TTIP and CETA. Remaking of the *Atlantic Economy*?

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Abstract

Both, the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU as well as the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US are interpreted as attempts to rebuild the Atlantic Economy. Despite the rise of emerging Asia and the vision of a dominant Pacific Economy the economic motor of the US and Europe still is a crucial element of the global economy. Political concerns aside, TTIP will revive the Atlantic Economy but the project may come with a huge price as it has far-reaching implications for the direction of trade and foreign direct investment. The agreement on CETA will help Canada to successfully navigate in the changed landscape of bilateral agreements.

Introduction

CETA is under way, and TTIP may swiftly follow. However, latter only will move along if President Obama is getting 'fast track authority' that allows him to move a trade and investment partnership agreement with the EU beyond the domestic strives between Democrats and Republicans about protectionism and openness. This will be a difficult undertaking, as his own party is divided and overall not supportive for a further liberalization of the US-economy. Ongoing Trans-Pacific Partnership negotiations with eleven Pacific-economies may run into the problem that a significant number of Democrats and Republicans want to include measures against currency manipulation., and more so express concerns about a weakening of US standards and regulations. At this point in time, the Democratic leader of the Senate, Harry Reid, turned Obama's demand for fast track authority down, and it will be quite an uphill battle for the US-administration to get sufficient support from both parties to move along with its trade initiatives. CETA, on contrast, seems to be a done deal, even though we have not yet seen the final text with all its fine print. Also, we should not forget that it still needs the approval of Canadian provinces and on the European side the approval of the European Parliament. After the May elections the Parliament will look differently, and so will the Commission. I assume that such a change in political composition will not derail CETA but may increase the attention towards TTIP, not least because Canada – for maybe wrong reasons today – unlike the US enjoys sympathies on this side of the Atlantic. The political fallout of the NSA affair will trouble TTIP negotiations. One indication of potential political trouble already materialized. Leaked details about the planned state-investor mechanism fed into already existing concerns about a dramatic shift in the balance between domestic sovereignty and interests of outsiders. The pressure was high enough to convince EU Trade Commissioner Karel de Gucht to adjourn this part of the negotiations for three months and subsequently to promise an agreement that would safeguard national sovereignty. In other words, the political trade agreement offensive is meeting strong political opposition on both sides of the Atlantic. Still, for the sake of the argument I will neglect all this political dimensions and look from a political economy perspective on both those negotiations/agreements.

The underlying proposition of my paper argues that CETA is a model for coming bilateral and regional trade and investment agreements, and thus also for TTIP. Interested parties of CETA claim that it is the 'first 21st century agreement', and even though one should not follow easily such propaganda-like labels, there is more then a kernel truth in this claim. CETA is path-breaking as it includes areas and domains that so far have been either left out or not touched with the same level of determination as it is done in CETA. Such an evaluation implies that TTIP can't deliver less then CETA. Its three main ingredients explain why CETA is a truly new beast of agreement. First, this agreement opens up in rather encompassing ways public procurement markets. Second, it moves rather wide into the realms of private property rights and national regulation regimes. Third, it includes sub-sectors of the agricultural industry. Fourth, and arguably most critical, CETA provides the base for a partnership where both side are in deep but varying degree integrated into global and sub-global value chains. TTIP as well as CETA is an attempt to reground the *Atlantic Economy* in order to make it fit for the coming *Pacific Order*. In this paper I will discuss the potential changes of both projects for the EU and its economic core.

The Atlantic Economy

The *Atlantic Economy* has a centuries-long history (O'Rourke/Williamson 1999; Acemoglu/Johnson/Robinson 2005), and was instrumental not only for large flows in goods and capital but also in developing capitalist institutions that turned out to be growth-supporting. One can argue with convincing empirical evidence that the *second wave of globalization* that started some time after World War II under the auspices of a regime of 'embedded liberalism' (Ruggie) was in its core a revival of economic relations and exchanges between the US and Western Europe, and thus in its core a revival of the *Atlantic Economy*. This wave of globalization came with three distinct sub-waves. During the period 1950 to the mid-1970s cross-border trade with manufactured good and related services dominated. At the end of the 1970s foreign direct investments flows started to become prominent; and eventually since the 1980s we saw the rise of financial flows (Altvater/Huebner/Stanger 1981). Over the long period 1950 to 2011 the annual growth rate of global exports was always above the annual average growth rate of global GDP. The two exemptions for this 'rule' only were the Great Crisis of 1973/74 and the Great Recession of 2008 where export volumes shrank dramatically, and global trade experienced huge reductions. Yet, global trade recovered in both cases soon, not least due to the support of adequate institutional settings that avoided too strong protectionist policies by the main global players.

All those processes constituted a *thick integration* of the Atlantic Economy that made it to the center of the global economy for most of the second half of the 20th century. However, in the last ten or fifteen years or so the situation began to change. In particular the rise of emerging Asia began shaping the global political economy, and observers seem to agree that until 2025 or so the *Pacific Economy* will be the core of the global economy. Already the Eurozone crises in the aftermath of the Great Recession from 2008 seemed to indicate the decline of Europe. Obvious demographic trends in core economies of the EU only confirm such doom saying. There is no doubt that the path of recovery for EU-economies is stony and will need quite some time.
Still, I argue that such an analytical view is misrepresenting the actual situation. Following Hamilton/Quinlan (2013) we can differentiate between three regional engines of growth, namely North America US and Canada), Europe (EU-27) and Asia (including India, China, Japan). The data presented in table 1 indicate that the Asian bloc has become a global economic power, and additionally has the advantage of a huge (and still rising) population

Table 1 *Shares in World Total, 2011*

	North America	Europe	Asia		
GDP (PPP)	20.9	22.0	35.9		
Population	5.0	8.6	56.9		
Private Consumption	29.0	27.4	25.6		
Exports	10.9	36.0	32.2		
Imports	15.0	35.8	30.1		

Source: Hamilton/Quinlan, 2013

The Atlantic Economy (EU and US plus Canada) represents 43 % of global GDP (in PPP) and roughly 50 % of global exports in merchandise and services. Even though Europe is in deep economic troubles it needs to be reminded that it is still a powerful economic bloc in its own. The economic role of Europe in the global economy has shrunk and will continue to shrink but this relative decline should not be confounded with an absolute decline. This holds even more so for the relevance of the Atlantic Economy. Together the EU and the US plus Canada form a powerful economic and political space. Both economic spaces have a long history of political and economic ties, and they share the basic structures of democratic political regimes and market capitalism. Since the end of WW II and until today the US is the most important destination for EU exports of goods; the US –share made up 17% of all exports from the EU-27 in 2011 (Eurostat 2013). In 2011, the value of overall transatlantic trade in goods and services was $ 636 billion. In contrast, Canada is a relatively smaller player as a destination of EU-exports. Only about 1.6% of all EU-27 exports are going to Canada. In both cases the EU has a long-standing surplus in its trade balance.

The Atlantic Economy differs substantially from other economic spaces: More important then trade of goods and services is in this case the mutual stock in foreign direct investment (fdi). In 2011 the US and the EU accounted for 57% of the global inward stock of fdi and even for 71 % of the outward stock of fdi. Both political-economic spaces have thick production networks of their own which are also intertwined. US foreign direct investment in the EU ($ 1.95 trillion) in 2010 was more then twice US foreign direct investment in any other economy or region in the global economy. In reverse, EU foreign direct investment in the US ($1,5 trillion in 2010) was quadruple the amount the US received from any other economy. A mutual fdi-stock of $ 3.5 trillion is not only the largest in the global economy but also a powerful economic fact. FDI also plays a prominent role in Canada-EU economic relations. In 2011, EU fdi in Canada had an overall value of Euro 22.6 bn; Canadian hold a fdi stock in the EU of overall Euro 137.6 bn (EU Commission 2014).

Those figures indicate vivid and strong production networks that are at least in numerical respect unique in the global economy. Arguably the thick fdi-relations were critical already in CETA negotiations and also will have a determining influence on TTIP. Safeguarding stable investment relations that do not discriminate between domestic and foreign economic actors becomes a key element of bilateral or regional trade and investment negotiations (Milner 2014). To some degree already CETA takes up this notion. TTIP will have to go further in order to meet the relatively high standards of existing EU-US exchanges.

CETA as Forerunner Agreement

Despite the successful mini package agreement of Bali from end of 2013 it seems only fair to state that the 'Doha Round' still is in stalling mode. Whether WTO will ever become relevant again needs to be seen. One response to the sagging global negotiations has been the launch of parallel negotiations on '*super regional agreements*' as well as on bilateral agreements. Even though those initiatives reflect the troubled state of global trade negotiations its main driving force is the radical change in the production-trade chain that has been generated by the processes of globalization and regional integration and resulted in global-regional value and production chains. Modern international agreements need to respond to these developments that established inter-firm governance structures between various economic spaces (Baldwin 2014). Most prominent recent initiatives are the Trans-Pacific Partnership (TTP) negotiations and the Regional Comprehensive Economic Partnership Agreement (ASEAN +6) that would frame the emerging Pacific Economy. At the same time efforts were brought under way to revive the *Atlantic Economy*. In this respect CETA can be seen as the forerunner agreement from the side of the EU that aims to lift the Atlantic Economy to a new institutional plateau. In terms of economic relevance Canada is not the highest ranked economy for the EU. However, due to its membership in NAFTA Canada has been seen as an entrance door for the EU, and also as a test field for the new trade policy approach of the EU. CETA is the first agreement with a G 7 economy, and thus can be interpreted as a trial run for the EU (Huebner 2011). It is no surprise, then, that the launch of TTIP happened even before CETA negotiations were finalized. As a matter of fact, CETA was the catalyst for TTIP.

CETA as well as TTIP will deal with the reduction and even abolition of tariffs. However, in both cases average tariffs are already relatively low (even though the variance across sectors and products is not small). Thus, more important then the reduction of tariffs is dealing with non-tariff barriers, which exist not least due to strong differences in regulatory norms and practices. Non-tariff barriers increase trade costs and thus lead to sub-optimal trade flows. In a nutshell, CETA will bring – as far as we know by today – some substantial reductions of existing tariff lines and – more important – significant changes in regulatory practices as well as the opening of new markets [1].

- *Tariffs*. 98 % of all EU tariff lines will be set a 0% with the start of CETA. After seven years this share increases to 99 % of all EU tariff lines. In case of industrial goods the share will be 99.3% at entry point and after seven years 100%. Canada will set its tariff line to 0% for 98.4 % of all tariffs. For non-agricultural goods 99,6% will set to 0%. Forestry products will be duty-free to EU immediately; the same for chemicals and plastic. 95,5 % of tariff lines for fish and seafood set to 0% on the side of the EU. Automotive sector: phasing out of 6.1% duty over the seven-year period. Canada is getting a quota of 100,000 cars to export (currently exports are about 11,000 cars). Rules of origin allow parts that are originated in the US getting counted towards Canadian input, thus reflecting the US-Canada production network in the automotive sector.

- *Regulatory Cooperation*: A first in any Canadian FTA. This will help to deal with non-tariff blockades of trade. The principle of mutual recognition will become the basic

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[1] This brief summary is based on a technical summary of final negotiated outcomes, see: Actionplan.gc.ca/ceta. The actual final document is still under negotiations at the time of writing, kh**.**

approach. Parallel, both entities will work jointly in developing joined regulations for new products and processes.

- *Foreign Direct Investment*: Threshold for EU FDI in Canada raised to $ 1.5 bn. This is another incentive for EU companies to invest in Canada, and thus to transfer technology and making use of sectorial advantages. State-Investor mechanism will be included, and this may become a problem during the process of ratification.

- *Labor Mobility*: Binding provisions on licensing and qualifications (first time ever in an FTA). This framework allows professional associations to negotiate detailed procedures (architects already started). Then temporary entry (intra-corporate transfers; investors and business visitors; contract service suppliers and independent professionals with contract length of 12 months; short-term business visitors) – will be the new rule.

- *Government Procurement*: Opening and strict liberalization on all administrative levels. Thresholds: Euro 130,000 – Euro 5 mio. Canada: threshold from Euro 130,000 to Euro 5 mio. This move towards liberalization of a quasi-sheltered sector adds new markets for economic actors from the EU and Canada.

- *IPR*: Canada extends IPR for pharmaceutical products. Producers of generics will lose competitiveness.

Given the high level of co-integration of the Canadian and the US economies it goes without further saying that TTIP can't fall behind CETA. In this sense CETA is a good indicator for the potential *minimum* outcomes of TTIP. Both sides on the negotiations table may ask for more but not always in the same subject area. The EU, for example, in January 20-14 issued a brief note that asked for including financial services and its regulatory corpse into TTIP negotiations. This initiative met immediate resistance from the side of U.S. Treasury which made the point that financial regulation does not belong to the core of trade policy and should dealt with, if at all, separately (Financial Times, 1/28/2014; European Commission 2014). This strife already indicates that the EU will be in a much tougher position compared to its CETA negotiations to achieve all its targets. In other words, the fine print of TTIP may differ from the fine print of CETA. This may hold in particular for the agricultural sector where CETA made some progress, mainly in lifting quotas, but overall left this sector untouched. TTIP may ask for a more courageous step forward as a further liberalization of the agricultural sector is already a key item in the ongoing Trans-Pacific negotiations.

TTIP: Getting Rid of NTBs

Like CETA the project of a transatlantic trade and investment agreement was reinvigorated during the EU-Presidency of Germany in 2007. Based on the initiative supported by former US-President Bush, EU-Commission President Barroso and Chancellor Merkel a 'Framework for Advancing Transatlantic Economic Integration between the United States of America and the European Union was signed that made the newly created 'Transatlantic Economic Council' (TEC) responsible for the oversight and guidance of its work program. From the beginning TEC had the strong direct and indirect support from business organizations on both sides of the Atlantic who also were represented in its advisory committee[2]. The political push for a agreement come under siege during the Great Recession and its protectionist implications but was soon

[2] http://ec.europa.eu/enterprise/policies/international/cooperating-governments/usa/transatlantic-economic-council/)

revived and eventually resulted, in July 8, 2013, in the launch of negotiations between the US and the EU. This news came at a time when CETA was still under negotiations and had entered a period of tenacious talks. The launch of TTIP negotiations substantially changed the ongoing CETA talks and can be seen as responsible for the quick announcement of a successful Canada-EU deal. Given that the EU saw TTIP as the 'big fish' Canada came into a situation to close the deal and to accept the compromise lines offered by the EU.

Both, CETA as well as TTIP are political projects that are heavily supported by business organizations on both sides of the Atlantic. This support is grounded in the firm belief that free and unrestricted trade results in larger markets and thus business opportunities that eventually increase profits. At least in core EU economies such a view is widely shared by all main political parties, and thus European governments are overall in favor of cross-border trade. This free trade attitude is even more pronounced on the side of the EU where all Commissioners in charge of foreign trade have been in favor of a liberalization agenda and were willing to push such an agenda even in case of the odd minor resistance on the side of member states (see below). The situation is different in the US where in particular the Democratic Party but to some degree also the Republicans tend to protectionist attitudes, not least in order to safeguard immediate interests of their constituencies. It can argued, though, that free trade with the EU may be seen in a slightly better light then free trade with Asian economies where, for example. Japan – as a member of the Pacific Economy – is seen as a currency manipulator that undermines the economic base for US companies (Bergsten 2014).

The launch of official trade negotiations usually is foreshadowed by econometric studies that, on average, indicate net gains for the participating studies. In case of CETA it was the so-called 'Joint Study' (2009) that claimed net benefits for the EU-economies as well as for Canada. Even more detailed studies were prepared for TTIP, and again it is no surprise that all studies claim net benefits for both entities (GED 2013[3]: ifo 2013: CEPR 2013)[4]. The workhorse approach for those simulations is the computable general equilibrium model that is widely accepted as the standard in order to evaluate ex ante-effects of trade agreements. The underlying models of these simulations may differ and so do some of the modeling assumptions but overall they share the same methodological traits (CEPII 2013). The outlier in this line is the study commissioned by the German Bertelsmann Foundation (see below). The most positive outcome is postulated by the CEPR study commissioned by the EU. All simulations are calculated for various scenarios that also differ in regards to the political ambitions in place. Given the overall – on average - low level of tariffs, most of the estimated benefits stem actually from reductions of a wide range of non-tariff barriers (NTB) that cause trade costs. Non-tariff barriers are widely seen as the main obstacle for any deeper integration of national economies. The study of the ifo-Institute, for example, argues that NTBs are 4-5 times more relevant than tariffs in the EU-US trade flows (Felbermayr 2013).

The CEPR study presents four scenarios (see table 2) that show that the more ambitious the actual agreement the higher the benefits. It also shows that the yearly benefits for the EU are slightly higher then for the US. The most comprehensive and thus politically most ambitious agreement assumes a further lowering of already low tariffs for 100 % of tariff lines and an elimination of 25 % of costs due to NTBs. This simulation, as table 2 shows, also claims that all fears of trade diversion is out of place as third parties will also benefit from a ambitious agreement. Latter

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[3] This study will be referred to as 'Bertelsmann study' in the further text.

[4] Those studies are echoed by other simulations, like the one by the Swedish Board of Trade, 2013. All of them use similar computable general equilibrium models**.**

implication is in stark contrast to the results of a study commissioned by the Bertelsmann Foundation (2013) that shows strong *diversion effects* (see below).

As a matter of fact, both simulation studies follow different modeling approaches and philosophies, and this has implications for the outcomes. The CEPR study uses a computable general equilibrium model of world trade that simulates changes in policy, i.e. before and after liberalization of trade, and so does the Bertelsmann study. Both differ in the way they calculate real costs of NTBs and the level of disaggregation. Whereas former aggregate on the regional level, latter keeps treats all 126 economies that constitute the global economy as separate units. In contrast to traditional CGE-simulations the Bertelsmann study goes back to the effects of already existing free trade agreements and then makes use of the numerical effect of those agreements by including this figure into the simulation exercise (see below). In this way the study does not need to differentiate exactly whether the calculated effects are stemming from the reduction of NTBs or from other sources (ifo 2013a). This methodology, so the authors, overcomes some of the restrictions of the traditional CGE-simulations (Felbermayr 2013). Given the overall business-oriented and liberal attitude of the Bertelsmann Foundation there is no reason to interpret this methodological choice as a way to minimize the potential effects of TTIP.

The Bertelsmann study concludes, as does the CEPR study, that a comprehensive liberalization project will result in the highest net benefits for both entities. In other words, only a drastic reduction in NTB costs can generate strong positive trade effects[5]. Table 2 summarizes the overall five political scenarios that range from limited tariff reductions to a full-fledged liberalization scenario.

Table 2

Summary of Macroeconomic Effect

	Limited agreement: tariffs only	Limited agreement: services only	Limited agreement: procurement only	Comprehensive agreement: less ambitious	Comprehensive agreement: ambitious
Change in GDP					
EU, million euros	23,753	5,298	6,367	68,274	119,212
US, million euros	9,447	7,356	1,875	49,543	94,904
Bilateral exports f.o.b.					
EU to US, million euros	43,840	4,591	6,997	107,811	186,965
US to EU, million euros	53,777	2,859	3,411	100,909	159,098
Total exports f.o.b.					
extra-EU, million euros	43,740	5,777	7,136	125,232	219,970
US, million euros	57,330	5,488	5,942	142,071	239,543

Note: estimates to be interpreted as changes relative to a projected 2027 global economy.

Source: CEPR 2013

[5] This will be a ambitious and difficult task. See for an analysis Karmakar (2013).

Even though the actual TTIP may not live up to the strict standards of 'comprehensive agreements' as defined in the model simulations it is clear that dealing with regulatory issues will be key for creating economic benefits for both sides. NTBs are notoriously difficult to calculate but they are no phantoms, and this holds across most sectors. Both studies differ in the way they approach the costs of NTBs. CEPR follows a multi-pronged exercise that combines literature review, business surveys, outcomes of gravity models and direct consultations with businesses (CEPR 2013:15). A study by Felbermayr etal (2013) of the Munich-based ifo institute that was commissioned by the German Federal Ministry of Economics and Technology made use of empirical surveys and data collected in the MIRAGE-Consortium in order to quantify NTBs. Those data show not only significant trade cost due to NTBs but also huge sectorial variances.

The Bertelsmann study has been prepared by the same team of ifo-economists and focused in particular onto trade creation and trade diversion effects. Rather then going into the business of calculating specific NTB costs this study, as already outlined, reviews the trade effects of already existing free trade agreements like the Common Market of the EU or NAFTA, and then starts to adjust tariff and non-tariff parameters for the EU-US case until the trade effect reaches the average level of existing trade agreements which was calculated with close to 80%. In this manner the study can show that it needs significant regulatory progress if TTIP will live up to the effects of average liberalization projects (GDE 2013:8ff.). Even getting rid of 25% of the trade costs created by NTBs will have significant trade effects[6]. The EU Commission in its communication from November 2013 is very outspoken that the regulatory part of TTIP is critical, and that any deal will have to include serious steps towards getting rid of 'red tape' (EU Commission 2013a).

Experience shows that such efforts can run quickly into political problems. The EU and the US have rather different regulatory approaches and efforts to standardize or only to accept mutual recognition will run into resistance on the side of producers and in some cases also alert non-governmental organizations. In many cases regulations may represent 'read tape' that only increase trade costs; in other cases, regulations may represent socially accepted standards that may differ between the two entities. Harmonization may be difficult (Schott/Cimino 2013), and thus the mechanism settled in CETA that uses mutual recognition may become prominent in TTIP.

Trade Creation and Trade Diversion

Political liberalization projects like CETA and TTIP come with the promise that the rising flood will lift *all* boats. In the view of international trade theory such a general promise is unfounded as the relevant theorems show that in order to create net benefits some of the boats need to sink, so to speak. Net benefits are the result of specialization that happens after free trade comes into existence, and specialization implies that some domestic sectors will gain and others will lose. The path towards specialization can be thornily and time-consumptive.

Bilateral trade agreements share this problem of sectorial adjustment and additionally come with a potential second winner-loser matrix that usually is dealt with in terms of 'trade creation' and 'trade diversion'. Bilateral agreements come with the potential danger that the trade creation effect between the contractual parties may be compensated by trade losses of third parties. In this critical area the CEPR study - and all other relevant studies - on the one side and the Bertelsmann study on the other side differ fundamentally. Whereas the CEPR-study does not

[6] An early study by ECORYS (2009) that assumed a 50% reduction in NTBs hints to growth rates of export for the EU and the US of 7 and 8 %, respectively.

detect a trade diversion-effect at all[7], and even presents net trade gains for the rest of the world, the Bertelsmann study states rather large and in many ways significant trade diversion effects[8]. In latter study trade diversion effects are calculated by comparing actual exports and imports of 2010 with export and import figures which are derived by the assumption that a comprehensive TTIP would have been in effect in 2010 and led to a average trade creation effect between EU and US of 80%. For the relevant scenario of deep liberalization two cases in the EU indicate the dramatic changes such a TTIP would generate, namely the case of the largest exporter, Germany, and the case of the strongest European ally of the US, the UK. An early OECD study estimated the gains of a free trade agreement for the EU block and for the US in the range of 3-3.5 % of GDP (OECD 2013).

According to the Bertelsmann study, trade diversion will create serious problems by generating centrifugal forces. Like all simulations also the exercise published by Bertelsmann needs to be taken with a grain of salt. The EU Commission quickly recognized the political dynamite and made the unusual step to comment on this study: " We believe that caution is needed before jumping to validate these results. This study is based on a rather untested methodology that departs from the standard approach used so far in other simulation studies" (EU Commission September 2013b:15). This is a correct qualification but should not automatically disqualify the approach taken by the researchers of the study commissioned by Bertelsmann. As a matter of fact, the standard approach of a dynamic computable general equilibrium model has come under quite substantial critique over the last years, and can't be presented as the most reliable simulation procedure (Wing 2004). In some sense it is up to the observer which route of reasoning she follows. I tend to stick with the more unorthodox procedure provided by Felbermayr (2013) but would like to stress that the results are very much model-influenced.

An ambitious TTIP would drastically reduce German exports and imports with its most prominent EU trading partners. Exports and imports between Germany and the UK would decrease by more then 40%; in case of France the decrease of both categories is close to 24%; in case of France the figures are close to 30%. In regards to extra-EU trade of Germany TTIP would bring a reduction of exports and imports between Germany and China of 12%. In respect to ongoing crises in the southern periphery of the Eurozone economies like the ones of Greece, Ireland, Italy, Portugal, and Spain would experience a reduction of exports and imports on the average of more the 30% (GDE 2013:13ff.).

TTIP would also result in far-reaching trade diversion for the UK. Its already strong trade with the US would get a further impetus. This trade creation goes hand in hand with a strong trade diversion effect. Not only, as already mentioned, would trade with Germany shrink but overall trade with EU partners would recede. Trade with France and Italy would shrink by 37 % and 41 %, respectively; Spain and Ireland would experience even stronger reductions. And even trade with China would shrink by close to 28% (GDE 2013: 17).

Trade diversion effects are not restricted to the EU. The US would make a similar experience and see a much smaller role of its NAFTA partners Mexico and Canada in its overall trade portfolio. In the most ambitious scenario trade with Canada would shrink by about 10%; and Mexico would suffer a reduction of about 16% (Bertelsmann 2013:19). In regards to Canada, though, there is at

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[7] As a matter of fact, the ambitious scenario creates overall net trade gains for the rest of the world (CEPR 2013:81).

[8] The study by Felbermayr etal (2013)for the German Ministry of Economics and Techniology actually is the base input for the Bertelsmann but seems in its interpretations downplay overall its implications.

least the silver line that trade with the EU is increasing even before taking any CETA-effects into account.

Liberalizing Drive of DG Trade

The early literature on EU trade policy often assumed that already the Treaty of Rome would have insulated trade policy from direct national influence due to the delegation effect that supposedly comes from moving trade policy-making from the national to the supranational level. Such a view was never really convincing, as Dür (2008) rightly argued, as already the Treaty of Rome asked for unanimity in regards to international trade agreements. The provision in article 113 thus allowed that national preferences and interests entered EU trade policy-making from the very beginning. Woll (2011) could show that companies lobby hard EU-decision makers in favor of free trade-policies. The Treaty of Lisbon didn't change the lobbyism but definitely introduced changes in the institutional making of trade policies. As a first, the authority of the Commission was largely extended by including all issues concerning trade in services, trade-related aspects of intellectual property, and foreign direct investment into its portfolio. Unlike in the past, national parliaments of member states no longer have to ratify international agreements. This depreciation of the role of national parliaments goes hand in hand with an appreciation of the role of the European Parliament. The newly established 'co-decision procedure' now extends to trade legislation. The principle of co-decision not only requires the Parliament's approval for the adoption of legal text but also allows the Parliament to amend proposals of the Commission jointly with the European Council. In other words, the European Parliament became a critical player in the field of trade policies. Thirdly, unanimity has become the exemption and qualified majority ruling the rule. This allows a critical mass of member states to push for a liberalization agenda.

Preferences for trade policies differ between the member states of the EU. This holds in particular for the agricultural sector where eventually the EU hold a rather protectionist position on the global level. The situation is different in regards to industrial goods and direct investments. Latest with former Commissioner Peter Mandelson who entered office in 2004 trade policy became all about improving competitiveness, and engaging in multilateral as well as bilateral agreements that would result in opening up markets and thus increasing the intensity of competition became the new mantra (Siles-Bruegge 2010). This new take found its most substantial programmatic reflection in the 'Global Europe' approach from 2006 (European Commission 2006). Even though some critics argue that the shift to a new trade policy approach didn't lead very far it is clear that since the launch of this program the EU became much more interested and engaged in bilateral negotiations. More so, the political project of trade and investment liberalization has moved center., not least because the Great Recession from 2008, and more so the still ongoing Eurozone demonstrated that the EU depends from a stable political-economic institutional framework on the global level. In a situation of weak structural growth of the Eurozone and the EU in combination with high unemployment, external trade has become an extremely important arena for the EU: " Trade has never been more important for the European Union's economy. In today's difficult economic circumstances, it has become an important means of achieving much needed growth and creating jobs without drawing on public finances. It is the conveyor belt that links Europe to the new global growth centres and is a unique source of productivity gains" (EU Commission 2013c). In this programmatic spirit TTIP, and on a different level CETA are critical elements of a EU agenda that hopes to make use of extra-territorial economic spaces in order to overcome the growth-deficits of the internal market. This strategy is not without risks, at least if the postulated trade diversion effects would materialize.

Conclusions

Ambitious agreements like TTIP that are negotiated between the two of the largest trading blocks in the global economy necessarily will not leave the global economy untouched. If TTIP would come as a deep form of integration it would definitely revive the Atlantic Economy and breath new air into a long-standing partnership. In a dynamic perspective this revival may spur product and process innovations that would give the Atlantic Economy a renewed relevance. At the same time TTIP comes with the potential to significantly change the economic oientations of both entities. Following the simulation results of the Bertelsmann study the most obvious showcase is the UK. Not only would TTIP strengthen the already very strong economic ties between the US and the UK; at the same time TTIP would cause a strong decrease in the level of economic integration of the UK in the EU. Given the current debates about the future of the UK in the EU, TTIP could become a trigger to move also politically away from the European integration project. In this light it is not by chance that the Cameron government not only pushes hardly for TTIP but also works hard, domestically as well as on the European level, to reduce 'red tape' in the EU and thus to shrink the regulatory range and scope of the EU apparatus. TTIP could contribute to fundamentally change the character of the European project.

Germany's gains due to TTIP are strong in a deep integration scenario, and TTIP would further deepen the mutual value chains with the US. Such a gain has repercussions, though, that are mostly felt by other EU economies whose trade with Germany (exports as well as imports) would shrink. In particular the southern periphery of the Eurozone would come into a situation that its trade with Germany would get smaller, and eventually reduce their high trade balance deficits. On the other side, those economies need to find adequate substitutes, and this may be no easy path to go. The overall result would be a decline in the intra-EU economic relations, mainly in the disfavor of the weaker entities in the EU.

The US, it seems, will be best off with an ambitious TTIP. The potential reduction in its NAFTA-trade will be easily compensated by new opportunities that arise with TTIP. In this scenario it seems to have been a wise decision by Canada early to move towards CETA negotiations as this agreement may become the live safer in a situation where the US extends its ties with the Atlantic Economy. Canada may lose out towards the US but still would have the chance to make substantial gains with its European partners.

Informed speculation can be a helpful guide through difficult negotiations. Things will definitely turn out different then the reported simulations insinuate. Politicians may lose courage to fight for an ambitious project, and this will have strong influence on the potential outcomes of TTIP. The revival of the Atlantic Economy obviously depends from the outcomes of internal power and orientation struggles. On the other side, TTIP would not be worth the efforts if both sides would not go for a strong dose of liberalization. Time will tell.

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