TRENDS

The United States and the future "Transatlantic Partnership"

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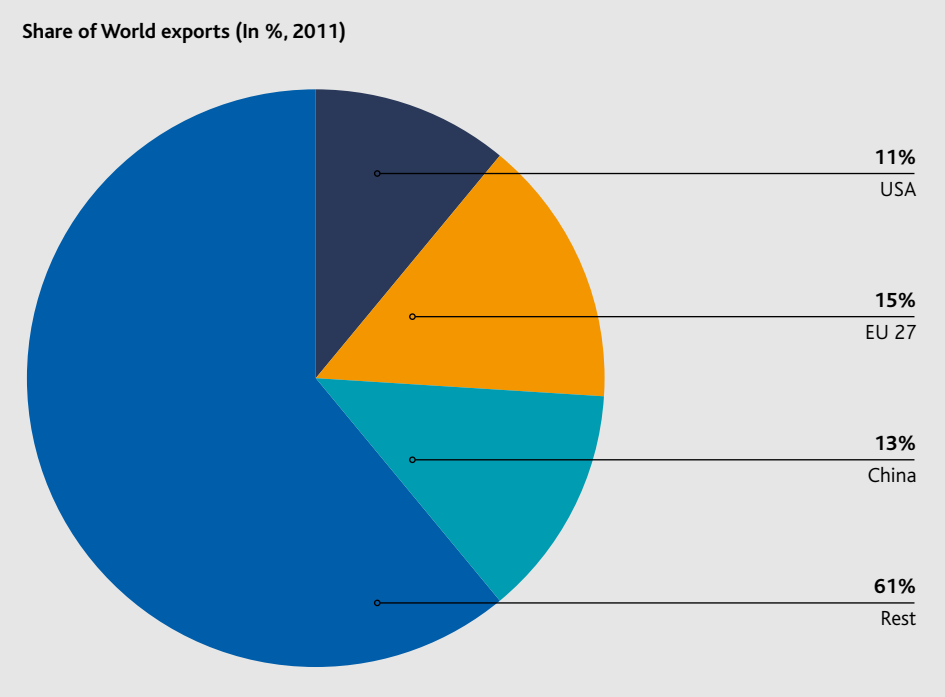
The United States is the world's leading economic power, but China exports more than it does: 13.4% vs 10.5% for the United States. The United States' GDP is nearly twice that of China (22% vs 12%). Nevertheless, even as the Asian giant enters a new phase during which it may grow at a slower pace, if it reaches an average year-on-year rate of 7%, its GDP could double in just 11 years. That is, by 2025.

Every country will need to devise new strategies in response to China's surge. The most dynamic economies - Mexico, Colombia, Peru and Chile - have responded by creating the Pacific Alliance. For its part, MERCOSUR expects to experience an upsurge, and the ASEAN is gaining strength. What partnership, other than the EU, could the leading power choose?

The following chart compares the global market shares of the EU, the United States and China, while the remaining countries are placed in a single large group. In November 2011, and at the United States-European Union Summit, a working group was established to lay the foundations for this ambitious project. The Transatlantic Trade and Investment Partnership ("T-TIP") aims not only to cover trade and the concomittant tariff reductions, but also to include direct investment on both sides of the Atlantic. Consequently, the partnership touches upon highly sensitive issues, from restoring confidence over the treatment of data and Internet protocols to agreements relating to strategic technologies and farm products and byproducts. Until now, these issues have been a source of friction, weakening the growth potential of the two large blocks and impeding job creation and an improvement in the well-being of their respective populations. Chart 1:



Source: Fondo Monetario Internacional

Why does Europe need to join a partnership with the United States?

Europe is experiencing low growth, is ageing, and needs global partners. Despite having been established nearly 20 years ago, the Single Market (EU 27) has as yet to bring about an adequate volume of industrial trading among its member countries. In 2010, whereas trade in industrial goods among individual U.S. states stood at the equivalent of 39% of GDP, the figure for the EU 27 was only 20%. This disparity underscores that the EU still has much room to deepen its integration. They also point to other factors preventing the EU from reaching the level of integration that the United States has achieved in its domestic market. In the EU, linguistic diversity and cultural differences may serve as barriers to greater integration. However, market fragmentation, the low degree of cross-border procurement of public investment, as well as, naturally, commercial networks and the distinct degree of mobility of skilled labour are no less important. Chart 2:

Source: OCDE

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At the depths of the euro crisis - summer 2012 - the financial markets became fragmented and Spanish companies were paying more than twice as much for financing as comparable German companies. The United States' single market, in terms of both labour market and financing, explain to a certain extent the differences illustrated in the previous chart.

The Transatlantic Trade and Investment Partnership ("**T-TIP**") is one of the most ambitious undertakings to have emerged in recent decades. Despite its complexity, negotiators have set a goal of reaching an agreement by the fall of 2014. They will have to overcome what until now have seemed like insurmountable barriers. These obstacles include quotas on U.S. farm products and European tariffs on some U.S. products above 60%. The starting point for some values are shown in the following box.

With an overall population of more than 800 million - although still far below that of China and India - the Partnership could translate into economies of scale. The EU's per capita GDP (€) could converge with, or even surpass, that of Japan within a not-too-distant future.

CONCLUSION

The shift in the centre of gravity of global trade and job creation to the Pacific has made it necessary for the United States and the European Union to set out, in 2011, to formulate an ambitious strategic plan. This is an attempt to adapt to the changes brought about by the new centres of growth. There are more than a few political impediments to such a partnership. It will have to be ratified by a two-thirds majority of the U.S. Senate and by the European Parliament, with a simple majority of the members of parliament of all member states. The EU will be totally responsible, while the member states will be partially responsible. This might elicit suspicion, as has occurred with other important matters. However, if the complex political relationships can be addressed, the partnership could serve to improve the well-being of citizens, create new jobs and lessen the volatility of the economic cycle.

US, EU-27 and Japan on an international comparison

	EU	US	Japan
Population (million)	507	313	127
GDP (EUR bn)	12.97	12.64	4.46
Per-capita GDP EUR	25,500	40,200	33,200

Sources: EUROSTAT and US Census Bureau

EU innovation program

On December 3, 2013 the European Council adopted the new framework program for research and innovation for the 2014-2020 period, based on Horizon 2020. With a budget of more than €70,000Mn, this program will strengthen the objectives of the European strategy of constructing a European Research Area in which research, scientific knowledge and technology can move about freely. Horizon 2020 will serve as the foundation of the European strategy for growth and employment. Horizon 2020 aims to promote industrial leadership in order to increase the importance of the manufacturing sector in Europe. It is thus expected to accelerate the development of technologies, making it possible to support enterprises and innovation and meet social challenges by supporting activities all along the value chain.