Transatlantic Conflict and Cooperation Concerning Trade Issues

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The United States and the European Union are major players in the global economy. Economic relations between them are both extensive and deep. They account for about 45 percent of world Gross Domestic Product, 30 percent of world foreign direct investment flows, and 70 percent of world FDI stocks. Given their importance in the world economy, and their importance to each other's economies, it is critical that they cooperate with each other and keep conflict to a minimum. Fortunately, their trade disputes have been relatively few and have for the most part been settled amicably. Attempts to attain deeper economic integration have met with mixed success. The current negotiations for a Transatlantic Trade and Investment Partnership have potential for deepening their economic relationship, but care should be taken not to push beyond what is politically feasible.

Key Words: transatlantic, trade disputes, trade negotiations, investment, regulations
JEL Classification: F1, F5

Introduction

Transatlantic relations have undergone significant changes within the past twenty-five years. During the Cold War era, the United States and Western Europe were bound together by a perceived common threat from the Soviet Union. Consequently, economic issues commanded less attention than security issues. After the Cold War ended, economic issues were thought to be the bond that would hold the transatlantic relationship together. Much attention was given for several years to fostering economic cooperation through the development of intergovernmental initiatives.

After the terrorist incidents of September 11, 2001 in the United States, and the subsequent wars in Iraq and Afghanistan, security issues again came to the forefront of the relationship. However, in contrast to the earlier era that was mainly characterized by close cooperation, disagreements between the United States and major countries of Western Europe about how to deal with the terrorist threat created severe strains in the relationship. By 2003, the third year of the George W Bush administration, transatlantic political relations had reached perhaps their lowest point since World War II. They have gradually improved since then, but with a significant setback from Wikileaks revelations, and even more serious strains resulting from the revelations by Edward Snowden concerning United States surveillance activities. Security issues have come to the forefront also in connection with regional unrest in the Middle East, EU nations' dependence on Russian oil and gas, and Russian intrusions into Ukraine.

Fortunately, conflicts in the political arena seem to have had minimal impact on the transatlantic economic relationship. Merchandise trade between the US and the EU has doubled in value since 2000, as has trade in services. Given that the US and the EU account for about 45% of world GDP in nominal terms and about 40% in purchasing power parity terms,[1] and given their long history of trading relations, it is not surprising that they are each other's most important markets. Together they account for about 30% of world trade. Much of their economic interaction is driven by transatlantic investment. Together the US and the EU account for about 29% of the flow of world foreign direct investments,[2] and for about 70% of the stock of world foreign direct investments (United Nations Conference on Trade and Development 2014). Since 2000, Europe has attracted 56% of total US foreign direct investment, with almost 80% of it going to the UK, Ireland and the Netherlands (Hamilton and Quinlan 2014). For 2012, US direct investment flows into the EU were $150 billion, and EU direct investment flows into the US were $105.9 billion. At the end of 2012, 50.3% of all direct investments by US residents were in the EU, while 62.2% of all direct investments by EU residents were in the US (Cooper 2014).

The aim of this paper is to emphasize and demonstrate the importance of maintaining a high degree of economic cooperation between the United States and the European Union. These two giant trading entities have provided leadership in the formation of international economic institutions, and will play a crucial role in how the global economy evolves in the future. The paper looks at this issue from several different angles.

The paper is structured so as to consider in the first instance the theoretical case for cooperation. International trade theory predicts that cooperation will yield benefits for both sides. While it may be possible for one side to gain from uncooperative behavior, the paper explains why that is unlikely. The most assured path to improved economic welfare runs through cooperation by both sides.

The second section of the paper considers to what degree the United States and the European Union have practiced trade cooperation on both the multilateral and bilateral levels. A long list of bilateral initiatives have been launched, some more successfully than others. These initiatives are described in the second section. Also summarized in the second section is the experience of the United States and the European Union in using the dispute settlement mechanism of the World Trade Organization to deal with conflict concerning trade matters.

The third section of the paper focuses on the most recent attempt by the United States and the European Union to improve cooperation in trade matters. The Transatlantic Trade and Investment Partnership negotiations, if successful, would be a major step forward in transatlantic economic cooperation. The third section sets forth the aims of the negotiations, enumerates some of the more difficult issues in the negotiations, and provides an assessment of where progress is more and less likely.

In the fourth section, the estimated economic effects of a Transatlantic Trade and Investment Partnership are discussed. Computable general equilibrium simulations of the effects are seen to conform to the theoretical prediction that greater economic cooperation between the United States and the European Union would yield significant benefits for both. And a higher degree of cooperation yields greater benefits than would a lesser degree. The final section of the paper provides a conclusion, arguing for a pragmatic approach toward future cooperation in view of the complex and contentious issues involved.

This is a review paper, summarizing and synthesizing previous research. Therefore, it does not pose specific research questions to be resolved through empirical testing. Its intent is to provide an overview of the degree of cooperation between the United States and the European Union on economic matters, and to provide some assessment of recent and current efforts to improve that level of cooperation.

Theoretical Case for Cooperation

An article of faith among economists is that, in the absence of market imperfections, unrestricted international trade and investment are mutually beneficial to the trading countries and will maximize world production of goods and services. Economists also recognize, however, that a large country can potentially benefit by trade restriction at the expense of its trading partners through improvement in its terms of trade. Conversely, a large country does not necessarily benefit from unilateral trade liber-

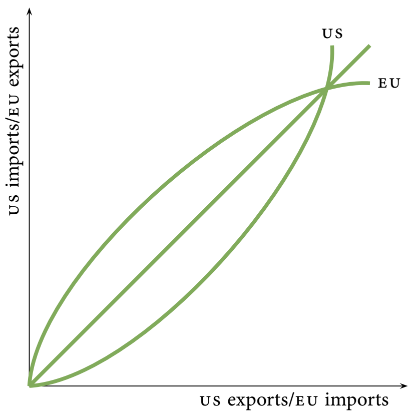

FIGURE 1 Trade Equilibrium before Trade Action

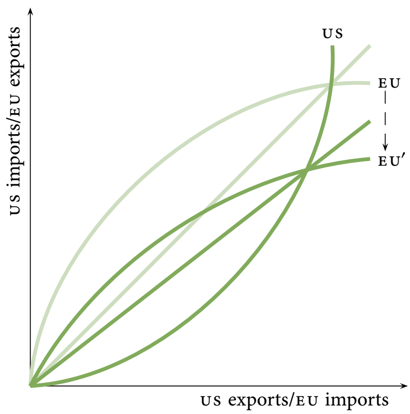

FIGURE 2 Trade Equilibrium after EU Violation

alization because of the terms of trade effect. The rationale for international trade negotiations in which countries balance their trade liberalization through reciprocity is that they can escape the 'prisoners dilemma' whereby, while both countries could benefit if they liberalized their trade simultaneously, if either does so unilaterally it will lose and its trading partners will gain.[3]

This can be demonstrated using Marshallian offer curves in figures 1–4. Let us assume as a baseline in figure 1 that trade between the United States and the European Union is unrestricted. The free trade equilibrium is where the US and EU offer curves intersect.

Figure 2 demonstrates the case where some trade restriction is imposed by the EU on imports from the US. Because the European Union is a large trading entity, as its offer curve is shifted down from EU to EU' by the trade restriction its terms of trade improve.

If the United States retaliates with trade restrictions affecting an equivalent volume of trade, its offer curve shifts (figure 3) from US to US', restoring the original terms of trade.

However, the original EU trade violation and subsequent US retaliation cause the volume of trade to shrink. Both countries will almost certainly be worse off (as indicated by their being on a lower trade indifference curve (figure 4). Therefore, it is much preferable if, through either trade negotiations or dispute settlement, the trade impediments can be removed (returning to the situation depicted in figure 1), and the retaliation avoided.

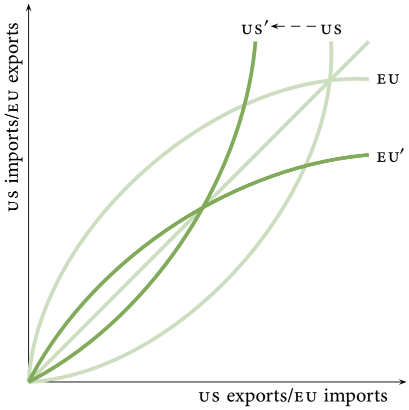

FIGURE 3 Trade Equilibrium after US Retaliation

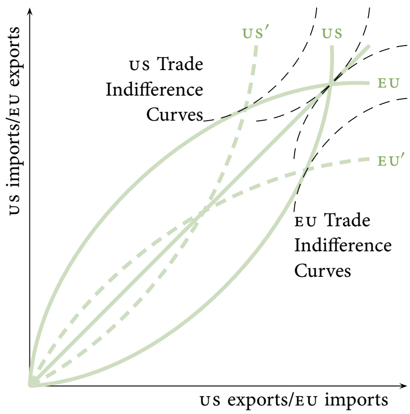

FIGURE 4 Trade Indifference Curves

Trade negotiations take place under conditions of uncertainty, however. Trade negotiators strike the best deal that they consider will be politically acceptable according to the imperfect information that they have at the time. But the world does not remain static. Shocks to the system occur because of unforeseen changes in economic conditions, or because the political situation has changed. What was a politically tenable situation before the shock may not remain so afterwards. Therefore, a major benefit of having a dispute settlement mechanism is that it provides an opportunity for renegotiation of the provisions of the trade agreement to take account of changed circumstances (Hauser and Roitinger 2002). If an opportunity for renegotiation through dispute settlement were not available, so that provisions of the trade agreement were rigidly applied, then negotiators (and legislators who must approve trade agreements) would be much more reluctant to engage in trade liberalization. Therefore, countries might remain stuck at a lower level of trade (figure 4) as opposed to moving through reciprocal trade liberalization to a higher level of trade with fewer restrictions (figure 1).

US-EU Trade Cooperation in Practice

The United States and the countries of the European Union have a strong record of cooperation in international trade matters since the end of World War II. Together they designed and implemented the world trade regime, beginning with the General Agreement on Tariffs and Trade in 1947 and continuing with the World Trade Organization in 1995. They have been dominant players in multilateral trade negotiations from the first round in 1947 through the Uruguay Round in the 1990s. They have also attempted to address bilaterally issues that could not be adequately addressed in the multilateral arena. These efforts have included (Ahearn 2009; McKinney 2014):

- The Transatlantic Declaration of 1990 that began annual summits involving the President of the United States, the President of the European Council, and the President of the European Commission. These summits have helped to keep channels of communication open for the discussion at the highest levels of issues of mutual concern.
- A New Transatlantic Agenda adopted in 1995 that began regular consultations between interest groups: a Transatlantic Consumer Dialogue, a Transatlantic Labor Dialogue, a Transatlantic Environmental Dialogue, and a Transatlantic Business dialogue. Of these, the Transatlantic Business Dialogue has been the most active and has yielded the most substantive results.
- In 1998 a Transatlantic Economic Partnership agreement that focused primarily on trade relations. Among its goals were enhanced regulatory cooperation, improved consumer product safety, and mutual recognition of product standards. While some limited gains were made in these areas, the difficulty of the issues dealt with have in many cases made them intractable.
- In 1999, a joint statement on *Early Warning and Problem Prevention Mechanisms* that was designed to identify regulations that might inhibit trade before they were adopted. The increased transparency resulting from these mechanisms has no doubt been beneficial, but the overall efficacy of them is difficult to establish.
- In 2000, establishment of a *Consultative Forum on Biotechnology* intended to improve communication on biotechnology issues. While improved communication is always desirable, the trade problems arising from biotechnology issues have more to do with divergent attitudes on either side of the Atlantic concerning genetically modified organisms than they do with lack of communication.
- In 2002, adoption of *Guidelines for Regulatory Cooperation and Transparency* to improve cooperation by transatlantic regulatory agencies.

- In 2004, publication of a *Roadmap for EU-US Regulatory Cooperation and Transparency* aiming for more intensified regulatory cooperation.
- In 2005, initiation of dialogues between the US Office of Management and Budget and the European Commission on transparency and risk assessment methodologies, and establishment of a *High-Level Regulatory Cooperation Forum* that brought in academics, business executives and high-level government officials to develop a joint regulatory work plan.

While these initiatives have been laudable in their intent, and while some trade liberalization has occurred as a result of them, their contributions beyond what had been agreed in the Uruguay Round has been limited. When dealing with behind the border measures that can distort trade but that often serve socially desirable purposes, such as product standards, health and safety regulations, data privacy, intellectual property protections, etc., the issues become complex and do not yield to easy solutions.

As seen in table 1, both the US and the EU have been frequent users of the dispute settlement procedures of the World Trade Organization. Of a total of 480 cases filed by all member nations, the US filed 20.8% and the EU 18.3%. Only 9 of the 100 cases filed by the US were against the EU, however, whereas 22 of 88 cases (25%) filed by the EU were filed against the US. Some of these cases have been resolved through negotiations arising from dispute settlement cases, such as amendment of the EU banana import regime, rescinding of the Byrd Amendment in the US concerning the payment of antidumping penalties to companies that had brought the cases, modification of the beef hormone ban by the EU, and lifting of steel safeguard measures by the US. Others, such as the dispute concerning airline subsidies and disagreements concerning food safety issues, have proved to be intractable. Fortunately, these trade disputes re-

TABLE 1 US-EU Dispute Settlement at WTO

Cases in which US complainant 100 (20.8% of total)	Cases in which EU complainant 88 (18.3% of total)
of which against EU, 9 (9% of US complaints)	of which against US, 22 (25% of EU complaints)

NOTES From a total of 480 cases from all nations brought before WTO panels. Calculated from World Trade Organization (2014).

late to only a relatively small amount of the total trade between the US and the EU (Škoba 2013).[4]

The TTIP Negotiations

The latest attempt to improve cooperation between the US and the EU in trade matters is the Transatlantic Trade and Investment Partnership (TTIP) negotiations. The first round on these negotiations took place in July 2013, with the sixth held in Washington in September 2014. These negotiations have an ambitious agenda that includes several sensitive and contentious issues that have previously failed to yield to liberalization efforts. In general terms, the aims of the negotiations are (Akhtar and Jones 2014, 8):

- elimination or reduction of market access barriers, including barriers related to trade in goods, services, and investment, including tariff and non-tariff barriers to trade;
- enhanced compatibility of regulations and standards; and
- cooperation for developing rules on global issues of common concern in areas such as intellectual property rights, the environment and labor, as well as in other globally relevant trade-related areas (e. g. state-owned enterprises, localization barriers to trade, trade facilitation, raw materials and energy, small- and medium-sized enterprises and transparency).

One of the easier subjects for negotiation should be the elimination of import tariffs. Tariffs on manufactured goods are already quite low, with a few exceptions. They are considerably higher for agricultural products. The average final bound rate on agricultural products for the US is 4.9%, but with significant tariff peaks for dairy products, sugars and confectionery, and beverages and tobacco. The average final bound rate of the EU on agricultural products is considerably higher at 13.8%, with very high peaks for animal products, sugars and confectionery, and dairy products (Grueff and Tangerman 2013). A long phase-in will be required for elimination of the agricultural tariffs, and for some manufactured goods, but with sufficiently long phase-in periods an agreement to eliminate tariffs should be possible.

Whether agricultural subsidies will be included in the negotiations is uncertain at this point. These subsidies certainly distort trade, more so in the US than in the EU. Even though EU subsidies are higher than those of the US, they have been structured to be less trade-distortive. To be actionable under the WTO Agreement on Subsidies and Countervailing Measures, subsidies must distort trade. In the EU, a concerted effort has been made to assist farmers in ways that do not influence production (such as paying them for environmental improvements) and therefore do not distort trade. For various reasons, the US Congress has not chosen to do the same. Changing subsidy regimes in the context of the TTIP negotiations would be extremely difficult given the strength of the agricultural lobbies on both sides of the Atlantic, and reformation of subsidy regimes will probably have to wait for a breakthrough in multilateral trade negotiations.

Related to agriculture, sanitary and phytosanitary issues have been problematic for transatlantic trade relations for decades. Hormone-treated meats, genetically-modified organisms (GMOs), antimicrobial rinses for meats, etc., are contentious because of strong transatlantic differences concerning food safety. Consumers in the US have a high level of trust in the Food and Drug Administration (FDA) to protect food safety and therefore are not as concerned about the issue. The FDA was established in 1906 and over time has been able to instill a high level of confidence in the American public concerning food safety. A counterpart agency for the EU, the European Food Safety Authority, was not established until 2002 and has not had sufficient time to establish a track record that would build confidence. Complete resolution of differences concerning sanitary and phytosanitary issues through trade negotiations is extremely unlikely. When demand for trade restrictions arises from consumers rather than producers, this is a strong indication that cultural attitudes are at play which are unlikely to yield easily to commercial considerations.

Cultural differences also intrude into the area of technical barriers to trade. The WTO allows countries to impose whatever product standards they consider necessary to safeguard public health, safety, and the environment so long as there is a scientific basis for the standards. The WTO Agreement on Technical Barriers to Trade attempts to discipline product standards or regulations that are imposed for protectionist purposes. But even when product standards are not crafted to be protectionist, the fact that they differ from one trading area to another can impede trade by imposing unnecessary costs on producers. If common standards could be agreed, this would lower transactions costs and greatly facilitate trade. Harmonization of standards is extremely difficult, however, since standards-setting bodies often jealously guard their authority, and in the US regulatory agencies are many times found at the sub-national level.

In its attempt to complete the internal market under terms of the Single European Act, the countries of the EU discovered that harmonization of product standards was not possible even within the EU and instead settled for mutual recognition of each other's standards. Even mutual recognition of standards is difficult though, because regulatory bodies must answer to domestic legislators and are therefore reluctant to fully trust similar agencies in other countries (Ahearn 2009). Greater transparency and consultation/cooperation in the setting of new regulations and product standards may be the best than can be hoped for in the TTIP negotiations. While the effects of such cooperation would not be immediately apparent, over time it would have the potential to greatly facilitate trade.

Government procurement policies will also be an area of much discussion in the TTIP negotiations. Both the US and the EU subscribe to the WTO Agreement on Government Procurement, but its coverage is quite limited. The European Commission estimates that only 3.2% of the US government procurement market is open to foreign competition, as compared to 15% of the EU market (European Commission 2011). A problem for the US is that restrictions on government procurement often originate at the sub-federal level. The US Congress could exert considerable pressure on states and localities by requiring that these governments abide by nondiscriminatory purchasing practices on any products that involve expenditure of federal funds. Reportedly, both the US and the EU have agreed to a negative list for the TTIP negotiations, whereby government purchases of goods or services not on the list would be automatically open to foreign competition.[5] Nevertheless, outgoing EU trade commissioner, Karel de Gucht, sees US inability to liberalize government procurement as a potential stumbling block in the negotiations (Spiegel 2014).

Services trade will be an important part of the TTIP negotiations. Services account for an estimated 36% of US-EU trade in value terms (Slater 2013), and closer to 50% when trade is measured in value-added terms.[6] Since delivery of services often requires investment in the country, and because some service sectors such as transportation, communications, and banking are sensitive in national security terms, services trade negotiations tend to be complex. Reportedly, the US and the EU have agreed in principle to a negative list for the services negotiations as well as for the government procurement negotiations.[7] This should simplify matters since the US previously worked from a negative list and the EU from a positive list. The EU is pushing hard for inclusion of financial services in the negotiations, while financial authorities in the US are strongly resisting their inclusion. While the financial sectors of the US and the EU are highly integrated, somewhat different sets of financial regulations have evolved on opposite sides of the Atlantic. In the wake of the global financial crisis, regulatory authorities in the US have had to fight valiantly against the intense lobbying of financial services firms to dilute the effectiveness of Dodd-Frank reforms as they were being implemented. They are reportedly apprehensive about opening up these matters again to possible dilution in the context of the TTIP negotiations.

Investment regulations will also be a contentious issue in the negotiations. To this point the US has had bilateral investment treaties with individual EU countries, but under terms of the Lisbon Treaty the European Commission has been given sole competency for this area. The Commission is working gradually toward an EU-wide investment treaty that would consolidate the bilateral treaties (Schott and Cimino 2013). Investor protections under investor-state dispute resolution provisions are being strongly resisted by civil society groups on both sides of the Atlantic who fear that such provisions could put at risk health or environmental policies. Under investor-state dispute resolution procedures (such as those of the North American Free Trade Agreement), foreign investors can bring suit against the federal government of the host country if they consider that the expected profits from operation of the business have been reduced by a change in state or local regulations, in effect giving foreign investors greater protections than domestic investors. German economics minister, Sigmar Gabriel, recently announced that Germany would block the inclusion of these procedures in the TTIP agreement, noting that they were not included in US agreements with Australia, Singapore and Israel (Wagstyl 2014). Since both the US and the EU have strong investor protections already in their legal systems, the focus in the TTIP negotiations should perhaps be on investment liberalization rather than protection. Investment liberalization will be challenging enough in sectors such as transportation, energy and communication.

The US and the EU have distinctly different positions concerning geographical indications of product origins. The EU has desired more expansive inclusion of products under geographical indication of origin than has the US. Generally, geographical indications have been included under copyright protections, in that the quality or reputation of certain products is said to depend upon the geographical location from which they originate. The EU has a long list of such products, in such product categories as wines, hams, and cheeses. In the EU free trade agreement with South Korea, more than 160 products were included under geographical indication protections (Schott and Cimino 2013). Many of these products, for example cheeses such as feta, mozzarella, and parmesan, have for many years been produced and marketed by US firms as generic products and there will be stiff opposition to giving them the extended protections extended to wine and spirits under terms of the WTO TRIPS agreement.

Other issues that could be difficult if included in the negotiations are data privacy and protection of cultural industries. The privacy protection provisions on each side of the Atlantic are very different and are in a state of flux. The US does not have statutory recognition of a right to privacy, whereas in the EU Charter of Fundamental Rights there is an explicit Right to Privacy. The US has regulations concerning how data are collected and used by governments, but for the most part commercial data collection and use remain unregulated. The US government has attempted to get stakeholders to develop voluntary industry codes of practice concerning data privacy, but progress has been excruciatingly slow. The European Commission has proposed extensive reform of data privacy legislation to provide stronger protections, but how it will take shape has yet to be determined (TransAtlantic Consumer Dialogue 2013). With regard to protection of cultural industries, France almost blocked the beginning of the TTIP negotiations over this issue, and agreed to their start only after the issue was left off the negotiating agenda, at least for the time being.

Estimated Benefits of a TTIP Agreement

Economic effects of a TTIP Agreement have been extensively modeled by Joseph Francois, et al., of the Centre on Policy Research on behalf of the European Commission (Francois, et al. 2013), and by Fredrik Erixon and Matthias Bauer of the European Center for International Political Economy (Erixon and Bauer 2010), both employing the widely-used GTAP multi-sector computable general equilibrium model.

The ECIPE study specifies three scenarios: (1) full elimination of tariffs on goods, (2) full elimination of tariffs on goods accompanied by reduced trade facilitation costs equivalent to 3% of the value of trade and a 2% increase in labor productivity in goods sectors, and (3) full elimination of tariffs on goods accompanied by reduced trade facilitation costs equivalent to 3% of the value of trade, a 3.5% increase in labor productivity in sectors having high levels of intra-industry trade, and a 2% increase in labor productivity in other goods sectors. The estimated GDP gains over five years for the EU-25 are projected to be 0.01% for Scenario 1; 0.32% for Scenario 2; and 0.47% for Scenario 3. Estimated GDP gains over five years are projected to be considerably larger for the US: 0.15% for Scenario 1; 0.99% for Scenario 2; and 1.33% for Scenario 3 (Erixon and Bauer 2010).

The Francois et al. (2013) model is more comprehensive, estimating the effects of tariff removal, liberalization of nontariff barriers to trade, liberalization of services trade, and liberalization of government procurement restrictions. In each case, the projected course of the EU and US economies to 2027 with these liberalizations are compared to projections to 2027 in the absence of the liberalizations. Not surprisingly, according to the projections, the macroeconomic effects of a TTIP agreement will be importantly influenced by how comprehensive and ambitious the proposed agreement turns out to be. For example, average import levels for both the US and the EU are quite low, but there are tariff peaks for certain products, particularly for agricultural goods. Therefore, it makes a significant difference whether in the negotiations 98 percent of import tariffs would be removed (less ambitious scenario), or 100 percent (more ambitious scenario). In either case, however, both the US and the EU economies are projected to benefit. In contrast to the ECIFE model which, as mentioned above, projected considerably larger gains for the EU than for the US for tariff removal, the CEPR model projects much larger gains for the EU (0.11% of GDP) than for the US (0.04%) (Francois et al. 2013).

Liberalization of services trade alone is projected to be considerably less beneficial for the EU than tariff removal, but would be almost as beneficial for the US as tariff removal. Both the US and the EU would gain significantly from a 25% reduction of restrictions on government procurement, but the EU would gain several times as much, which is not surprising since the US government procurement market is more restricted than that of the EU. Again, not unsurprisingly, a more ambitious agreement (100% import tariff removal as opposed to 98%, elimination of 25 percent of nontariff trade barrier costs as opposed to 10 percent, and 50 percent reduction of the cost of procurement-related nontariff barriers as opposed to 25 percent)would yield significantly greater benefits for the EU (0.48% of GDP as opposed to 0.27%) and for the US(0.39% of GDP as opposed to 0.21%) than would a less ambitious agreement (Francois et al. 2013). Certainly, if it were possible, a more ambitious agreement would be preferable to a less ambitious one. However, over-ambition that pushes the negotiations to the limits of what political systems in both sides of the Atlantic can tolerate would run the risk of preventing an agreement altogether.

One would expect that, given the current level of global economic integration, a TTIP agreement would have an impact on third countries also. The CEPR simulations do indicate that a limited agreement could have adverse effects on certain other countries, presumably because of trade diversion. However, the simulations indicate that a comprehensive agreement, given its stimulative effects upon growth, would have positive external effects across the board. Part of the projected benefits to third countries from a TTIP agreement arise from the presumed cost reductions to these countries arising from the harmonization of US and EU regulations. A further positive effect would be realized if other countries followed the lead of the US and the EU and adopted similar standards (Francois et al. 2013).

Conclusion

As the two largest economic entities in the world, the US and the EU play a crucial role in the global economy. That they cooperate concerning trade matters and keep conflict to a minimum is important. Fortunately, in the post-World War II period they have a commendable record in this regard. Trade and investment flow relatively freely across the Atlantic. In such a large and dynamic relationship, some conflicts inevitably emerge. The US and the EU have been frequent users of the WTO dispute settlement mechanism to sort out their differences, and a number of contentious issues have been resolved in this way. Others, however, have proved to be more intractable. Often these have been in areas such as food safety where the demand for protection comes primarily from consumers, reflecting cultural differences. Agriculture and tax/subsidy policies have also been problematic.

Potential exists in the TTIP negotiations for further cooperation in trade matters, with attendant economic benefits for both the US and the EU. However, the easier issues in the transatlantic economic relationship have, for the most part, already been dealt with. This means that the more complex and politically sensitive ones remain to be addressed in these negotiations. Both the US and the EU would be well advised to approach the negotiations with pragmatism, realizing that there are limits to what may be accomplished in politically sensitive areas.

Notes

1 Calculated by the author from International Monetary Fund statistics.

2 This is down from 57% during 2007–2009, a reflection of the rise of Asia and other developing economies.

3 For the most completely developed theory of reciprocal trade negotiations see (Bagwell and Staiger 2002)

4 Some disputes involve broader issues such as climate change, but have commercial implications. A case in point is legislation by the US Congress prohibiting US airlines from participating in the EU Emissions Trading Scheme (Mix 2013).

5 Personal conversation with the Gary Hufbauer in Washington, DC, 11 June 2014.

6 See http://www.oecd.org/industry/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm

7 Personal conversation with the Gary Hufbauer in Washington, DC, 11 June 2014.

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