The European Union and the United States on the Way to Economic Integration

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Summary: The foreign trade and investment flows between the European Union (EU) and the United States of America (USA) represent the biggest bilateral cooperation in the world. However, the economic and trade relations of these countries have not confirmed until now any preferential agreement that would enable to carry out these bilateral relations on a more favourable base than the multilateral trade cooperation based on the Most-favoured nation clause in the World Trade Organization (WTO). Although the idea about the creation of the Transatlantic Free Trade Area (TAFTA) was already open earlier, the EU-US negotiations about the creation of the Transatlantic Trade and Investment Partnership (TTIP) have only been managed since July 2013. The paper is focused on the current EU-US negotiations about TTIP and displays the development of trade and investment flows between the EU and US in the period of 2001 to 2012.

Keywords: Economic Integration; Trade Liberalisation; Free Trade Zone; WTO; Foreign Direct Investment.

JEL code: F13, F15, O24

1. Introduction

The European Union (EU) and the United States of America (USA or US) represent the largest bilateral trade partnership in the world. Both states are very important trading partners for each other not only in the area of merchandise trade, but also in the area of commercial services trade. The transfer of capital and foreign direct investments is indispensible and significant for both of them. Their connectedness and mutual dependence started to be significant especially from the end of the 20th century. A third of the EU and US bilateral trade is performed in the frame of intra-company transfers. Their mutual investments contribute to growth and jobs on both sides of the Atlantic. For example, the

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US affiliates in the EU account for about 13% of the EU GDP, while the EU affiliates in the US represent 11% of the US GDP. Trade between affiliates on the two sides of the Atlantic accounted for 47% of the total EU-US merchandise trade in 2002 and increased to 50% by 2012.[1] The US affiliates located in Europe employed more than 4 million workers, from which 1.9 million people were directly employed in processed industry in 2000. Another six million people in Europe found a job in other sectors of the economy thanks to the US investments. Similarly, the EU investments employed about 4.4 million people in the US. Taking into account indirect employment, another seven million US people obtained a job thanks to the EU investors at the same time.[2]

The transatlantic relationships also determine the shape of the global economy as a whole. Together, the EU and US economies account for about half the entire world GDP and for nearly a third of world trade flows. Although the US and a number of EU member countries, namely Finland, Germany, Sweden, the Netherlands and the United Kingdom, belong to the most competitive economies in the world, their leading position in the world economy is not steady. Traditional centres of the world economy, i.e. the US, the EU and Japan, which were developed as the core of American, European and Asian continents after World War II,[3] started to catch up by some rapidly growing economies, mostly represented by the BRIC groups (Brazil, Russia, India and China). Though these so-called "emerging markets" are developing countries, because the living standard of the inhabitants in these countries is low all the time, they take positions among the ten leading countries in the world now and are able to compete in a number of sectors in the EU as well as the US. The main factors that influenced this development were trade liberalisation that started to be promoted after World War II especially through the General Agreement on Tariffs and Trade (GATT), a higher transfer of capital and foreign direct investment in the 1990s connected with the reallocation of production from developed countries to developing countries and the fragmentation of the production, and also bigger willingness to cooperate among countries and to create regional integration groups. The economic reforms and political changes that were executed in some of these emerging economies also played an important role.

1 Lakatos, C., Fukui T. (2013). *EU-US Economic linkages: the role of multinationals and intra-firm trade.* Retrieved from http://trade.ec.europa.eu/doclib/docs/2013/november/tra0 doc_151922.%202_November%202013.pdf

2 Fojtíková, L. (2006). *Společná obchodní politika Evropské unie*. Ostrava: VŠB-TU. pp. 93–96. ISBN 978–80–248–1076–8.

3 Cihelková, E. a kol. (2009). *Světová ekonomika. Obecné trendy rozvoje*. Praha: C. H. Beck. pp. 186–205. ISBN978–80–7400–155–0.

In the time of a globalised world economy and growing competition, the EU and the US try to remove untapped potential in their bilateral co-operation and to further deepen their economic cooperation. Although the Transatlantic Economic Partnership was created in the second part of the 1990s and the economic and political cooperation between the US and the EC/EU has already been carried out since the end of World War II, the idea of the creation of a complex free trade zone between them has been a current topic for the last two years. This paper gives a complex view on the trade and investment cooperation between the EU and the US in the period of 2001 to 2012 and deals with the current situation in negotiations running in the frame of the Transatlantic Economic and Trade Partnership (TTIP) on the background of their current economic development and political leadership. The choice of this period has its own foundation. It displays the development of the EU-US bilateral trade in the new millennium. Since 2001, both of the states have been affected by different events that have probably also influenced their bilateral trade. Let us remember the most important of them – the terrorist attack on the World Trade Centre in the USA in 2001, the biggest enlargement of the EU in the form of 10+2 in 2004 and 2007 and also the world economic and financial crisis in 2008−2009. The object of the paper is to highlight the main areas of the EU-US trade negotiations and to graphically present the development of the EU-US bilateral trade and investment flows. The methodology of the paper is as follows: firstly, the theoretical background of economic integration will be performed. Secondly, the current institutional framework of the economic cooperation between the EU and the US will be described. In the next part of the paper, the analysis of the macroeconomic environment and trade flows of both economies will be done. In conclusion, the main facts from the trade analysis will be presented and discussed.

2. Economic integration from the theoretical point of view

Economic integration represents a process in which the interconnection of national economies via removing obstacles to trade (merchandise trade as well as commercial services trade), capital flows and the movement of labour occurs. It is a long-term process followed by technological changes and accompanied by a functioning of political powers, such as industrial lobby, supranational groups or international agreements. Zlý mentions that global economic integration is a phenomenon or one of the processes that is an organic element of contemporary globalisation, but is not identical with it.[4] El-Agraa claims that "*economic integration is concerned with the discriminatory removal of all trade impediments between at least two participating nations, and the establishment of certain elements of cooperation and coordination between them*".[5] However, the WTO's rules, namely Article XXIV of GATT and Article V of GATS enable to create preferential areas, such as free zones and customs unions under given conditions. The effects of the creation of integration blocks were theoretically analysed by James Meade and Jacob Vinner, who in their models denoted the trade creation and trade diversion effects. Practically, economic integration can take the form of a regional trade agreement or preferential trade agreement or trading block.

Economic integration includes several stages. The first division of the integration stages was made by Béla Balassa in the 1960s, on which heretofore many other authors build.[6] Balassa's approach includes five stages of economic integration including: free trade areas, customs unions, common markets, complete economic unions and complete political unions. In a free trade area or free trade zone, the member nations remove tariffs among themselves, but retain their freedom to determine their own trade policies to the third countries. Zlý consider for which countries the creation of a free zone is the most economically advantageous and conclude that for those countries that have reached a high value of bilateral trade.[7] It enables them to use their comparative advantages and to effectively use all production factors, such as labour, land and capital. A customs union is very similar to a free trade area, except that the member states must conduct and pursue a common commercial policy, including adopting common customs tariffs on imports from non-member countries. A common market is a customs union that also allows for free factor mobility (i.e. capital, labour, technology) across the member nations' borders. A complete economic union is a common market plus complete unification of monetary and fiscal policies. It means that the member states must introduce a central authority to exercise control over these matters. In a complete political union, the member states literally become one nation. It means that the central authority

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4 Zlý, B. (2009). Úvod do teorie mezinárodní ekonomické integrace. Brno: Tribun EU. 284p. ISBN 978–80–7399–719–9.

5 El-Agraa, A. M. (2011). *The European Union. Economics and Policies.* Cambridge: Cambridge University Press. pp. 1–16. ISBN-13 978–1-107–00796–3 (hardback).

6 El-Agraa, A. M. (2011). *The European Union. Economics and Policies*. Cambridge: Cambridge University Press. pp. 1–16. ISBN-13 978–1-107–00796–3 (hardback). Cihelková, E. a kol. (2007). *Nový regionalismus. Teorie a případová studie (Evropská unie).* Praha: C. H. Beck. pp. 7–12. ISBN 978–80–7179–808–8, etc.

7 Zlý, B. (2009). Úvod do teorie mezinárodní ekonomické integrace. Brno: Tribun EU. 284 p. ISBN 978–80–7399–719–9.

needed in the economic union should be paralleled by a common parliament and other institutions needed to guarantee the sovereignty of one state.

Zlý argues that the traditional division of economic integration should take into account real integration development.[8] He newly defines the individual stages of integration. The lowest stage of the free zone is kept as well as the second stage of economic integration that is represented by a customs union. Consequently, he divides the economic union into three stages, such as primary economic union, developed economic union and formative economic and monetary union. The sixth stage represents a full economic and monetary union, and the last stage is an economic and political union. This narrower division of economic integration provides more detail in some aspects of integration that Zlý points out on the development of the European Community (EC) and the EU respectively. However, all the time it is only a theoretical model. In practice, countries take different measures that usually cross the content of the theoretically defined stages of economic integration. It means that none of these stages can be found in its "clean" form.

3. From economic cooperation to economic integration between the EU and the United States: new ideas, new opportunities

The economic and political cooperation between the EU and the US has already been developing since the end of World War II. First the US provided economical and financial assistance to many European countries, and later trade and investment cooperation was developed between them, but without a framework bilateral agreement being signed. The economic relations of the EU with the US have been developing only on the base of the GATT/WTO rules and individual sectorial agreements. The idea to make trade between North America and Europe more preferential, i.e. to create a transatlantic free trade area, was first presented by the Canadian Ministry of Trade in 1994. Cihelková mentions several arguments why the Transatlantic Free Trade Area (TAFTA) has not been created until now.[9] It is especially because of relatively little developed economic relations between the EU-US and the unsolved global context of the TAFTA. Trade negotiations between the EU and the US about the Transatlantic

[8] Zlý, B. (2009). Úvod do teorie mezinárodní ekonomické integrace. Brno: Tribun EU. 284p. ISBN 978–80–7399–719–9.

[9] Cihelková, E. a kol. (2003). *Vnější ekonomické vztahy Evropské unie*. Praha: C. H. Beck. pp 139–217. ISBN 80–7179–804–5.

Trade and Investment Partnership (TTIP) have been led since 2013. The agreement about TTIP would be the first framework agreement covering the bilateral trade between the EU and the US carried out on a preferential base.

3.1 Development of the EU-US economic cooperation after World War II

The situation in the world economy after World War II indicated that international issues could be solved only through transatlantic cooperation. The main motivation of the US was to confine the growth of influence of the Soviet Union towards the West of Europe. The United States tried to help European countries by economic assistance and in this way to localise communism in Europe. West European countries usually accepted the economic support of the US through the Marshall Plan, but countries from Central and Eastern Europe refused this assistance and remained under the influence of the Soviet Union. In the period of the "cold war", the economic, political and military cooperation of the US was focused on the market oriented economies of Western Europe. Contrary to this cooperation, the US used different instruments (for example COCOM) to inhibit the diffusion of new technologies to central-planning economies. The economic cooperation among East and West European countries was also poor and accompanied by many discriminatory measures.

In the post war period of the 1950s, six West European countries founded the European Economic Community (EEC) that was deepened and extended in the following decades by other European countries. The mutual relations between the US and the European Communities (EC) were developed on the one hand by partnership in political and ideological areas (UN, NATO) and narrow cooperation in the economic area (OECD, GATT, etc.), but on the other hand by the growing political and economic rivalry that was the result of changing relations of power between European and American macroregions.[10] The main areas of the development of the economic cooperation of the EC and the US were trade in goods and commercial services, flows of capital, and industrial and scientific cooperation. However, this cooperation was carried out without any framework agreement about economic and trade cooperation. There was only non-formal dialogue between the EEC/EC and US and multilateral cooperation based on the GATT principles.

In 1990, the EU and the US signed the Transatlantic Declaration on EC-US Relations (non-officially called the Transatlantic Declaration). The declaration

[10] Cihelková, E. a kol. (2003). *Vnější ekonomické vztahy Evropské unie*. Praha: C. H. Beck. pp 139–217. ISBN 80–7179–804–5.

created a new institutional framework of bilateral relations between the EC and the US. Political dialogue between the EU and the US was initiated at various levels, including regular summit meetings that take place at the level of heads of state and government among the US, the European Commission and the country holding the EU Presidency. The cooperation is focused on the areas of economy, education, science and culture.

Other endeavours to amplify the EC–US relations culminated with the signature of the New Transatlantic Agenda (NTA) and the Joint EU-US Action Plan in 1995. The main purpose was to move from dialogue to common actions. The Action Plan contains four broad objectives of the EC-US collaboration: promoting peace and stability, democracy and development around the world, responding to global challenges, contributing to the expansion of world trade and closer economic relations, and building bridges across the Atlantic.[11] After the signature of the New Transatlantic Agenda, many sectorial accords were signed between the EC and the US, namely the EC-US Agreement on Customs Cooperation and Mutual Assistance in Customs Matters, the EC-US Agreement on Scientific and Technological Cooperation, the EC-US Agreement on Mutual Recognition, etc.

Other important steps to develop economic cooperation between the EU and the US came in March 1998 when the European Commission proposed the draft of the Agreement about the New Transatlantic Market. In the same year, the Transatlantic Economic Partnership (TEP), including the TEP Action Plan, was adopted. The TEP covers both bilateral and multilateral trade. Bilaterally, TEP addresses various types of obstacles to trade and strives to establish agreements on mutual recognition in the areas of goods and services. Cooperation in the areas of public procurement and intellectual property law was also mentioned. Multilaterally, the focus was on further liberalisation of trade within the World Trade Organization (WTO) in order to strengthen world trade. In the frame of the TEP, the Transatlantic Business Dialogue as well as other dialogues were created. The main object of the transatlantic partnership was the empowerment of the EU-US trade, the extension of opportunities for new investments and the liberalisation of multilateral trade relations. It was estimated that closer cooperation and the next trade liberalisation between the EU and the US could bring gains for both of them in the total value of 100 billion euros and 75 billion US dollars respectively.[12] At the EU-US summit

[11] United States Mission to the European Union. Retrieve from http://useu.usmission.gov/transatlantic_relations.html.

[12] Fojtíková, L. (2006). *Společná obchodní politika Evropské unie*. Ostrava: VŠB-TU. pp. 93–96. ISBN 978–80–248–1076–8.

in London in 2002, the Positive Economic Agenda was initiated by the US president George W. Bush and by the president of the European Commission Romano Prodi. In 2007, the EU and US created the Transatlantic Economic Council (TEC) with the object of removing subsistent barriers to trade between the EU and US. All these documents and steps were important for the development of the EU-US economic cooperation, but they have not brought significant change in the institutional framework of the EU-US bilateral trade until now.

3.2 Current negotiations about the Transatlantic Trade and Investment Partnership

The negotiations between the EU and the US about a comprehensive trade agreement that would cover all sectors of the economy was motivated by the continuing economic crisis and the stagnation of the multilateral trade negotiations in the WTO running in the frame of the Doha Development Round. In 2011, the EU and the US set up a working group of government experts to see what trade and investment agreement between the two economic powers might be developed. The group was chaired jointly by the EU Trade Commissioner and the US Trade Representative. The High Level Working Group on Jobs and Growth considered the opportunities and potential difficulties the agreement could bring and recommended launching negotiations. According to an independent study by the Centre for Economic Policy Research (CEPR) in London, an ambitious and comprehensive TTIP would increase the size of the EU economy by around 120 billion euros (i.e. 0.5% of GDP) and the US by 95 billion euros (or 0.4% of GDP) every year. However, according to CEPR's researchers, the TTIP will be beneficial not only for the EU and the US economies, but also for their trading partners around the world in the total amount of 99 billion euros. This is because economic growth in the EU and the US means more purchases by consumers and business of other countries, and common regulatory approaches between the EU and US will reduce costs for exporters from and those exporters.[13]

The first negotiation round for the EU-US Transatlantic Trade and Investment Partnership took place on 7–12 July 2013 in Washington. Beforehand, the EU member states had agreed to give the European Commission assent to start negotiations with the United States. The bilateral trade and investment

[13] European Commission. DG Trade (2013). *Transatlantic Trade and Investment Partnership. The Economic Analysis Explained*. Retrieved from http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151787.pdf.

negotiation cover twenty areas, namely market access for agricultural and industrial goods, government procurement, investment, energy and raw materials, regulatory issues, sanitary and phytosanitary measures, services, intellectual property rights, sustainable development, small and medium sized enterprises, dispute settlement, competition, customs and trade facilitation, and state owned enterprises. The second round of negotiations took place on 11−15 November 2013 in Brussels and continued from where it left off in the first round. It means that dialogue was held on comparing different approaches to investment liberalisation and protection, on comparing their approaches to cross-border services, financial services, telecommunications and e-commerce, on regulatory issues and on ensuring reliable supplies of energy and raw materials. The third round of negotiations was held on 16−21 December 2013 in Washington. The negotiators made progress on the three core parts of the TTIP. These areas included: market access, regulatory aspects and rules. Regarding market access, the EU promoted to slash customs tariffs on imported goods, allow firms from either side to bid for government procurement contracts, open up services markets, and make it easier to invest. The discussion about trade-related rules covered several areas and was focused on ensuring free and fair trade. The fourth EU-US trade talks were held on 10−14 March in 2014 in Brussels. Teams of EU-US negotiators continued negotiations about TTIP in areas that included the area of services, labour, rules of origin, intellectual property and regulatory sectors.[14] A global report about the achieved progress in the actual negotiations should be published by July 2014 and the total negotiations about TTIP should be concluded by the end of 2015.

3.3 Comparison of the EU and the US trade policy measures

The substance of the trade negotiations that are currently being led between the EU and the US is to find a way and possibilities how to remove subsistent obstacles to transatlantic trade. Both of the states apply a general most-favoured nation tariff (MFN tariff) and also a special, i.e. preferential, tariff to countries with which they signed some kind of preferential agreement, for example an agreement about a free zone or customs union. In 2011, the United States had 11 bilateral or regional free-trade agreements in force with 17 countries. New agreements are currently being prepared to be signed with Colombia, the Republic of Korea and Panama. **The share of preferential imports in the total**

[14] European Commission. DG Trade (2013). Policy. *In focus: Transatlantic Trade and Investment Partnership. Resources.* Retrieve from http://ec.europa.eu/trade/policy/in-focus/ttip/resources/#advisory-group.

US imports was more than 20% in 2011. Reciprocal preferences accounted for 16.4% and unilateral preferences for 3.7%.[15]

In the EU, the member countries use the unit customs tariff and preferential treatment is carried out through the Common Commercial Policy of the EU that is applied to all third countries that are not EU members.[16] The European Union applies unilateral preferences to developing countries that are included in the General System of Preferences (GSP). Currently, there are three types of schemes (General plan, GSP+ and the Everything but Arms initiative) that recognise three levels of preferences. Reciprocal preferences are applied by the EU to countries that create customs unions with it, i.e. Andorra, San Marino and Turkey, or free trade areas. The EU has 33 free trade agreements and many other agreements are being negotiated now. The signature of the European Economic Area agreement with Iceland, Liechtenstein and Norway also means one of the ways of preferential treatment. As a result of preferential agreements and the GSP scheme, the EU applied the MFN tariff to only nine WTO members (Australia; Canada; the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu; Hong Kong, China; Japan; the Republic of Korea;[17] New Zealand; Singapore; and the United States) in 2007. **These nine WTO Members accounted for only 27.5 % of the EU's total merchandise imports in 2007**.[18] It means that while in the EU the predominant part of imports is carried out through a preferential arrangement, in the US the largest part of import is done by the MFN regime.

Comparing the simple average MFN tariff in the EU and the US, the EU applies a little higher tariff than the US, especially in the area of agriculture products. Although the average MFN tariff applied to the EU agricultural imports declined from 16.5% in 2004 to 14.8% in 2013, in comparison with the US, where the average tariff for agricultural products was 8.5% in 2012, it was 1.7 times more in the EU than in the US.[19] Similarly, the EU simple average tariff stayed at the same level of 6.5% in the period of 2004–2013, but the US the simple average tariff declined by 0.4 percentage points in 2002–2012. It was also possible to import more goods duty free to the US than to the EU in the monitored period (see Table 1).

[15] WTO (2012). *Trade Policy Review: United States of America. Secretariat report*. Retrieved from http://www.wto.org/english/tratop_e/tpr_e/tp375_e.htm.

[16] Fojtíková, L. (2009). *Zahraničně obchodní politika ČR. Historie a současnost (1945–2008*). Praha: C. H. Beck. 246 p. ISBN 978–80–7400–128–4.

[17] In 2010, the EU and Korea signed the Deep and Comprehensive Free Trade Agreement (DCFFTA) that entered into force in July 2011.

[18] WTO (2009). *Trade Policy Review: European Union. Secretariat report*. Retrieved from http://www.wto.org/english/tratop_e/tpr_e/tp314_e.htm.

[19] The reports carried out by the WTO Secretariat about the trade policy of the EU and the US are not accessible in the same years, although the review period is the same for both of them and is done every two years.

Table 1: Structure of the MFN tariff of the EU and the US (%)

Country	EU			US		
	2004	2013	2013–2004	2002	2012	2012–2002
Simple average tariff (%)	6.5	6.5	0	5.1	4.7	-0.4
– WTO agriculture	16.5	14.8	-1.7	9.8	8.5	-1.3
– WTO non-agriculture	4.1	4.4	0.3	4.2	4.0	-0.2
Duty free tariff lines (%)	26.9	24.7	-2.2	31.2	37.0	5.8

Source: WTO[20], 2007; WTO, 2012; WTO, 2013

It is obvious that negotiations about market access will be more difficult in the area of lowering tariffs in the agricultural sector than in manufacturing. In the EU, animals and products thereof; fruit, vegetables and plants; and beverages, spirits and tobacco belong to the most protected products where the tariff range reached 1.5−197%.[21] In the US, the tariff for agriculture products is applied from 0 up to 350% to some tobacco products. The highest tariff is also applied to the import of sugar, peanuts, and dairy products, followed by beef, cotton, and certain horticultural products, such as mushrooms.[22] However, it is important to note that the evaluation of import possibilities should include not only the value of tariffs, but also **other non tariff barriers** (NTBs), such as domestic supports, exports supports, sanitary and phytosanitary regulations, other import fees, etc. that currently represent more serious obstacles to trade than tariffs. NTBs and regulatory differences can have two main effects. They can either increase the cost of doing business for firms, or they can restrict market access. In the US, for example, the imports are charged by COBRA fees (to recover processing costs in ensuring carriers, passengers, and their personal effects entering the US), the harbour maintenance tax (a fee on certain merchandise arriving by vessel in order to maintain the navigation channels), agriculture fees and the merchandise processing fee. Some measures, such as

[20] WTO (2013). *Trade Policy Review: European Union. Secretariat report*. Retrieved from http://www.wto.org/english/tratop_e/tpr_e/s284_e.pdf. WTO (2012). *Trade Policy Review: United States of America. Secretariat report*. Retrieved from http://www.wto.org/english/tratop_e/tpr_e/tp375_e.htm. WTO (2009). *Trade Policy Review: European Union. Secretariat report.* Retrieved from http://www.wto.org/english/tratop_e/tpr_e/tp314_e.htm. WTO (2007). *Trade Policy Review: European Union. Secretariat report.* Retrieved from http://www.wto.org/english/tratop_e/tpr_e/tp278_e.htm.

[21] WTO (2013). *Trade Policy Review: European Union. Secretariat report*. Retrieved from http://www.wto.org/english/tratop_e/tpr_e/s284_e.pdf.

[22] WTO (2012). *Trade Policy Review: United States of America. Secretariat report.* Retrieved from http://www.wto.org/english/tratop_e/tpr_e/tp375_e.htm.

the ACE system[23] or CSI system[24], were also taken by the US governments in order to insure bigger national security. In the EU, for example, import licenses are required on specific products that are subject to quantitative restrictions, safeguard measures or import surveillance and the many sanitary and phytosanitary measures applied to products of animal or plant origin.

It means that although the average tariff levels in both countries are relatively low already, various non-tariff barriers (often in the form of domestic regulations) on both sides of the Atlantic constitute important impediments to deepening transatlantic trade and investment linkages. It is estimated that as much as 80 % of the total potential gains come from cutting costs imposed by bureaucracy and regulations, as well as from liberalising trade in services and public procurement.[25] From this point of view, reducing non-tariff barriers will be a key part of transatlantic liberalisation. However, removing these NTBs means a difficult process, although the potential benefits in terms of productivity and incomes are substantial.

4. Structure and performance of the EU and US economies

The economic potential of the EU and the US is similar. In 2012, the gross domestic product of the EU and US reached 15.8 trillion US dollars (measured by purchasing power parity) and 16.5 trillion US dollars respectively.[26] Both economies belong to the most technologically powerful economies in the world. They are market-oriented economies in which private firms make most of the decisions and state governments buy the needed goods and services predominantly in the private marketplace. In comparison with the US economy, the EU economy is characterised by substantial heterogeneity and variety (economic, social, cultural, etc.) and also a high bureaucratic burden. In 2012 in the EU, the average value of the gross domestic product per capita was 34,500 US dollars with great differences among the member countries (from 13,000 to 82,000 US dollars). The average income per capita in the US was 52,400 US

23 Automated Commercial Environment (ACE) is an electronic commercial trade processing syss tem for strengthening border security.

24 Container Security Initiative (CSI) was launched in the aftermath of the terrorist attacks in September 2001 in order to address the threat to border security posed by the use of maritime container shipments.

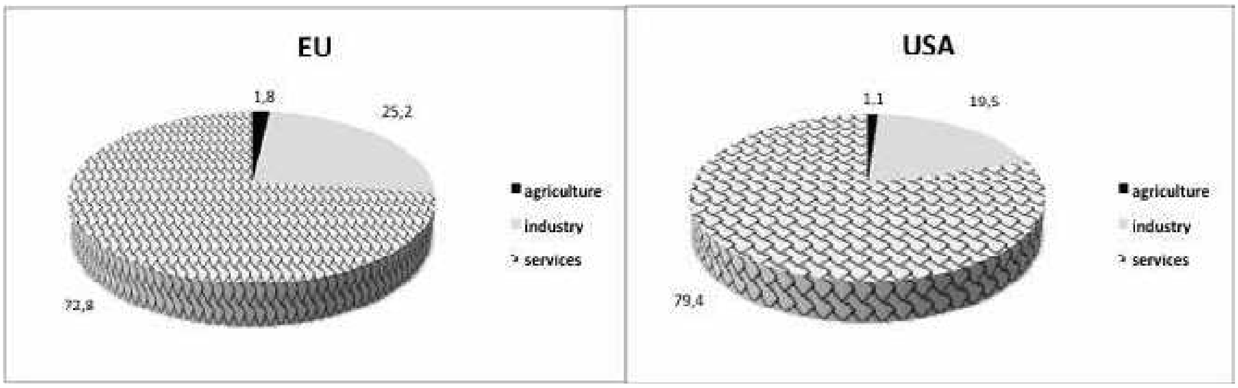
25 CEPR (2013). *Reducing Transatlantic Barriers to trade and Investment. An Economic Assessement.* Retrieved from http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150777.pdf.

26 CIA. *The World Factbook*. Retrieved from https://www.cia.gov/library/publications/the-world-factbook/.

dollars at the same time. From the EU member states, only the inhabitants of Luxembourg have a higher living standard than people in the US.

The structure of the EU and US economies is displayed in Figure 1. On the left side of the figure the EU economy is shown, with an almost 2 percentage share of agriculture in the total GDP. The share of industry is more than 25% and the share of services is almost 73% of GDP. The world's largest and most technologically advanced of the EU industries are ferrous and non-ferrous metal production and processing, metal products, petroleum, coal, cement, chemicals, pharmaceuticals, aerospace, rail transportation equipment, passenger and commercial vehicles, construction equipment, industrial equipment, shipbuilding, electrical power equipment, machine tools and automated manufacturing systems, electronics and telecommunications equipment, fishing, food and beverage processing, furniture, paper and textiles. On the right side of Figure 1 the structure of the US economy is shown, with an about 1 percentage share of agriculture in GDP, an almost 20 percentage share of industry and a more than 79 percentage share of services in GDP. Americans are the biggest producers of wheat, maize and cotton in the world. The US industry is highly diversified and competitive especially in the area of petroleum, steel, motor vehicles, aerospace, telecommunications, chemicals, electronics, food processing, consumer goods, lumber and mining. Both economies have developed the service sector, in which other commercial services take the main portion of the total commercial services besides transport and travel services.

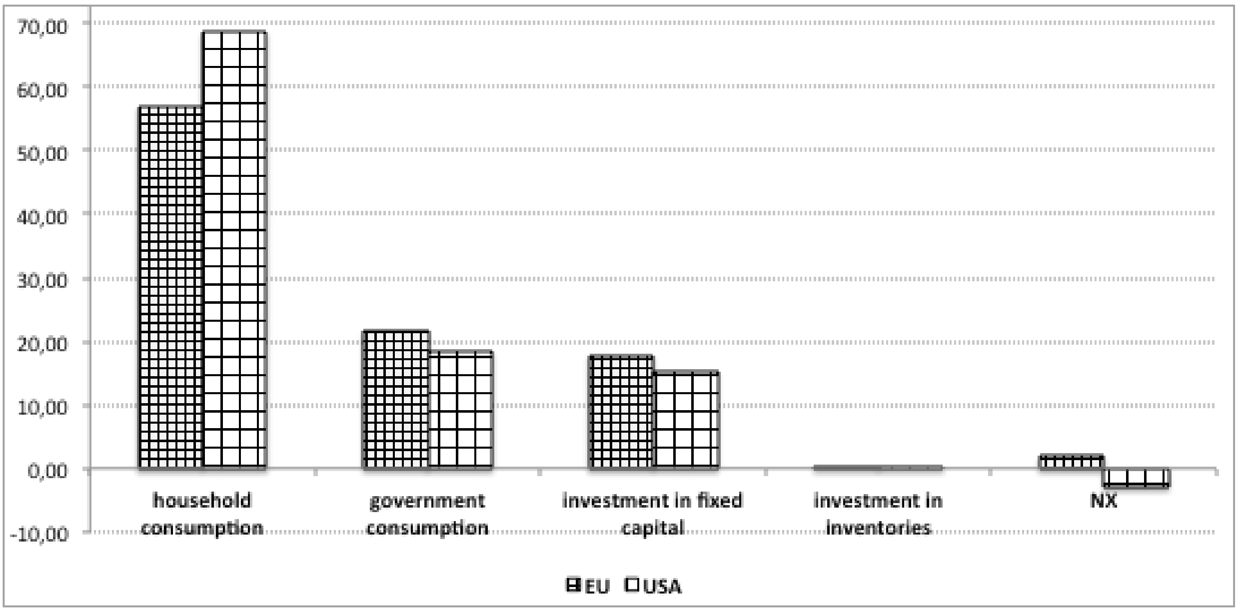
Figure 1: GDP composition by the sector of origin in the EU and the US (%)



Source: CIA. Factbook, 2014. Author's data processing

From the component of GDP point of view, the main difference between the EU and US economies is obvious in the consumption of the household (see Figure 2). The US household consumption was higher by almost 12 percentage points than in the EU in 2012. In comparison with this, the EU recorded higher government consumption and investment in fixed capital, both by about 3 percentage points, than the US at the same time. Investment in inventories was very low in the EU as well as the US. Other exports (i.e. export minus import) had a positive influence on the EU GDP growth, but negatively influenced the US GDP growth.

Figure 2: GDP composition by the final use in the EU and the US, 2012 (%)



Source: CIA. Factbook, 2014. Author's calculation and data processing

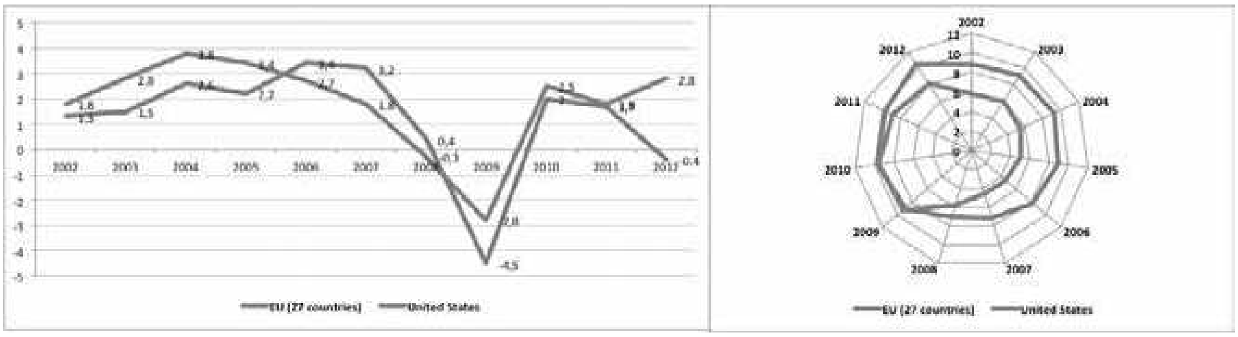
The development of the GDP growth in the EU and US is displayed in Figure 3. The rate of growth of the EU and US economies was about 1–2 % at the beginning of the new millennium. The short recession of the US economy at the beginning of the 21st century was caused by the deflation of a speculative bubble in the IT sector and the terrorist attacks in the USA. However, the US economy grew more quickly than the EU economy until 2006, but the financial and economic crisis caused slower GDP growth in the US from 2007 in comparison with the previous year as well as with the EU GDP growth. The EU economy grew until 2008, but more slowly than in the previous years. The decline of consumption, production and foreign trade occurred in the decline of GDP in both economies in 2009. Although the economic crisis hit all countries and regions in the world at the same time, the decline of GDP in the EU and US was higher than the world average. The fiscal and monetary expansion that was carried out by the national governments in the US[27], the EU and its member states, and also other countries in the period of 2008−2010, has contributed to achieving

[27] The first anti-crisis measure, i.e. *The Troubled Asset Relief Program* (TARP) was already proposed by Bush's administration and approved by the U.S. Congress in 2008. The amount of 700 billion US dollars was set to the support of the banking and financial system and automotive sector. After the accession of B. Obama to the presidential office, *The American Recovery and Reinvestment Act* (ARRA) was accepted in 2009. The amount of 787 billion US dollars was

economic growth in the EU and US since 2010. However, the debt crisis of the Eurozone caused another decline of the EU's GDP in 2012. The need to reduce the government debt and return national budgets from deficit to surplus numerals was connected with the adoption of many saving measures. This fiscal consolidation that has been topical in many EU countries since 2010 limited consumption and had a negative influence on the GDP growth in 2011−2012.

Unemployment (see the right side of Figure 3) was higher in the EU than in the US for the entire period. While the unemployment rate was 4.6% in the US in 2006, it was 8.3% in the EU at the same time. The economic crisis in 2008−2009 caused the increase of unemployment in both economies. However, the US has recorded a declining trend in the unemployment rate since 2011, while the EU has recorded a growing trend and unemployment is a serious economic and social problem of many EU countries all the time. The declining rate of unemployment in the US can be the result of Obama's fiscal measures, such as the *Small Business Legislation* from 2010 or the *American Jobs Act* from 2011, which were focused on the increase of GDP and the creation of new jobs. In the EU, the short-term fiscal and monetary measures to support economy have to be accompanied by deep structural reforms in many EU member states. A serious problem in many countries is especially high unemployment of young people that is the highest in Spain, where a half of the young population is without work.

Figure 3: a) Growth of GDP in the EU and the US in 2002−2012 (%);
b) Rate of unemployment in the EU and the US in 2002−2012 (%)



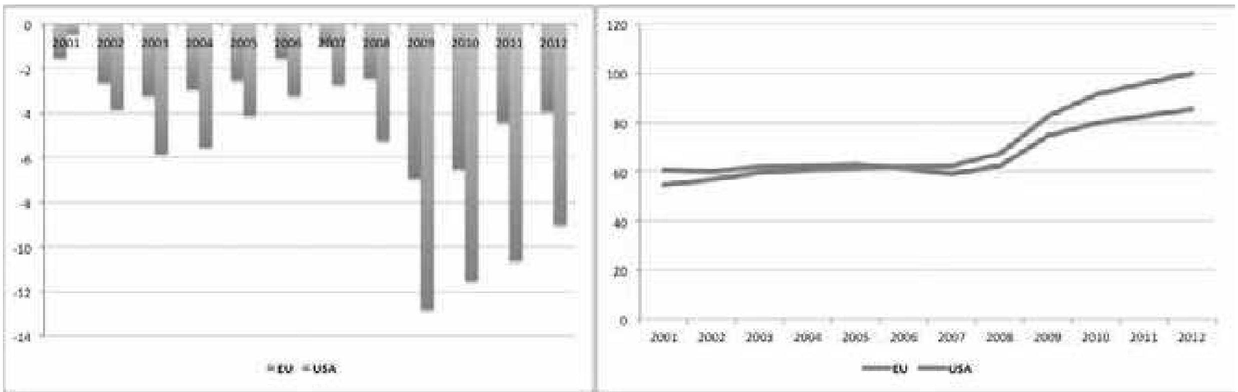
Source: Eurostat, 2014. Author's data processing

Figure 4 offers a comparison of public finances in the EU and US in 2001−2012. While in 2001−2007 both economies had a comparable level of government debt at about 60% of GDP, the financial stimulatory measures increased the government debt in both economies. On the whole, the EU government debt was the less than 61% in 2001 and more than 85% in 2012. In

assigned for investment into infrastructure, expenditure for research, for the support of small and medium enterprises, export, but also for health and social expenditure.

the US, the government debt was less than 55% in 2001 and almost 100% of GDP in 2012. It means that during the last twelve years the public indebtedness increased 2.4 times in the EU and almost by a half in the US (see the right side of Figure 4). On the left side of Figure 4 (see 4a), the development of the government budget in the EU and US is displayed. Both economies recorded a deficit budget for the whole time, but the US reached higher deficits than the EU. The highest deficit in the US (-12.8 % of GDP) was recorded in 2009. The EU recorded the highest deficit of 6.9 % of GDP at the same time. The budget deficit in both economies has recorded a declining tendency since 2010.

Figure 4: a) General government deficit/surplus in the EU and the US in 2001−2012 (% of GDP)
b) General government gross debt in the EU and the US in 2001−2012 (% of GDP)

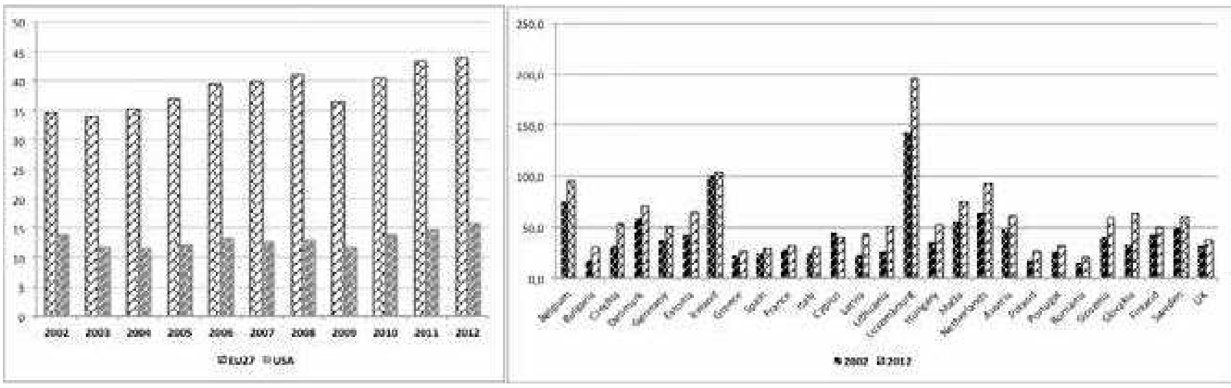


Source: Eurostat, 2014. The White House, 2014. Author's data processing

The internal market of the EU has about half a billion people; the number of the US population is about 312 million. Although the EU represents a bigger market than the US, the rate of economic openness[28] is higher in the EU than in the US (see the left side of Figure 4). While the rate of the EU's openness was 44%, the openness of the US economy was about 16% in 2012. A lower rate of economic openness was recorded by both countries in 2009, which was connected with the decline of exports and imports at the time of the economic crisis in the world and the amplification of protectionist tendencies in international trade (for example "Buy American"). In the EU, the highest level of economic openness was recorded by small economies such as Luxembourg, Ireland and Belgium. It is a long lasting tendency. The comparison of the rate of economic openness among the EU member states in 2002 and 2012 is displayed on the right side of Figure 5.

[28] The rate of economic openness was calculated by the author as the share of the average of exports and imports divided by GDP in a percentage expression.

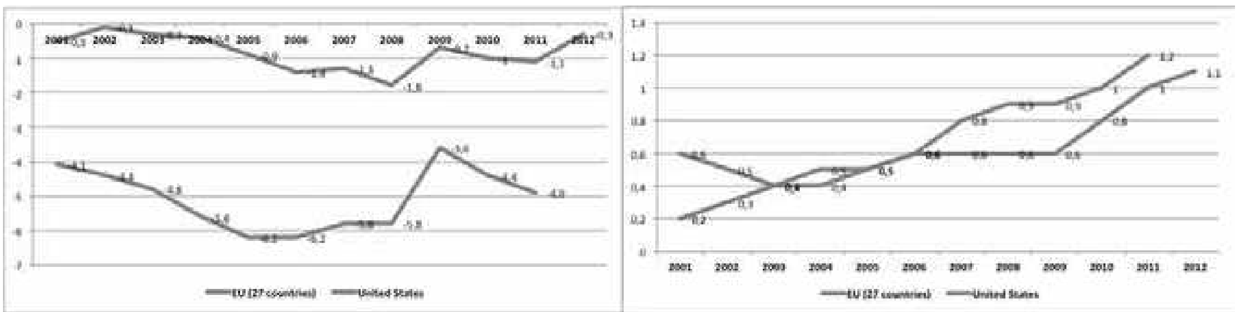
Figure 5: a) Rate of economic openness in the EU and the US in 2002−2012 (%);
b) Rate of economic openness in the EU member states in 2002 and 2012 (%)



Source: Eurostat, 2014. Author's calculation and data processing

The trade balance of the EU as well as the US has been in deficit for a long time (see Figure 6, the left side). However, while the EU's trade deficit was about 1 % of GDP, the US's trade deficit was almost 5 times bigger than the EU deficit in 2012. The external imbalance has been typical of the US economy already since the middle of the 1980s. Although the US belongs to the main exporters in the world, the US population likes consuming not only domestically produced goods, but also goods imported from abroad. The intention of Obama's administrative is to redouble the US export by 2015. The US has reached the highest trade deficit with China. From this point of view, the US government accuses China's government of the undervaluation of China's jüan and creates a political pressure focused on the revaluation of China's currency. In comparison with trade in goods, both countries have recorded increasing surpluses in the area of trade in commercial services (see the right side of Figure 6).

Figure 6: a) Balance of the EU and the US in trade in goods in 2002−2012 (% of GDP);
b) Balance of the EU and the US in trade in services in 2002−2012 (% of GDP)



Source: Eurostat, 2014. Author's data processing

5. Analysis of the EU-US trade and investment flows

The analysis of bilateral cooperation between the EU and US is divided into two parts. Firstly, the bilateral EU-US trade flows will be displayed. Secondly, attention will be focused on the EU-US investment flows.

5.1 Bilateral trade flows between the EU and USA

The USA is the EU's largest trade partner for both goods and services. However, there has been a steady decline in the share of the US in the total EU international trade in goods over the last decade. While in 2002, the US accounted for 28% of the total EU[29] exports and 20% of imports, by 2013 these shares had fallen to 17% and 12% respectively.[30] The EU is also the main trading partner of the US. However, when we consider the individual EU member states, then the US's main trade partners are Canada, China, Mexico, Japan and Germany. On the whole, there are five EU member states, namely Germany, the United Kingdom, France, the Netherlands and Italy, which belong to the 15 main trade partners of the US.[31]

From the point of view of the individual EU member states, there are quite big differences in their exports to the US (see Table 2). There are three main groups of states with different export dependence on the US market:

- The range of 0–10%: Bulgaria, Cyprus, Latvia, Slovenia, Romania, Poland, Hungary, Slovakia.
- The range of 11–20%: Greece, Luxembourg, the Czech Republic, Spain, Estonia, Italy, Portugal, France, Austria, Finland, Malta, Germany, Sweden, the Netherlands, Denmark.
- The range of more than 21%: Ireland, the United Kingdom, Belgium.

The largest part of the gains from the TTIP would be obtained by those EU countries in which the US takes a significant part of their extra-EU exports, i.e. Belgium, Ireland and the United Kingdom.

The development of the EU exports and imports of goods from the US is displayed in Figure 7. It is obvious that exports as well as imports recorded a decline in 2009 as a result of the economic crisis in the world. In 2012, the value of the EU export to the US was 291.8 billion euros and import 205.2 billion euros. Both numbers were higher in 2012 than in 2001. The growth rate of

[29] The data are about the EU-28, i.e. with 28 member states, including Croatia.

[30] Eurostat (2014). Retrieved from http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes.

[31] United States Census Bureau (2014). Foreign Trade. *Top trading partners.* Retrieved from http://www.census.gov/foreign-trade/statistics/highlights/toppartners.html.

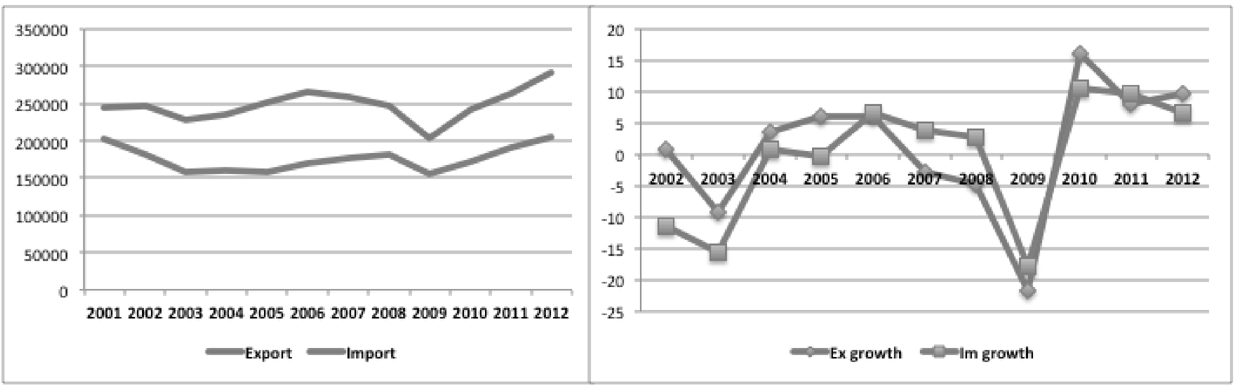
exports and imports of the EU to the US is recorded in Figure 7b (the right side of the figure). A significant decline of the EU export and import was recorded two times during the monitored period, i.e. in 2003 and 2009.

Table 2: Share of the USA in extra-EU exports by member states in 2010 (%)

Belgium	21.3	France	14.5	Austria	14.9
Bulgaria	3.5	Italy	14.1	Poland	8.7
Czech Republic	10.9	Cyprus	3.6	Portugal	14.4
Denmark	18.0	Latvia	4.0	Romania	5.3
Germany	17.1	Lithuania	7.0	Slovenia	4.7
Estonia	12.0	Luxembourg	10.9	Slovakia	9.5
Ireland	55.7	Hungary	9.3	Finland	15.4
Greece	10.8	Malta	15.9	Sweden	17.1
Spain	10.9	Netherlands	17.2	United Kingdom	28.6

Source: Eurostat, 2011

Figure 7: a) Exports and imports of the EU to the US in 2001−2012 (million euros); b) Growth of exports and imports of the EU to the US in 2002−2012 (%)

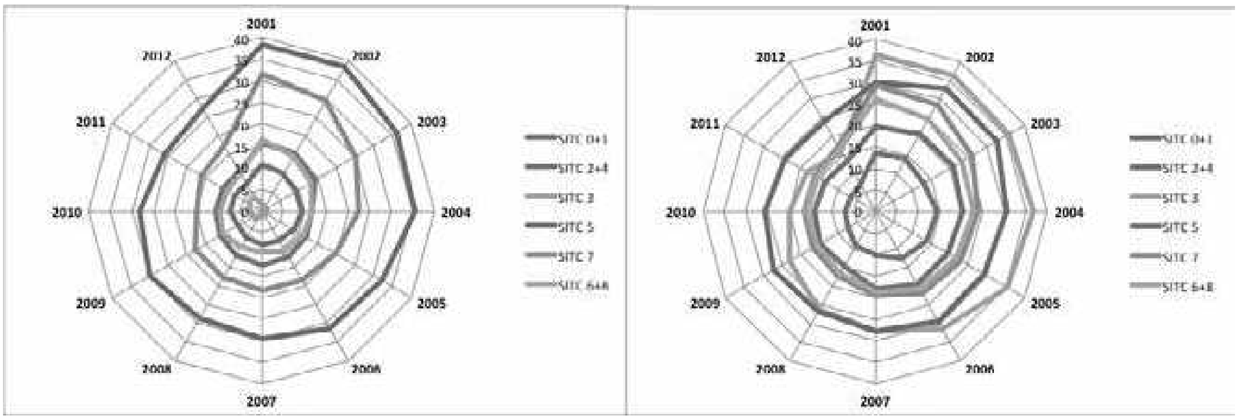


Source: Eurostat, 2014. Author's data processing

From the sectorial point of view, Chemicals (SITC 5), Machinery and transport equipment (SITC 7) and Raw materials (SITC 2+4) took more than a half of the total EU imports from the US, although SITC 5 and SITC 7 recorded the biggest decline of their share in the total EU imports from the US in 2001−2012 (see Figure 8a). On the export side, the share of the individual commodity groups was more variable than on the import side during the monitored period. In 2001, Mineral fuels created more than 36 per cent of the total EU exports to the US, in 2012 only about 16 per cent. Chemicals (SITC 5), Machinery and transport equipment (SITC 7) and Manufactured goods (SITC

6+8) represented the main export groups of the EU to the US in 2012 (see Figure 8b). The lowest portion of the EU-US trade belonged to Mineral fuels (SITC 3) on the import side and Raw materials (SITC 2+4) on the export side. The current share of the individual commodity groups in the total EU exports to the US corresponds with the results of a study that was published by CEPR. This means that the sectors that are likely to benefit most from the TTIP include metal products (exports up 12%), processed foods (+9%), chemicals (+9%), other manufactured goods (+6%), other transport equipment (+6%), and especially motor vehicles (40%). The overall output in agriculture, forestry and fisheries taken together is expected to increase by 0.06%.[32]

Figure 8: a) Share of the US imports in the total EU imports by products in 2001−2012 (%);
b) Share of the US exports in the total EU exports by products in 2001−2012 (%)



Source: Eurostat, 2014. Author's data processing

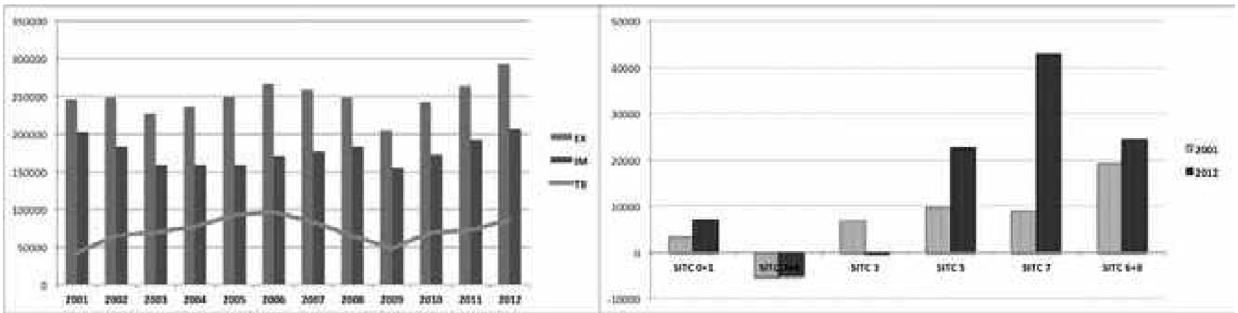
The trade balance of the EU with the US was in surpluses in the range from 42.3 billion euros to 96.4 billion euros in the period of 2001−2012 (see Figure 9, the left side). In 2012, the EU trade surplus with the US was 86.5 billion euros and only Belgium, Luxembourg and the Netherlands recorded a trade deficit in trade with the US. However, the Dutch trade deficit is over-estimated because of the "Rotterdam effect" where goods destined for the rest of the EU arrive and are recorded in harmonised EU external statistics in Dutch ports. This then has a positive effect on the external trade balance with the US of those member states to which the goods are re-exported as these shipments would be recorded as intra-EU trade with the Netherlands rather than extra-EU

[32] European Commission. DG Trade (2013). *Transatlantic Trade and Investment Partnership*. The Economic Analysis Explained. Retrieved from http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151787.pdf.

trade with the US. From this point of view, the Belgian trade figures are similarly over-estimated.

Germany reached the highest trade surplus in the value of 48.2 billion euros, while the Netherlands recorded the highest trade deficit in the value of 8.3 billion euros. On the right side of Figure 9 (i.e. 9b), the EU trade balance with the US according to commodity groups is displayed. The EU reached deficits in trade with raw materials (SITC 2+4), but surpluses in the other commodity groups. The EU's trade of mineral fuels and lubricants (SITC 3) was in surplus in 2001, but in a small deficit in 2012. The trade of machinery and transport equipment (SITC 7) was the most in surplus for the EU for the entire time. All commodity groups, excluding SITC 2+3+4, recorded an increase of trade surplus in 2012 in comparison with 2001.

Figure 9: a) EU trade balance with the US in 2001−2012 (mil. euros);
b) EU trade balance with the US by sector (mil. euros)



Source: Eurostat, 2014. Author's data processing

Trade in services takes a smaller part of the total bilateral trade between the EU and US than trade in goods. However, the USA is still by far the EU's largest partner, accounting for 25% of EU exports of services and 30% of imports.[33] Data about this type of bilateral trade are accessible for the period of 2010–2012. Both exports and imports of services between the EU and US increased significantly between 2010 and 2012 (see Table 3).

The EU's bilateral trade in services with the US was positive for the EU for the whole period. In 2012, the EU reached the biggest trade surplus in the amount of almost 14 billion euros. It means that in 2012 the surplus was 4.8 times bigger than in 2010. The surplus in 2010−2012 was mainly due to surpluses in transportation. However, the group of "Other services" includes many other services such as communication services, construction services,

[33] Eurostat (2014). Retrieved from http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes.

financial services, computer and information services, etc. and some of them were in surpluses for the entire period, although the whole group was in deficit.

Table 3: EU trade in services with the USA in 2010−2012 (billion euros)

	Exports			Imports			Balance		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Total	39.7	149.7	164.8	136.7	142.8	150.9	2.9	6.9	13.9
Transportation	29.6	30.1	33.3	19.7	21.1	22.6	9.9	9.0	10.7
Travel	15.1	15.8	17.2	15.9	17.0	17.5	-0.8	-1.1	-0.4
Other services	95.0	103.7	114.4	98.3	102.2	108.3	-3.3	1.5	6.1
USA/total extra-EU (%)	24.7	24.6	24.9	30.0	29.9	29.7			

Source: Eurostat, 2014

5.2 Investment flows between the EU and USA

The US has been the leading investor as well as the host economy in the world for a long time. In the EU, the investment policy has been one part of the Common Commercial Policy of the EU since December 2009, when the Lisbon Treaty entered into force. It means that until this time, the EU member states carried out their national investment policies and signed bilateral investment agreements with non-EU states. From this point of view, the data about foreign direct investments (FDI) are better accessible for the individual member states than for the EU as a whole. In 2012, the United Kingdom, Ireland, Luxembourg, Spain, France and Sweden were among the top 20 host economies in the world, while the United Kingdom, Germany, France, Sweden, Italy, Ireland and Luxembourg were among the top 20 investor economies in the world.[34]

The EU's foreign direct investment flows with the USA have been at a high level (see Table 4). In 2005−2007, the FDI flows were increasing in both economies, but the economic crisis had a negative influence not only on foreign trade, but also on investment flows. While the US FDI flows to the EU were 197.6 billion euros in 2007, they were only 38.8 billion euros in 2008. Since 2009, the US FDI flows to the EU have been higher than the EU FDI flows to the US.

[34] UNCTAD (2013). *World Investment Report 2013*. Retrieved from http://unctad.org/en/publicaa tionslibrary/wir2013_en.pdf.

Table 4: EU FDI flows with the USA (billion euros)

	2005	2006	2007	2008	2009	2010	2011	2012
EU FDI	32.7	95.2	173.0	125.9	93.2	59.1	167.3	53.3
US FDI	60.2	76.9	197.6	38.8	112.9	77.6	264.4	91.5

Source: Eurostat, 2014

6. Conclusion

Although the EU-US bilateral trade in goods and services was increasing in the period of 2001−2012, the tariff and non-tariff barriers were applied all the time. It was found that the EU used a little higher tariff protection than the US, but more serious than tariffs are non-tariff barriers that are applied in both of them. They represent the so-called "grey area" because it is hard to calculate it and remove it from the different national interests. The liberalisation of the EU-US trade and investment flows should contribute to free movement of goods and services between them. During the last few years, the EU and US have manifested the interest to lead trade negotiations in these areas and integrate their economies into the Transatlantic Free Trade Area that would cover not only trade, but also investment and other horizontal areas of cooperation (such as intellectual property rights, government procurement, etc.). It is interesting that these two biggest trade partners in the world have not signed any preferential agreement until now, although they have signed this type of agreement with many other countries. The results of the analysis showed that the EU is more trade integrated with the world than the US. The EU reached trade surpluses with the US in goods as well as commercial services. Trade liberalisation should contribute to making the imports of the US goods and material cheaper and also to obtaining easier market access to the US market. In both of cases, the EU and US consumers and producers would be winners. The political decisions of the representatives of both states and their ability to reach compromise solutions will depend especially on their economic situation. It is obvious from the latest dates that the US economy is recovering from the economic crisis faster than the EU economy that was hit not only by an economic, but also a debt crisis of the Eurozone. However, not only the economic cycle but also the political cycle has to be considered. The EU-US trade negotiations will also be influenced by the presidential election in the USA in 2016 and the integration process in the EU.