spread of Covid-19, and the containment measures adopted by Governments from all around the globe, have severely aggravated these trends as the volume of international trade in goods fell by 17.7% in May of 2020 compared to the same period of 2019. The actors which witnessed the worst drop in exports have been the United States, Japan and the European Union as they heavily depend on intermediate imports from China. GVCs have been, in fact, the main drivers of effects of the pandemic on global trade. Despite the reopening of all economies around the world, the initial supply shock has turned into a demand shock, which suggests that a return to normality is not foreseeable in the nearest future.

Figure 2 | Year-on-year change in the volume of global trade in goods, January 2017–May 2020
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis (CPB), World Trade Monitor [online database] https://www.cpb.nl/en/worldtrademonitor.

4.1.3 Trade Policy post Covid-19

The economic crisis that the entire world is currently experiencing is meant to leave behind several long term consequences and generate serious threats to the trading system currently in place. Sébastien Jean (2020) has listed four reasons why this crisis will generate long lasting changes to the whole international trading community.

To begin with, he argues that the severity of the economic crisis is expected to generate profound shocks to the current global macroeconomic picture. A relevant number of bankruptcies and consequently buyouts are expected to take place, especially in those countries where high public debt was already an issue such as Italy. Anthony Gardner, Senior Advisor at the Brunswick Group and former U.S. Ambassador to the European Union has addressed the issue:

> “[...]a potential bailout of Italy will be a major European crisis that will require a U.S.-European led global response. One important reason is the size of Italy’s debt -- €2 trillion. For economic and political reasons, Italy is too big to fail. Italy entered the crisis with an economy still 5% below where it was at the onset of the 2008 financial crisis. Coronavirus will hit Italy particularly hard, in part due to its high proportion of elderly citizens, its reliance on tourism and its backbone of small and medium-sized businesses. Under some scenarios, Italy's debt could rise

> to 158% of GDP this year and then to 167% in 2022. Interest rates on Italian debt might have to rise, making the debt burden unsustainable. This scenario would exacerbate Italian euro-skepticism and desire of influential populists to quit the euro."

Furthermore, Jean points to the fact that should the recovery from the economic crisis follow a slow pattern, rather than a V-shaped track to normality, the negative consequences of a lagging demand would be even heavier, which might in turn generate strong pressure for protectionist policies.

The second reason concerns the exacerbated state of international tensions as the pandemic has spurred non-cooperative responses from many countries around the world, even in highly integrated regions like Europe. In April of this year already 80 countries had introduced quantitative restrictions on exports to all sorts of products, ranging from health-related commodities to food, which has unsurprisingly increased tensions in the International Community. Moreover, the pandemic has called into question China's reliability as a political interlocutor, at a time in which its relations with the United States were already experiencing one of the lowest points in recent history. But tensions do not only concern already complicated interactions as the ones between Washington and Beijing, but also allies. The Trump administration earlier this year had, in fact, evaluated a possible delay for the enforcement of the recently negotiated USMCA and has imposed new tariffs on Canadian imports.

Thirdly, the already discussed reconsideration of global value chains. It is, in fact, likely that the current economic turmoil will increase risk aversion approaches for a long period of time among policymakers. Yet, the most pressing questions which the global pandemic has raised concern the dependency of many developed countries upon a limited number of supplying industries, which may now be perceived as a sign of weakness.

Lastly, the current situation might spur a reevaluation of the role of the state in the economy and bring about a more prominent role of the government in some delicate issues, such as the health sector and food security.

4.4 The Reaction of the Atlantic Lake

Even the relationship between the two sides of the Atlantic Ocean was experiencing a period of unprecedented crisis since the end of World War II. Starting in the first half of 2018, in fact, Washington had begun to engage in bilateral trade wars with China, initially, but then also the EU. The imposition of high import tariffs on selected goods officially became part of the US administration's "America First" rhetoric.

Since then, several attempts to resolve the dispute through dialogue have been made, but the outbreak of the Coronavirus pandemic might have nullified all the efforts displayed so far. The social and economic crisis could have been an opportunity to find new impetus to restore the damaged relationship between Washington and the European capitals in the name of the common good. However, as is often the case during crisis, the pandemic has furtherly battered the alliance.

A new important variable will be added to the equation as current President Donald Trump faces the challenge of reelection at the worst time of its presidency. Will he come out victorious from the election taking place on November 3rd, it is imaginable to witness an even more aggressive "America First" approach in foreign policy, characterized by skepticism of multilateral instruments, and trade protectionism, furtherly complicating the relations with Brussels and other partners. Nicholas Burns, former US Ambassador to NATO has addressed the issue expressing strong criticism towards the current President:

> "[...]these cataclysmic events should be a wake-up call for the real dangers of the America First strategy of President Trump. His constant criticism and open disrespect of our closest friends in Germany, Canada, France and elsewhere has left us isolated and estranged from the very countries who could help us most at this critical moment.
>
> As U.S. Ambassador to NATO on 9/11, I will never forget how the allies stood by us at a very dark hour. Our place now, as we confront an even greater danger, should be by their side."

As of today, the cooperation between the two sides of the Atlantic on the management of the pandemic has been rather poor on all levels. Although many European governments rushed to shut down their own borders, President Trump's decision to impose a travel ban against Europe on March 11th has been carried out without any prior diplomatic consultation with the European officials, caughting the EU leaders unprepared.

Furthermore, the most worrying characteristic of the Trump administration's response to the pandemic is the clear lack of interest in multilateral solutions. Trump's recent decision to halt U.S. funding to the World Health Organization also stands in sharp contrast to the European approach. Despite the due critics, several European countries, on the other hand, have already pledged to step up their support to the WHO.

However, when all hopes seemed lost, on August 21 United States Trade Representative Robert Lighthizer and European Union Trade Commissioner Phil Hogan today announced the reach of an agreement on a package of tariff reductions on selected goods. These tariff reductions are the first U.S.-EU negotiated reductions in duties in more than two decades.

This agreement will eliminate EU tariffs on imports of U.S. live and frozen lobster products, which imports accounted for over $111 million in 2017. The EU will eliminate these tariffs on a Most Favored Nation (MFN) basis, retroactive to begin August 1, 2020. The EU tariffs will be eliminated for a period of five years and the European Commission will promptly initiate procedures aimed at making the tariff changes permanent. On the other side of the agreement, The United States will reduce by 50% its tariff rates on certain products exported by the EU worth an average annual trade value of $160 million, including certain prepared meals, crystal glassware, surface preparations, propellant powders, cigarette lighters and lighter parts. The U.S. tariff reductions will also be made on an MFN basis and retroactive to begin August 1, 2020. Clearly, this deal is no TTIP, but it is a small positive and unexpected step toward renewed cooperation between the two shores of the Atlantic. Trade Commissioner Phil Hogan and US Ambassador to the EU Lighthizer have shared enthusiasm about the deal:

> "As part of improving EU-US relations, this mutually beneficial agreement will bring positive results to the economies of both the United States and the European Union. We intend for this package of tariff reductions to mark just the beginning of a process that will lead to additional agreements that create more free, fair, and reciprocal transatlantic trade"

4.5 Concluding Remarks on The Way Forward

Assuming that both CETA and the EU-Mexico Free Trade Agreement will pass the ratification processes in all 27 national parliaments of the European Union, it becomes clear that the only link missing is that between Brussels and Washington, which also happen to be the most important. Should all the four actors object of this research project succeed in completing the integration puzzle, the economic and geopolitical gains would be enormous.

Zhang Xiaotong (2014) highlights how an FTA between the United States and the European Union would affect the Chinese economy. The first type of implications is the so-called “trade diversion effect”, meaning that trade that now occurs between members of a newly established Free Trade Agreement replaces what used to be imported from a country which has been left out of the FTA. Xiaotong has used the Export Similarity Index to estimate competing relationship Chinese exports vis-a-vis Europeans’ and Americans’. The ESI ranges from 0 to 100, and the higher the value the more competitive is the relationship. The results suggest that to some extent Chinese exports compete with those of both parties, as the value of the index was 45 for the US market and 46,4 for the EU market. The second aspect of concern for the Chinese economy regards the role that the EU and the US might assume as agenda setter in multilateral fora. Through the TTIP, Brussels and Washington might have developed a new generation of global trading rules concerning delicate issues for Beijing, such as state-owned enterprises, intellectual property rights and labor standards.

However, no new attempt to establish a Free Trade Agreement between the United States and the European Union is going to happen any time soon. But the current situation, and an eventual Democrats’ win on November 3rd, might offer some opportunities to start small cooperation projects which can restore trust between the two allies. To begin with, the most relevant geopolitical race as of today concerns the finding of a vaccine for Covid-19. Every country is currently on the run to inoculate their own populations first and China is looming over the competition between American and European researchers. In this playfield already a few examples of nationalistic tensions between the EU and the US have been witnessed. President Trump reportedly made an attempt to gain control over a German firm that had a promising mRNA capability since its research facilities are located both in Germany and

Massachusetts. What Trump's administration tried to do was to move all the infrastructure to the United States, an attempt which rapidly provoked a major reaction from Chancellor Angela Merkel and from the EU which is now generously financing the firm in question. Cooperation between the two sides of the Atlantic in the common race toward a vaccine could alleviate the current tensions.

Secondly, the pandemic has generated unprecedented reactions in the global fossil fuel and energy markets, which were already experiencing a period of crisis due to increasing tensions between the Trump's administration with oil producing countries. Josef Braml, Head of the Americas Program at the German Council on Foreign Relations, has suggested that the energy market crisis could be an opportunity to spur transatlantic investment in energy research:

> "[...]President Trump's short-sighted geo-economic crackdown – in the form of military pressure and/or secondary sanctions – on the main oil producers and competitors – be it Saudi Arabia, Russia, or Iran – is done not only at the expense of the economic interests of allied countries in Europe, but will also harm the United States and help its global rival China.
>
> A longer-term and more far sighted solution to the energy crisis– in terms of security, economic and environmental policy – would be to reduce dependence on fossil fuels rather than maintain a unilateral and narrow focus on traditional energy sources. Transatlantic cooperation in the research and financing of energy-saving technologies and energy sources of the future could remedy the failure of so-called free energy market responses that we are witnessing today. Anti-cyclical "protection taxes" on fossil fuels, in sync with the market price for oil, would help finance investments in renewable energy and could protect them from sudden price shocks, possibly initiated by OPEC.
>
> New economic growth impulses, improved energy security and climate protection policies coordinated by the U.S. and Europe would also serve valuable domestic, electoral purposes on both sides of the Atlantic. They could give Western countries, which have been badly affected by the

> coronavirus pandemic, a much-needed, optimistic and sustainable outlook for the future.”

Thirdly, the global economy is suffering the second severe crisis in ten years, and the way back to recovery will not be an easy one. A joint cooperative effort by the two most developed economies in the world to set up the necessary instruments and institutions to lead the world toward a new normal, a role which no country by itself appears capable to play, would generate renewed enthusiasm and open up new possibilities for cooperation.

Lastly, the Transatlantic Alliance should lead the establishment of a plurilateral agreement to secure further, and permanent, liberalization in medicines and medical supplies. Achieving such a goal through the WTO would be desirable, but unrealistic due to the amount of time that such an attempt would require. On the other hand, a plurilateral agreement comprising as many countries as possible seems more plausible. The Transatlantic Alliance in this sense would also have a valuable advantage as it could build such an effort on the structure of the WTO Pharmaceutical Tariff Elimination Agreement, also known as the “Zero-for-Zero initiative”. This agreement was signed in 1994 by a selected number of members of the GATT, including the US, the EU and Canada, and it abolished tariffs for finished pharmaceutical products. The deal would require an update of products and ingredients covered, as well as an expansion in terms of members, but could potentially play the role of the rules book in circumstances similar to the ones witnessable today.

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The Evolution of Trade Relations within the "Atlantic Lake"

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Introduction

Following the election in 2008 of Barack Obama as president of the United States, the relationship between the US and the EU experienced a positive period, characterized by unity of purpose and close cooperation both at the political and economic levels. In 2013, in fact, Brussels and Washington began the negotiations for a commercial treaty, the Transatlantic Trade and Investment Partnership, which could expand the terms of the alliance that still remains confined to the military realm. The TTIP was conceived as a tool that could integrate the markets of the two sides of the Atlantic in order to encourage investments and thus generate growth and jobs. Simultaneously, the EU and Canada initiated a similar cooperation project, the Comprehensive Economic and Trade Agreement, which has ultimately resulted to be more successful than its twin deal. This work offered an updated understanding of current economic relations between both sides of the Atlantic Ocean.

Overview of the History of International Trade

The beginning of this research project presented the academic developments on the subject of international trade since the emergence of Nation States as we know them nowadays.

The establishment of the principle of state sovereignty with the Peace of Westphalia has led to development of Nation States as the primary actors in International Politics, which main purpose was that of defending their regime and their territories from foreign interventions. This sentiment of fear and mistrust towards what came from abroad was translated in polity as well as in policy decisions. As a result, commerce across borders at the beginning of the 17th century presented some precise characteristics. To begin with, the main actors in this period were the States and their companies, for instance the East India Companies of Holland and England. Secondly, the most dominant ideology on the subject, that of Mercantilism, suggested that Nations were in a perpetual state of political and economic conflict and, as a consequence, International Trade was intended as a zero-sum game. Finally, the wealth of a State was believed to be directly, and exclusively, related to the amount of valuable assets possessed by that specific economy. As a result, precious metal and a positive trade balance were highly considered.

In harsh contrast with Mercantilists theory were the works of a Scottish Philosopher named Adam Smith. At the heart of Smith's theory lied the individual and its natural liberty, and his entire academic work has been presented as an antidote against the monopolizing goals of

Mercantilism. Human beings were seen by Smith as independent actors from one another, free to pursue their personal goals and, during this process, to compete with other individuals. While acting in order to maximize their personal welfare, members of society also contribute to the growth of wealth of the whole community. In addition to the pursue of self-interest, the second restriction posed by mercantilist policies on growth was on the dimension of the market. International trade has the direct consequences of expanding the pools of consumers and resources accessible to all types of actors in an economy, including the labor market. For Adam Smith the division of labor, or specialization, is at the core of economic growth, and legislations which disincentivize market expansion are unnecessary. Import restrictions, generate advantage to protected industries, but are detrimental for the development of prosperous competition in an economy, making industries lazier and raising prices. Smith also is responsible for the development of the concept of Absolute Advantage which is the ability of a country to produce a greater quantity of a good or service with the same quantity of inputs per unit of time than another entity that produces the same good or service.

The concept of Absolute Advantage served as new lenses through which to analyze and interpret International Economy. It remained the main tool to study trade among countries until the second half of the XIX century when David Ricardo, building on Adam Smith research, developed the idea of Comparative Advantage. In giving birth to this notion Ricardo included in the analysis an evaluation of countries' opportunity costs of production. As a result, A country has a comparative advantage in producing a commodity if the opportunity cost of producing that good in terms of other goods is lower in that country than it is in other markets. A theoretical update to Ricardo's model was proposed by two Swedish economists, Eli Heckscher and Bertil Ohlin, who presented their work in 1924. The innovative aspect of this new proposal was its focus on countries' endowments, and the consequences of these differences on trade across borders. To be more specific, the two Swedish economists argued that differences in resources endowment result in diverse production capacities which create incentives for countries to trade with one another.

Unlike Ricardo's theory, the HO model is structured following the scheme 2x2x2, which means that is elaborated considering: two countries, two goods, and two factors of production (Labour and Capital). Heckscher and Ohlin furtherly assumed that supply of L and K are different, but constant, in the two countries; the combination of L and K required for the production of a commodity is different in the two markets; and that in the long term resources can be moved across industries.

The larger the relative differences two countries feature in terms of technology or factor endowments, the larger the volume of trade between them and the implied gains from trade. This is a neat and powerful theoretical prediction that explains quite well the international exchange of goods supplied by different sectors (inter-industry trade), which is especially relevant between countries at different levels of development.

However, these implications are at first sight hard to reconcile with the observation that a dominant share of global trade takes place within sectors (intra-industry trade) between countries at similar (advanced) levels of development and thus with arguably similar opportunity costs of production. Traditional Trade Theories can explain why a country is a net importer in one set of industries and a net exporter in another set, but cannot explain intra-industry trade. The New Trade Theory framework addresses the above mentioned issues, yet is not helpful to explain why only some firms export and others produce solely for the domestic market, why a firm's exporter status is associated with better economic performance, or how the firm-level decision to export interacts with comparative advantage. Under Krugman's frame, firms are identical but for the variety they produce. Hence, if love of variety is presumed, every identical firm should export equally.
The most recent developments on the path of answering these questions have been carried out introducing firm heterogeneity regarding marginal costs and productivity into the New Trade Theory framework. One class of models has been developed by Melitz (2003) within the Krugman (1980) setting. An alternative with variable markups, under linear demand functions, has been developed by Melitz and Ottaviano (2008). These models emphasize the importance of productivity heterogeneity and the role of reallocation across firms as a result of trade liberalization.

Institutionalization of International Trade

Despite the considerable efforts put in place in the aftermath of World War II, no multilateral institution dedicated to foster collaboration on the commercial side was conceived. Only in 1947, after a few smaller preparatory meetings, the United Nations Conference on Trade and Employment was held in Havana, Cuba, for a period of five month, which resulted in the Havana Charter for International Trade.

Unfortunately, the International Trade Organization, the product of the Havana Charter, did never come into existence, and its death came by the hand of its main supporter: the USA. President Truman, in fact, refused to submit the Charter to Congress for ratification, well aware of the fact that, had it been turned down, it would have compromise the capacity of the United States to negotiate similar provisions in international fora.

The General Agreements on Tariffs and Trade, the instrument regulating international trade until 1995, was born as a result of this crisis. Its origins are identical to that of the ITO since the participants at the Geneva Conference in 1947 had separately initiated tariff negotiations which turned out to be the basis of the GATT. Unlike the Havana Charter, the General Agreement on Tariffs and Trade did not require legislative approval of the contracting parties, and it remained provisionally in effect until January 1995, when the Uruguay Round of negotiations was concluded. In Montevideo, member states negotiated the most ambitious round of liberalization and established the successor of the GATT, the World Trade Organization.

The WTO's two most relevant decision making bodies are the Ministerial Conference and the General Council. The former is the highest body and includes all WTO members, represented by their respective trade ministers. It meets at least once every two years and might make decisions on all matters with respect to any of the WTO's multilateral agreements. The latter, on the other hand, is responsible for the WTO's day-to-day decisions in between ministerial conferences. Most members appoint a permanent representative or ambassador to serve on the council. The General Council meets in three different capacities:

- as the Dispute Settlement Body
- as the Trade Policy Review Body
- as the General Council

Furthermore, three subordinate councils have been established:

- The Council for Trade in Goods
- The Council for Trade in Services
- The Council for Trade-Related aspects of Intellectual Property Rights

As of today, the World Trade Organization is still involved in the resolution of the Doha Round, which officially started in November of 2001. Undoubtedly, the failure of this last round of negotiations can be considered a severe crisis of the International trading system, which causes are numerous. Among the members who believe that alternative paths to proceed with multilateral negotiations should be pursued figure the United States and the European Union. At the beginning of the negotiations in Doha, American and European officials set an agenda which was meant to deliver a trade agreement that would promote growth in less developed countries, without imposing barriers reductions to the same extent as to richer nations. But as LDCs, particularly China, began running large trade surpluses, developed countries started demanding the reduction of the benefits originally granted in light of the different levels of industries development. China and India, the most advanced countries benefitting from ad hoc regimes, refused insisting on sticking with the original principles.

Regionalism

Since the very first signs of crisis in the multilateral negotiations system, countries have developed the tendency to turn to preferential trade agreements to boost transactions across borders. Until 1994, last year in which the International Economy was disciplined by the General Agreement on Tariffs and Trade, the number of PTAs notified was of 124; while, since the establishment of the WTO, that number has more than doubled in a much shorter time frame.

The first noticeable difference between this kind of agreement and those resulting from GATT/WTO negotiations rounds is clearly the number of actors involved. PTAs may, in fact, be concluded between two countries (ex: CETA), or on a regional basis therefore involving multiple actors (ex: TPP). However, these instruments present innovative characteristics not only in their structure, but also in their scope. Preferential Trade Agreements signed before 1995, and now commonly referred to as 1st generation trade deal, mainly concerned exclusively trade in commodities and took the form of free-trade areas (FTAs) or custom unions. New PTAs, on the other hand, have been expanded in reach in order to include not only trade in services, but also to address regulatory and harmonization issues.

As a result, the scientific community is split between those scholars who believe that PTAs, especially those labeled as belonging to the "second generation", represent a threat to multilateral architecture; and those economists who, on the contrary, argue that the proliferation of bilateral agreements is not incompatible with a globalist approach and can actually turn out to play the role of a "stepping stone".

New Characteristics of International Trade

Since the conclusion of the Uruguay Round by the GATT 25 years ago, major changes have been witnessed in technology and trade policy which have contributed to the lowering of trade costs, benefiting consumers around the world. These changes have profoundly restructured business dynamics around the globe, leading to the rise of what are now commonly known as Global Value Chains (GVCs). As a result, today's trading system has assumed peculiar and unprecedented characteristics, and can be summarized as "trade in tasks". This profound metamorphosis has furtherly contributed to radical political changes regarding the approach to International Trade. To begin with, regional cooperation in the form of Regional Trade Agreements (RTAs) has become the main political path toward liberalization, resulting in the proliferation of over 300 regional trade deals. As of today, every member state of the WTO has signed at least a bilateral/plurilateral trade deal with neighboring countries.

The signing of NAFTA has had a revolutionary impact in many aspects since not only it created the largest free-trade area in the world, but it also opened up the season of North-South trade deals increasing access to historically highly regulated market such as the Mexican. Canada, Mexico, and the US are inextricably connected by several links, starting with the geographical one. Yet, after more than two decades since the North American Free Trade Agreement, regionalism in this continent has not moved forward much. Originally, the NAFTA project did not include Mexico, which is testified by the signing of the US-Canada Free Trade Agreement in 1989, which liberalized the bilateral trade between the two already similar countries. On the foundations laid by this agreement, five years later the two Governments decided to invite Mexico to be a part of the project.

Overall, the history of this framework can be depicted as a successful one having increased trilateral trade by almost 350% and supported the creation of 14 million jobs in the United States. The election of Donald Trump as President of the United States in 2016, however, has generated radical changes both in foreign and domestic policy, including trade policy. His rhetoric revolved around the idea of allowing the US to regain what was once its, namely the undisputed role of hegemonic power in the International Community. According to the Tycoon, the loss of grandeur experienced by Washington is due to several bad policy decisions carried out by his predecessors, such as generous trade agreements which generated loss of wealth and loss of jobs in the United States. He went as far as defining NAFTA "a nightmare" and "most disastrous agreement ever signed by the United States". As a result, since stepping foot for the first time in the oval office he has committed himself and his administration to the establishment of a new deal.

The negotiations officially started in May of 2017 and lasted until December of 2019, when the agreement was signed. The agreement can be considered as an update of the previous treaty since it has been built on the same structure. Several, and noticeable, additions have been made in previously uncovered fields, such as those of intellectual property protection, the internet, investment, state-owned enterprises and currency.

Interregionalism within the "Atlantic Lake"

The EU's most established and most successful relationship, in terms of agreements generated thus far, is that with Mexico. Up until the 1990s, considering the rapid pase at which multilateral negotiations were concluded, European interest towards Latin American countries was rather weak. Less-developed countries and developing countries in general did not occupy an important spot in the trade policy agenda of the European Community. The signing of NAFTA, however, generated a sense of urgency to strengthen economic ties with these potential vast markets, which is resulted in the signing, by Brussels and Mexico City, of one of the most comprehensive trade agreement at the time. Negotiations between Mexico and the European Union for the update of the trade deal signed in 1999 started in May 2016, and both sides reached an overall agreement on the trade part in April 2018. The new deal was signed in April of 2020 and, once ratified, will replace the existing EU-Mexico Global Agreement, which entered into force twenty years ago.

Brussels and Washington, on the other hand, have recently negotiated the establishment of a free trade area between the US and the EU known as Transatlantic Trade and Investment Partnership (TTIP). Negotiations officially started in February of 2013, and since then the TTIP has attracted the attention of domestic and international actors generating much debate around its content, and potential economic and political implications. The launch of TTIP negotiations can be considered a renewed commitment to transatlantic trade relations by both the European Union and the United States. The two parties met in Washington in November of 2011 in a meeting which resulted in the establishment of the High-Level Working Group (HLWG) on Jobs and Growth in charge of identifying policies and measures to increase transatlantic trade and investment.

To complete the puzzle, at the 2007 EU-Canada Summit the leaders decided to give birth to a group of scholars entitled to study and analyze the eventual benefits and costs of further integration between Brussels and Ottawa. The result of this study was released in October 2008, and supported the negotiation of the Comprehensive Economic and Trade Agreement, which was ultimately signed in late 2016.

Benefits of the Agreements

The entering into force of a free trade agreement between Washington and Brussels was expected to yield a long term increase in real per capita income in both economies. In the EU this value should be between 0.5% and 2.12%, while in the US between 0.4% and 2.68%. Two studies have been presented in this research project which estimated these values, and results differ according to different initial scenarios.

Aichele, Felbermayr and Heiland's model predicts a relevant amount of trade increase between the European Union and the United States: EU exports to the US are expected to roughly triple, while US exports to the EU are expected to increase by 212%. These increases are witnessable in all sectors, but are higher for Transport Equipment since tariffs in this area are still heavy. Overall, growth in value added exports tend to be higher than growth in gross exports, the only exception being the manufacturing sector.

According to the study conducted by the research company Ecorys "Trade SIA on the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the USA" (an update of the previous CEPR work of 2013 bilateral trade should witness a considerable increase in both directions: European exports to the United States are estimated to increase by 27%, while an even sharper increment (35.7%) should be witnessed in the opposite route. The model elaborated by CEPR has simulated a scenario in which Tariffs are completely removed, technical barriers to trade are reduced by 25% on goods and services and by 50% on public procurements.

The Comprehensive Economic and Trade Agreement was signed by Ottawa and Brussels in late 2016 and ratified by the Canadian and EU parliaments in September of 2017. Therefore, it can be considered, thus far, a more successful story compared to that of the TTIP. However, the treaty has been implemented so far only provisionally and is waiting for the ratification by all EU member states national parliaments. Since the provisional implementation of the agreement, some effects of the CETA are already witnessable. According to the Government of Canada, in fact, in 2018, merchandise exports to the European Union increased by nearly $3 billion (+ 7%) compared to 2017. Benefits of CETA have also been registered in terms of bilateral merchandise trade in 2018, which increased by more than 9% from 2017 after the removal of tariffs on 98% of products that the European Union trades with Canada. The sectors which experienced the highest growth in terms of exports in 2018 were: aluminum (up 378%), motor vehicles and parts (up 89%), mineral fuels and oils (up 84%), inorganic chemicals (up 82%) and wood pulp (up 45%).

The EU-Mexico Global Agreement entered into force in July of 2000 and was, at the time, considered one of the most comprehensive and innovative trade agreements established globally as it was the first trade agreement concluded by the European Union with a Latin American country. Formal negotiations began in late 1996 and resulted in the Economic Partnership, Political Coordination and Cooperation Agreement between the then European Union and its member states, on the one hand, and Mexico on the other, signed in December of 1997.

Studies estimating the effects of the implementation of the first agreement suggest that benefits have been marginal for the European Union, while slightly more significant for Mexico. The estimated increase in trade due to tariffs liberalization accounts for about 1.5-1.7% for Mexico, while 0.05% in the EU's aggregate trade flow. EU exports to Mexico are, however, expected to have increased by 19%, while for Mexico the increment has been estimated at 15%. As a result of tariff reduction, both parties are estimated to have experienced some losses in terms of duties revenues, respectively 0.01% for the European Union and 0.14% for Mexico. Concerning wages, the effects from the trade deal have been passed in terms of real wages. In fact, according to the simulation, increments in cost of labor have been experienced for all categories of workers. However, the biggest increase has been experienced by the highly skilled ones.

Politicization of Trade Policy

The level of politicization that CETA and TTIP reached is unprecedented, and has not been registered at the same value even for similar deals recently negotiated or concluded by the parties involved. These differences have raised the question of why Trade policy is much more contested in some cases than in others, considering that all trade deals recently negotiated by the EU or the US cover the same issues and to the same extent. Brussels' response to this phenomenon has been to try to make negotiation processes more transparent. A major effort in this sense has been deployed by former DG Trade Commissioner Cecilia Malmstrom. Yet, the extent to which progress of negotiations can be shared is limited by the natural characteristics of the negotiations themselves as it is not always advisable to share information following the principle that nothing is agreed until everything is agreed.

One of the most controversial issues, which has generated the most rage in the public opinion, concerned the establishment of bodies entitled to solve disputes between foreign investors and national institutions. Investigating the reasons behind the establishment of the anti-ISDS revolution is no easy task. These instruments have, in fact, been around since the 1950s generating no public chaos until recent times. The rationale behind the inclusion of these instruments lies in the idea that foreign investors should be allowed to turn to private arbitration tribunals if they believe they have been unjustly treated in countries where they are established and are unlikely to get a fair hearing in domestic courts. ISDS bodies were, in fact, conceived to promote FDIs among trading partners by giving investors additional reassurement on the treatment they would be reserved in the foreign countries. The relevance of a similar instrument becomes clear imagining the difficulties that foreign companies could experience in countries with poor levels of respect for the rule of law. In countries where corruption is widespread, and institutions are weak, the ability to rely on local courts to solve international-business issues is not granted. For this reason, since the 1950s developed countries, when establishing FTAs with LDCs, more developed countries have pushed for the inclusion of similar provisions in the treaties, without generating any turmoil in the public debate. This has not been the case for TTIP and CETA, as the controversy around the establishment of an ISDS body has resulted detrimental for the establishment of the former, and still poses some doubts that the latter will be definitely approved.

International Trade Post Covid-19

The complex phenomenon of globalization is not, and cannot be, reducible to the mere integration of the markets which took place in the last 25 years, which has, in fact, been going on for the longest time. Globalization is much more and, although it is undeniable that it has contributed to the rapid spread of the virus that has upsetted our lives in the recent past, it is also true that it favors its cure through the sharing of data, health material, knowledge and skills. The Coronavirus is, therefore, a global crisis and only in part a crisis of globalization.

However, the pandemic of Covid-19 has generated disastrous consequences to the international trading system. According to the latter report the volume of trade in commodities grew at an average rate of 6.2% annually between 1990 and 2007, the same data was registered at a much lower level between 2007 and 2019 (2.3%). Similarly, the share of exports in commodities and services in terms of global GDP fell from 31% in 2008 to 28% in 2015. The spread of Covid-19, and the containment measures adopted by Governments from all around the globe, have severely aggravated these trends as the volume of international trade in goods fell by 17.7% in May of 2020 compared to the same period of 2019. The actors which witnessed the worst drop in exports have been the United States, Japan and the European Union as they heavily depend on intermediate imports from China. GVCs have been, in fact, the main drivers of effects of the pandemic on global trade. Despite the reopening of all economies around the world, the initial supply shock has turned into a demand shock, which suggests that a return to normality is not foreseeable in the nearest future.

As of today, the cooperation between the two sides of the Atlantic on the management of the pandemic has been rather poor on all levels, and tensions between Washington and Brussels have only risen in the last months. However, the pandemic offers the two formerly close allies various possibility to restart cooperation and rebuild common trust. Energy security, and research and development of a vaccine for Covid-19, are only two of the numerous area in which cooperation between the shores of the Atlantic can start over to rebuild the necessary trust to reopen the TTIP chapter in order to unlock all its economic and geopolitical potential.