



Prospects for a US-European Trade Deal: Part II

Jeffrey J. Schott says that a transatlantic trade accord as proposed by President Obama could increase trade by as much as \$50 billion to \$100 billion.

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Steve Weisman: This is Steve Weisman with Jeffrey Schott at the Peterson Institute for International Economics talking about President Obama's trade agenda as outlined in his State of the Union address this week. Jeff you've just been telling us about the strategy on the Transatlantic Trade Agreement Partnership. Do you have any estimate as to what the yield would be given the parameters that you've outlined?

Jeffrey Schott: There were a number of studies done on what the implications would be of having a Transatlantic Free Trade Agreement, but of course the economists who did those projections used their big models and had to make very big assumptions about what would be included.

Steve Weisman: Where would the estimates fall?

Jeffrey Schott: They fall in a variety of ranges and some of the previous studies I find not very believable. So you can take the standard basic plain vanilla assumptions of what would elimination of tariffs mean and there you still have a very significant number in terms of growth in trade and output. Not because the tariffs are on average very high, but because they're applied against such a large volume of trade.

Steve Weisman: Huge volume.

Jeffrey Schott: If you think about it, a two way trade of goods and services across the Atlantic is a trillion dollars a year and so merchandise trade is \$550-\$600 billion. Even a small average tariff on that volume of trade yields big numbers in terms of saving and inducements to greater productivity and growth. So we're talking \$50 to \$100 billion of benefits from perhaps the basic reforms that could be done. But a lot more will accrue from the fact that businesses will be able to better plan their trade and investment strategies and that increased investment, the increased competition in the marketplace due to the reforms of the trade barriers and the domestic regulations, could provide multiples of the basic static numbers.

Steve Weisman: We've been also engaged in a Transpacific Partnership [TPP] trade discussion, which has been going on for a year or two. What's the relationship between these two?

Jeffrey Schott: The Transpacific Partnership continues to make very extensive progress. It now includes eleven countries. Canada and Mexico joined late last year, and the negotiators hope to complete the negotiations by the end of this year. That's a very ambitious agenda, but they are now moving into a very intensive phase of negotiations on the most difficult issues with the hope that political leaders will give them guidance to enter the end game negotiations at either the big APEC [Asia Pacific Economic Cooperation forum] or WTO [World Trade Organization] meetings toward the end of this year.

Steve Weisman: What are the prospects of these negotiations rekindling the global trade negotiations?

Jeffrey Schott: I think first of all the TPP has inspired the Transatlantic and will make it possible for the Transatlantic negotiations to proceed on a much more expedited basis because of the precedence and the experience that negotiators have had in the Asia-Pacific context. It will also provide some fodder for discussions of the Transatlantic context of new issues like disciplines on state-owned enterprises, where the negotiators can look at what has been done in the TPP and bring it into the Transatlantic talks or at least use it as a basis for negotiations.

Steve Weisman: Just a quick question. State owned enterprises? You usually think of those in former communist countries. What are state owned enterprises that the U.S. would like to see tackled on the European side?

Jeffrey Schott: There are a lot of sovereign wealth funds or other institutions that have public monies. It's not that those are bad institutions. It's just you want to make sure that they operate in a marketplace based on commercial considerations. I think it's a bigger issue in the Asia-Pacific region, not only because of China and Vietnam and some parts of the Malaysian economy, but because of institutions like Japan Post .

I think the TPP will help accelerate the Transatlantic. The fact that both the Transatlantic and the TPP are moving forward on a comparable broad agenda will provide ample precedence for countries outside of those initiatives to think, "We need to keep pace and the best way to do that is to bring some of these ideas back to the table in Geneva." Indeed to their credit, the leaders of the United States and the European Union, in their statement this morning, said that one of the key objectives was not only to build and expand the commercial relationship across the Atlantic, but to establish precedents and to help revive and reinvigorate multilateral trade negotiations.

Steve Weisman: Jeff, thank you very much.

Jeffrey Schott: Thank you.

