Political Economy Information

Headquarters

Department General Union Policy and Sociopolitical Issues

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Report Summary

- **Although roughly two-thirds of German exports still went to other European countries** in 2012, the trend is a shift away from European countries and towards other regions.
- **German exports decreased only to the Eurozone**. Due to austerity policies pursued in the countries hit by the crisis, exports to these countries have weakened.
- **The trade surplus of the German metal and electronics industry** reached a new record in 2012 of 250 billion euro.
- **German trade surpluses**, however, do not have a stabilizing effect on the (European crisis and) global economy.
- **In 2013 the exports of metal and electronics industry are actually declining.**
- In June 2013, **the EU Council gave a mandate to the EU Commission** to negotiate a Transatlantic Trade and Investment Partnership. The negotiations are to be completed by the end of 2014.
- **The objective is a further liberalization of the trade** between the EU and USA. Tariff and non-tariff barriers to trade are to be eliminated.
- **Significant effects can only be expected if liberalization takes place on a significant scale** and if trade diversion effects are considered. Under these conditions, this could spur growth in per capita GDP in Germany by nearly 5 percent and create up to 180,000 jobs.
- **Other studies doubt** that there will be such significant effects.
- **A precondition for more prosperity is** that high labour, social and environmental standards are preserved and that protection of investment is restricted in an effective way.
- **Our objective must be** to use the growth opportunities to safeguard and promote production sites and jobs while preserving a high level of labour, social and environmental standards.

More growth and prosperity through liberalized foreign trade?

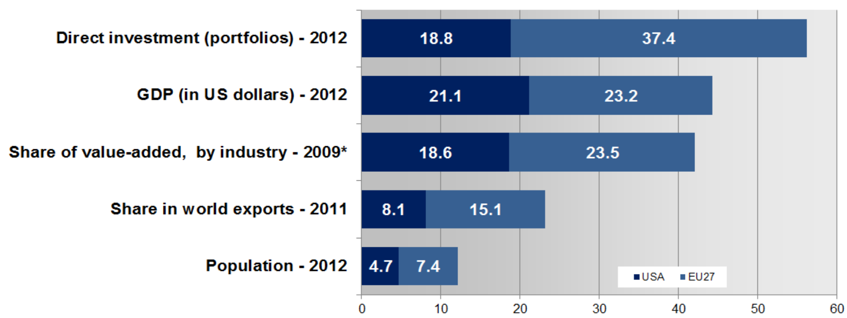
IG Metall demands: a transatlantic agreement between the EU and the USA is only acceptable if the highest labour and social standards are upheld!

Compared to previous crises the world economy is only recovering very slowly – if at all – from the most recent financial and economic crisis. The Euro zone remains mired in a recession. Dependent on exports, the German economy is increasingly looking for other sales markets outside Europe, for example in the rapidly growing newly industrialized countries. German exporters are profiting from markets that are not yet saturated and a more expansive economic policy in other parts of the world. Liberalised Transatlantic trade is intended to create an additional growth impetus. What opportunities and risks are associated with the planned Transatlantic Trade and Investment Partnership (TTIP)?

The free trade agreement between the USA and the EU could create a gigantic common economic area (see Diagram below). It would allow trade virtually free of any barriers. Rising productivity and declining costs and prices could generate more growth and prosperity. At the core of it all is the question as to whether this would truly lead to more growth. If the expectations of its advocates are to be met, significant effects may only be registered if liberalisation takes place on a significant scale. This would be at the expense of countries outside the trade treaty, however. Whether prosperity grows in all of the countries involved in this manner ultimately also depends on whether those labour, social and environmental standards that promote prosperity can be asserted vis-à-vis unlimited protection of investments.

In the first part of this Political Economy Information, foreign trade trends are examined as a whole and in the metal and electronics industry. The second part explores the impact of the planned Free Trade Agreement between the EU and the USA. Finally, in the third part, we assess the project from the perspective of IG Metall.

Relative weight of the EU and USA from a global perspective
Share in total world trade in percentage terms



*= not including Greece and Cyprus, real value 2005 = 100

Source: OECD, World Bank, UNCTAD, WTO, Eurostat, author's own calculations

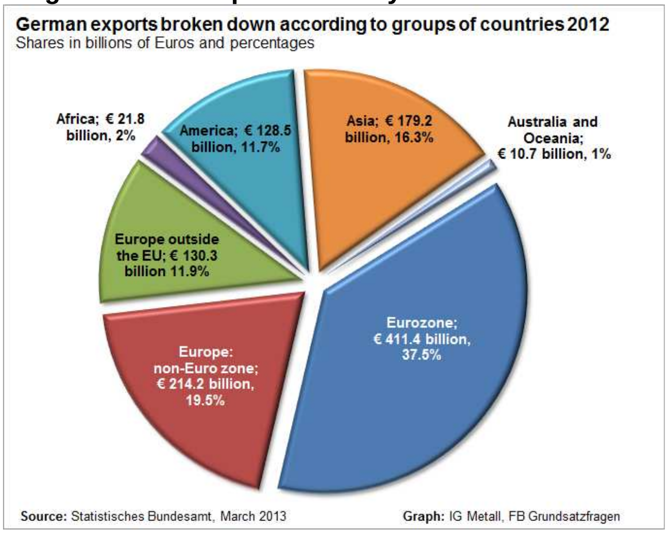
Graph: IG Metall FB Grundsatzfragen

1. Development of German foreign trade

With German trade, the more things change, the more things stay the same: exports and export surpluses continue to mount, approaching new records. While export surpluses on the one hand make a significant contribution to growing prosperity in Germany, on the other hand it jeopardises stability in countries with trade balance deficits.

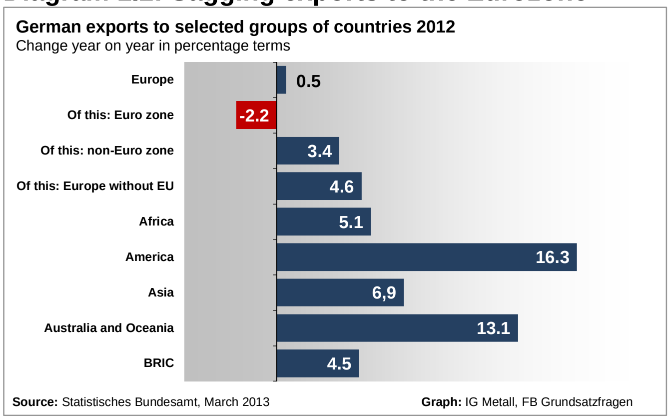
1.1. Foreign trade Europe and the world

Diagram 1.1: Europe - Germany´s best customer



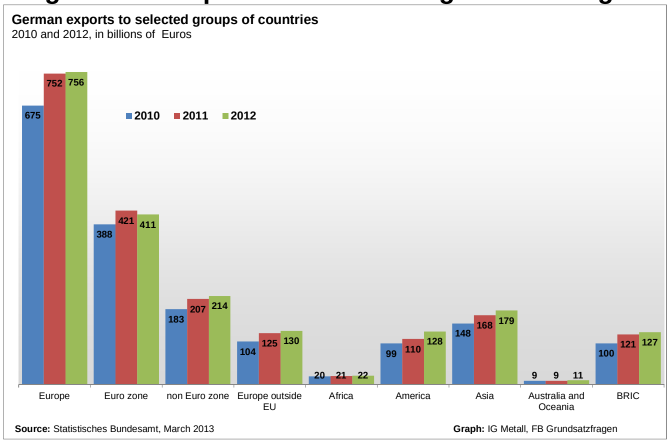
Significantly more than half of all German exports go to countries in the European Union (2012: 57%). This equates to € 626 billion out of € 1.1 trillion. First the EU share of all German exports has been *steadily* declining. This figure still ranged to almost 65 per cent in 2007, which means a drop of eight percentage points in only five years. Secondly, German exporters saw *another* decrease in the volume exported to the EU in 2012 due to the economic slump following in the wake of the crisis (-0.3%).

Diagram 1.2: Sagging exports to the Eurozone



Germany's enterprises were able to sell more than in the previous year in all groups of countries except the Euro zone (Diagram 1.3).

Diagram 1.3: Export-destination regions shifting



As mentioned above: the EU still accounts for the lion's share of German exports. Growth rates of the EU with regard to exports of German products are generally smaller than for other groups of countries, however. While somewhat less was exported to the EU zone in 2012 compared to 2011 (– 0.3%), exports to non-EU European states surged 4.6%. Exports to Africa grew 5.1%, to Asia 6.9%, to Australia and Oceania 13.1% and to America 16.3%. Altogether German exports grew 3.4% in 2012. This trend is not only a statistical snapshot of the current situation. Rather, it is part of a clear trend of shifting importance of export markets for Germany: slowly away from the EU and more to European countries outside the EU, Africa, the Americas, Australia-Oceania and, in particular, to Asia.

In addition to the European countries outside the EU, America as a whole and Asia, especially the BRIC states, i.e. Brazil, Russia, India and China, continue to gain in importance for German exporters. For years now the shares of the BRIC states in total trade with Germany has been steadily rising.

Ranking of the BRIC states in terms of their share of total trade with Germany

	exports				imports			
	2000	2008	2010	2012	2000	2008	2010	2012
China	16	11	7	5	10	3	1	2
Russia	19	12	13	11	13	8	10	7
Brazil	22	23	19	20	25	21	22	21
India	40	24	21	22	36	28	26	25

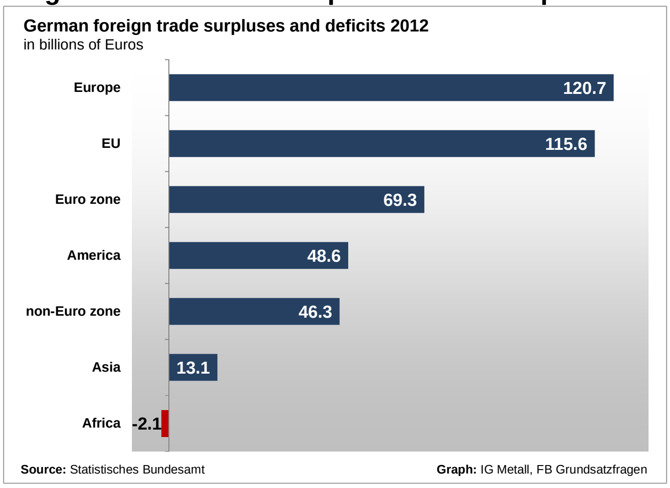
Source: Statisches Bundesamt, March 2013

In 2007 the BRIC states as a whole imported 7.5% of all German exports, whereas in 2012, only 5 years later, this figure had already climbed to 11.6%.

By way of comparison, the USA accounted for 7.6% of all German exports in 2007. After slight fluctuations over the last few years, this figure had risen to only 7.9% in 2012. For this reason, the importance of the USA only increased marginally for German exporters. In spite of this, the USA as an individual country accounted for the highest growth in imports of German products last year (+17.7% compared to 2011).

This is also especially remarkable because German advocates of a trade agreement between the EU and the USA in particular predict high growth rates for exports in the future if the planned accord indeed becomes reality. As one can see, high growth rates for exports are also possible without such a trade agreement. The expansive monetary policy of the USA strengthened consumer demand. As a result, US imports rose with this demand.

Diagram 1.4: Greatest surpluses with Europe

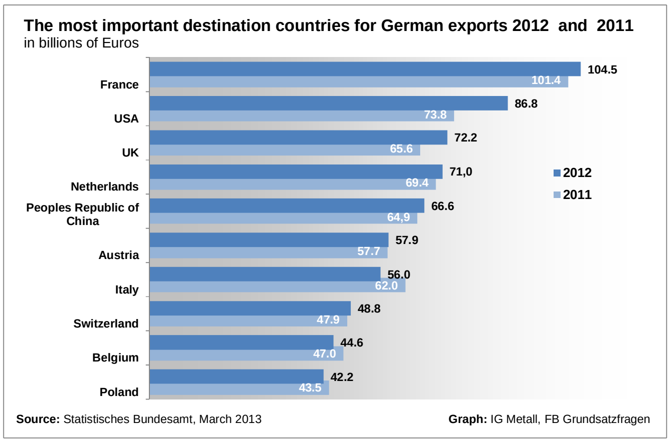


If one not only looks at the development of exports, but rather the balance of exports minus imports, one sees a slightly different picture. Europe still leads in terms of trade surpluses according to regions (Diagram 1.4). The ranking for the greatest foreign trade surpluses, depending upon one's perspective, is led by Europe as a whole, followed by the EU and the Euro zone. This is no reason for rejoicing, however. This trend has also been evident for some time and has made a massive contribution to current account imbalances in Europe, the reason being that surpluses for one country mean deficits for another. The risk of default for creditor countries grows with the mounting debt of the deficit countries.

Moreover, this situation contrasts with the ideal of an evenly distributed trade balance as laid down in the German Stability and Growth Act of 1967. Unevenly distributed trade balances may be the result of uneven development in competitiveness. In a currency union, one loses the possibility of compensating for these imbalances by adjusting exchange rates. This allows imbalances in the trade balance to become permanent features. The only corrective possibilities which remain are with profit margins and pay. Those who criticize the trade balance deficits of European countries hit by crisis cannot deny that Germany has also benefited from these imbalances. These deficits have contributed to growing prosperity in Germany while at the same time causing the debt of these crisis-ridden countries to mount.

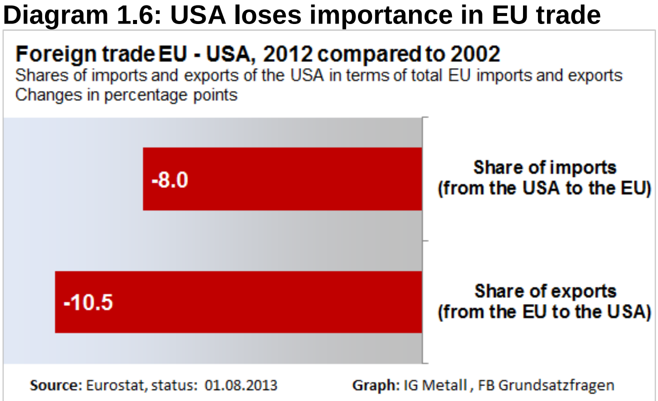
The ranking of the ten most important countries as a destination for German exports was clearly led by France in 2012, just like in the years before. The French purchased goods worth more than €100 billion, corresponding to a sizeable 9.5% of German exports, which is thus greater than the share of German exports to the USA (7.9%). This share has remained constant over the last five years. While exports to the USA (2nd place) have risen slightly since 2007, exports to Great Britain have declined slightly (3rd place). The British have nonetheless pushed the Dutch back to 4th place, while China continues to hold 5th place.

Diagram 1.5: France imports more from Germany than USA



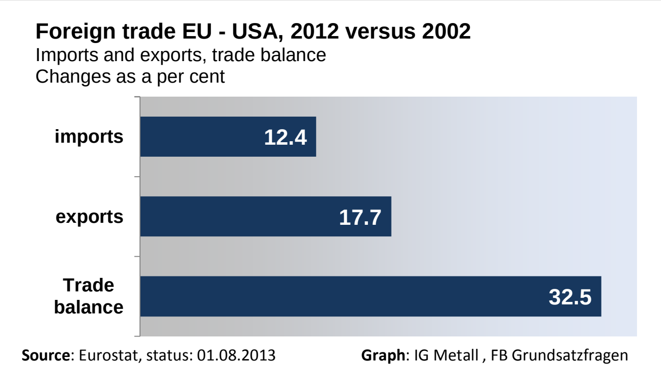
Looking at trend in trade between the EU and USA, one sees another interesting development: despite the uptick in German exports to the USA in 2012, the share of imports and exports with the USA in terms of total EU trade has declined over the last ten years (Diagram 1.6). Other countries or groups of countries have, as described above, not only gained in importance from the German perspective, but also from the perspective of the EU in terms of foreign trade.

Diagram 1.6: USA loses importance in EU trade



Nevertheless, exports from the EU to the USA grew faster than imports. This caused the EU export surplus to the USA to rise 32.5% (Diagram 1.7).

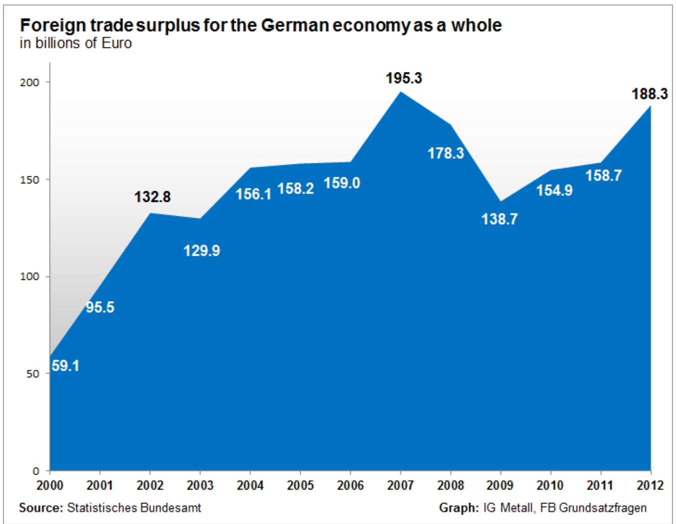
Diagram 1.7: Foreign trade EU - USA continues to grow



1.2. Foreign trade in the German economy

Germany is an export-oriented country. Aside from the years 1950 and 1951, the German economy as a whole has always registered a trade surplus. This means that it has exported more than it has imported. A new record was achieved in 1989 with almost € 69 billion. After 1989 imports rose more than exports for 2 to 3 years, causing the export surplus to dwindle rapidly. After this, the situation "normalized" once again. The export surplus began rising again and after registering Euro 95.5 billion (2001) attained a new record at the time of almost Euro 133 billion in 2002. The absolute record to date was registered in 2007 with more than Euro 195 billion. After this there was a slight "dip" resulting from the crisis (2009: Euro 139 billion), but this high level of surplus has been nearly completely restored after three years of growth. The export surplus was over Euro 188 billion in 2012, continuing the expansionary trend.

Diagram 1.8: Foreign trade surplus continues to soar



What does this development show us? Among other things that the objective of **balanced foreign trade** set out in the Stability and Growth Act of 1967 has not been put into practice or taken seriously (see page 3). The other aims and objectives set out in this law were: a high level of employment, stable price levels and reasonable economic growth. The guiding philosophy was to empower and require the state to eliminate the macro-economic imbalances by means of economic policy intervention. This "global steering", as the Minister of Economics Karl Schiller called it at the time, was based on the ideas of John Maynard Keynes.

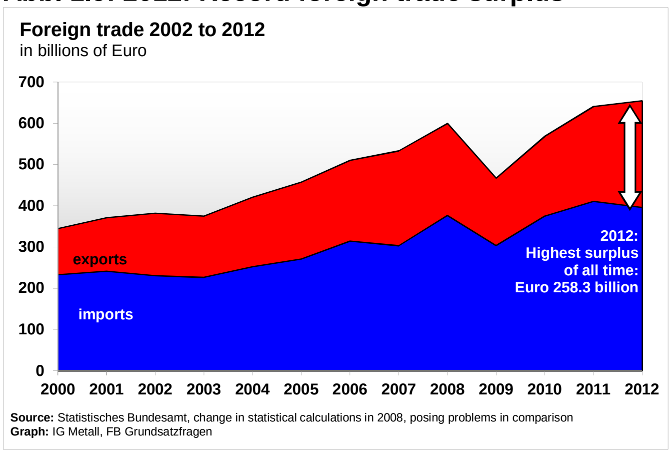
Slight foreign trade surpluses do not pose any problem. If these continue to rise unabated and reach magnitudes of more than 6 to 7% of Gross Domestic Product, however, it will contribute to economic crises over the short to medium term. When countries with trade balance deficit are hit by a crisis, it can spread very quickly to the surplus countries. This especially goes for imbalances within a currency union, as it is not possible to rebalance with flexible currency rates.

1.3. Foreign trade metal and electronics industry (ME)

Following the slump in the wake of the crisis in 2009, **exports** by the German ME industry surged once again, as did exports by the economy as a whole (see Diagram 1.9). The highest pre-crisis level (2008: Euro 599 billion) was already significantly exceeded by 2011 with exports valued at more than Euro 640 billion. A new record was achieved in 2012 with Euro 654 billion.

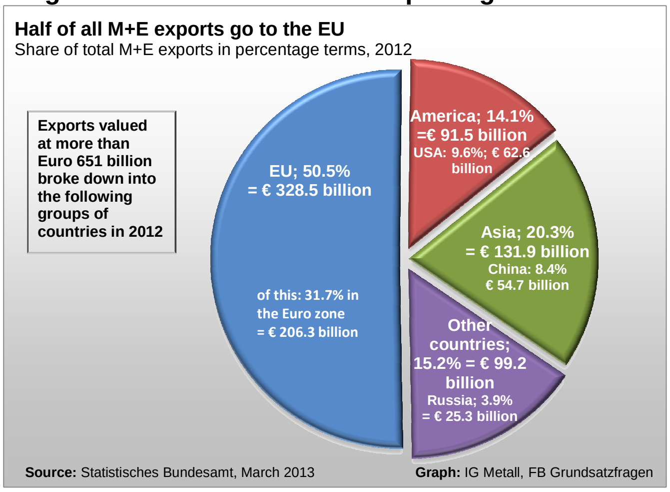
While exports have risen steadily since the crisis, **imports** dropped slightly in 2012 following two years of growth. This resulted in another record **foreign trade surplus**. German metal and electronics companies exported almost Euro 260 billion more than they imported.

Abb. 1.9: 2012: Record foreign trade surplus



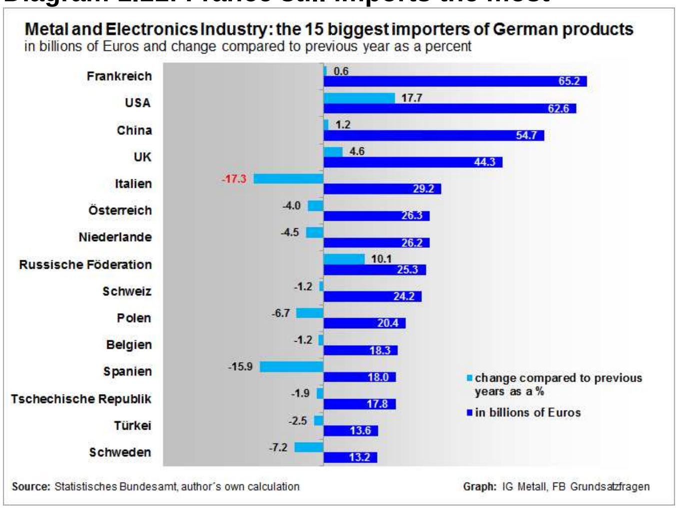
The importance of the ME industry to the German economy as a whole is striking with regard to both factors, exports and surplus. 60% of all exports come from the ME sector. This share has remained stable for years. With regard to the surplus, the German ME industry accounts for a share well above average. While the overall economy's surplus was almost Euro 190 billion in 2012, the surplus produced by the metalworking/electronics industry was almost Euro 260 billion.

Diagram 1.10: Half of all M+E exports go to the EU



Just like exports by the economy as a whole, the **European Union is the main destination of exports by the German ME industry** (2012: 50.5%). The other half is spread out among America, Asia and other countries such as Russia. Almost 32% of all exports went to the Euro states, i.e. more than Euro 200 billion. However, the same trend towards a shift between important destination countries for the German economy as a whole can also be witnessed for this sector: fewer exports to Europe, within the EU or Euro zone, and more to America, Asia and Russia.

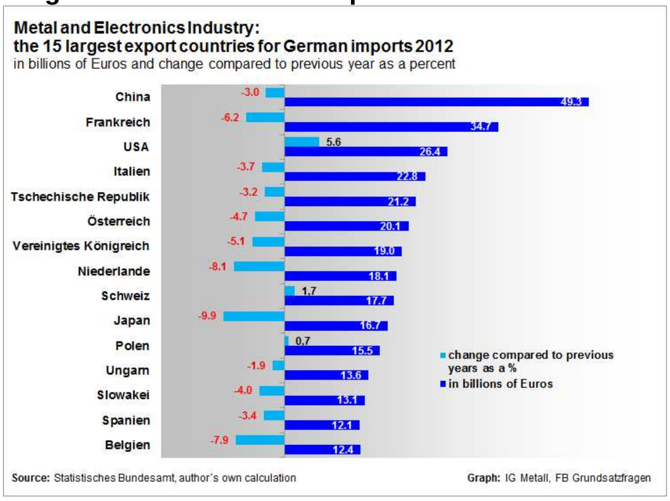
Diagram 1.11: France still imports the most



Despite this trend, France still ranked first among destination countries for exports of the German ME industry. Right behind France were the USA and China, although these have significantly more inhabitants and thus potential buyers. It is evident that European destination countries with the exception of Russia registered low to negative rates of change for exports in 2012. The shift in the importance of countries to which Germany exports mentioned above thus applies especially to the ME industry.

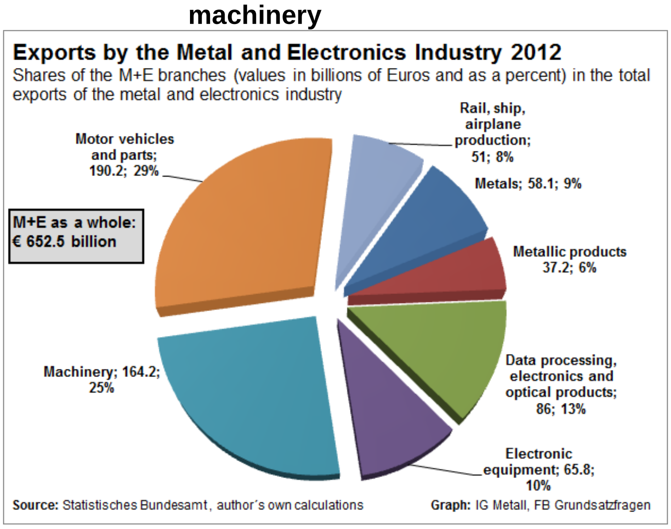
Germany imports most of its ME products from China with almost Euro 50 billion, followed by France with almost 35 billion and the USA with over Euro 26 billion.

Diagram 1.12: Most M+E imports come from China



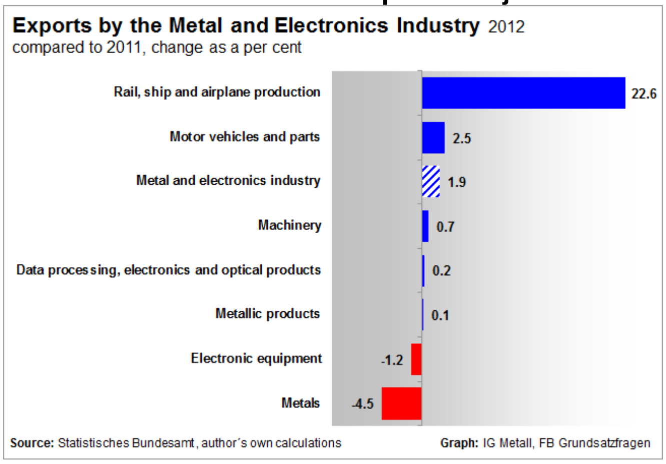
Which **ME branches** have registered the greatest exports? More than half (54%) of all ME exports are accounted for by the automotive and machinery production engineering sectors. In third place is "manufacture of data-processing devices, electronic and optical products" (13%), followed by "manufacture of electronic equipment" (10%). The remaining 22 per cent of ME exports are spread out among metallic products, metals and rail, ship and airplane production. There were no significant changes here in comparison to 2011.

Diagram 1.13: More than 50 per cent of M+E exports are accounted for by cars and machinery



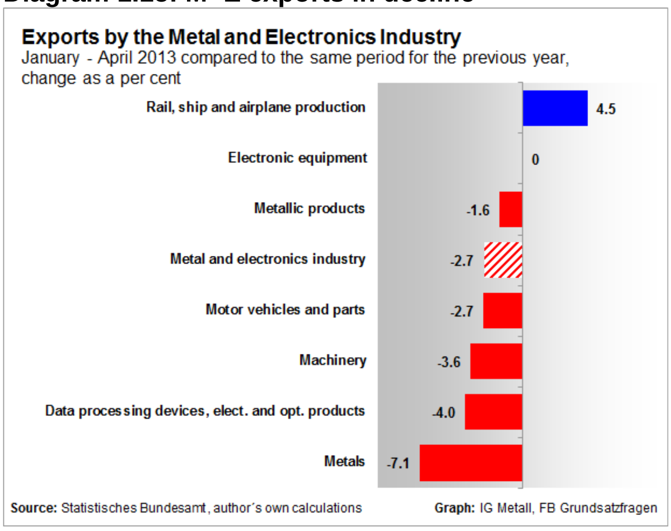
The greatest surge in exports in 2012 was registered by rail, ship and airplane production. Because the volume of contracts in this branch fluctuates as a result of temporary large contracts, the strong growth in 2012 compared to 2011 at 22.6 per cent warrants attention, but should not be overrated. By comparison, the motor vehicles and parts industry recorded a 2.5% growth. Both branches were thus above the average of 1.9 per cent for the ME industry. All other ME branches displayed lower or negative growth.

Diagram 1.14: Exports by individual M+E branches with different development trajectories



Whether this relatively favourable export trend can be extended into next year remains to be seen. The first quarter of 2013 was much more sluggish than the entire 2012. Only rail, ship and airplane production was able to register growth. Exports declined for all other ME branches - and by 2.7 per cent for the ME industry as a whole.

Diagram 1.15: M+E exports in decline



1.4 Summary and look forward

The importance of individual groups of countries or continents has been shifting for years both in terms of foreign trade of the economy as a whole and in terms of the ME industry. By the same token the decline of German exports to the Euro zone is apparent. This is a result of austerity policy, as contracting GDP and dwindling employment dry up domestic demand and reduces imports of countries hit by crisis. This illustrates why "belt-tightening" will not help these countries emerge from the crisis. The only solution is to "grow out of" the crisis.

The following text explains who - if anyone - could benefit from the planned free trade agreement between the EU and the USA and why it is unlikely to have any meaningful impact on the balancing out of global trade.

2. The planned Trade and Investment Partnership between the EU and USA

2.1 What has happened to date

There is now movement in foreign trade relations between the United States and the EU. While one focus over the last few years was on the expansion of trade relations with partner countries in the Pacific area, the USA has now fixed its attention on Europe. That is why President Barack Obama also focused attention on relations between the USA and Europe in his second inaugural address.

The Transatlantic Trade and Investment Partnership – TTIP (in the following also referred to as the "Free Trade Agreement") is intended to intensify the exchange of goods and services between the EU and the USA and leverage growth potential.

On 13 February 2013 President of the EU Commission José Barroso, President of the EU Council Hermann Van Rompuy and US President Obama announced that negotiations were commencing on a Transatlantic Trade and Investment Partnership. The United States' House of Representatives was already given the concluding report by a high-ranking working group of American and European experts in March of this year. This working group spent about one year analysing the possible impacts of the Free Trade Agreement. These experts assume that greater competitiveness will generate more growth and jobs in the countries that are party to the agreement.

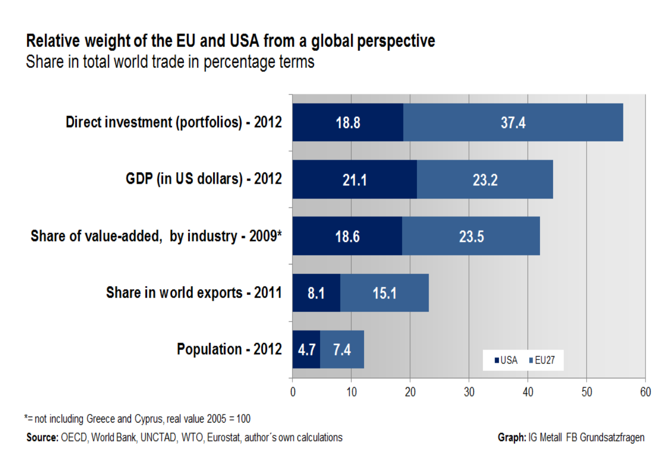
In contrast to the American House of Representatives, the European Parliament (EP) was only involved in the debate at a later stage. The EU Commission justified the paucity of information and the "sensitive" manner of dealing with documents by citing tactical considerations in the negotiations, in particular with regard to possible reactions by third countries. In the vote on the negotiating mandate at the end of May a majority of EP delegates favoured the motion. At the same time, it was resolved upon the instigation of France, however, that services having cultural or audio-visual content must be expressly excluded from the mandate assigned to the Commission to enter into negotiations. This was intended to protect cultural and language diversity in the EU. The tight time schedule is disconcerting: the EU Council handed down a positive decision on the negotiating mandate for the EU Commission on 14 June. Talks began in July 2013 and are to be completed by the end of 2014. With the assignment of a mandate to the EU Commission, liberalisation of global trade has received an additional boost. Expectations are running high that TTIP will also help to more easily overcome the crisis in the Euro zone. This expresses a continued high level of trust and confidence in the ability of deregulated markets to steer economies in the right direction, through efficient use of labour and capital. Greater productivity is to translate into more growth and prosperity (see box).

However, there are good reasons for limiting the unrestricted exchange of goods and services. First, in order to respect the different labour, social and environmental standards and values of the societies involved in trade, but also in order to offer industries and hence employees as well protection in an early phase of development against possibly more mature foreign competition ("infant industries tariff" - Friedrich List 1827, see box).

2.2 The importance of the Trade and Investment Partnership to the global economy

Aside from the fact that the USA is the second most important trading partner for Germany - measured in terms of export volume - additional factors also suggest that the planned accord will play an extraordinary role (Diagram 2.1). Almost 60 per cent of foreign direct investment portfolios (financial investments in foreign countries by domestic investors accounting for at least a 10 per cent share in an enterprise) and approximately 44 per cent of global production in US dollars were accounted for by the EU and the USA together in 2011.

Diagram 2.1: Importance of the Free Trade Agreement



Liberalisation

or

protection of domestic production

Controversies in foreign trade theory

***Liberalized international trade**, which would be marked by more intense competition, was described by the classic economists as an ideal condition, as it boosts the prosperity of countries participating in trade. The underlying idea is very simple: liberalised, i.e. unimpeded trade leads to products being manufactured in those countries where they can be produced at the lowest costs. Taking advantage of absolute (Adam Smith - 1776), but also comparative (David Ricardo - 1817) cost advantages vis-à-vis other countries leads to specialisation in production. If more is produced than is consumed in a country, those products are exchanged on the world market for products which are manufactured more efficiently in other countries. On the whole this increases the prosperity of specialised countries engaging in trade. The best-known example comes from David Ricardo. He described the complete specialisation of England on cloth and Portugal on wine because England had a relative cost advantage over Portugal in the production of cloth.*

Cost and hence competitive advantages may derive from different factor endowments, making possible an incomplete specialisation of countries elevating prosperity (Heckscher-Ohlin theorem, 1919/1933). In addition, demand also influences the direction and structure of foreign trade, in particular explaining intra-industrial trade (export and import of the same groups of goods), which has the overall impact of raising prosperity (Paul Krugman, 1979/1980).

*Trade restrictions and thus protection of the domestic economy against foreign competition cause losses in prosperity in these models. **But protectionism also has a positive side.** There are numerous examples of how present-day industrialised countries were only able to develop as they did because they were protected against foreign competition by tariffs (for example, protection of the USA and German states against more advanced English industry at the beginning/middle of the 19th century, above all called for by Friedrich List in 1827: the "infant industries argument"). Many experts also agree that the catch-up and industrialization process of China was only possible thanks to massive protective walls and regulation of the domestic goods and capital market. In addition, in particular Dani Rodrik (2011) emphasises the danger posed by losses in prosperity resulting from a globalization process which is not democratically legitimised and is imposed at the expense of regional or national values and standards.*

The share of USA and EU industries' value-creation in global industrial value-creation is more than 40%. In sum total, the EU and USA together account for 23.2% of world exports, which is to say almost one-fourth. These figures are particularly impressive because both economic zones together only have approximately 12% of the world population.

The Free Trade Agreement explodes all dimensions of bilateral agreements currently in effect. Both economic zones together form an economic power centre. The Trade and Investment Partnership will therefore not only influence bilateral trade, but also exchange of goods and services within the European Union and between the EU and US with third countries.

2.3 What is being negotiated?

The objective in the negotiations is to eliminate still-existing tariff and non-tariff barriers to trade between the USA and Europe to the greatest extent possible. Tariff barriers to trade include import tariffs that are to be paid on the price of a good when it is imported into a country. This increases the price of the imported and can be passed on to customers through higher prices. On the other hand, the import tariff protects domestic producers and hence employees as well. Restrictions on competition have a negative impact on consumers, however, as they have to pay a higher price for imported goods as well as goods manufactured domestically than would be the case under free trade conditions. Customs revenue also constitutes a source of income for states, however, which may be used to boost economic output if used sensibly.

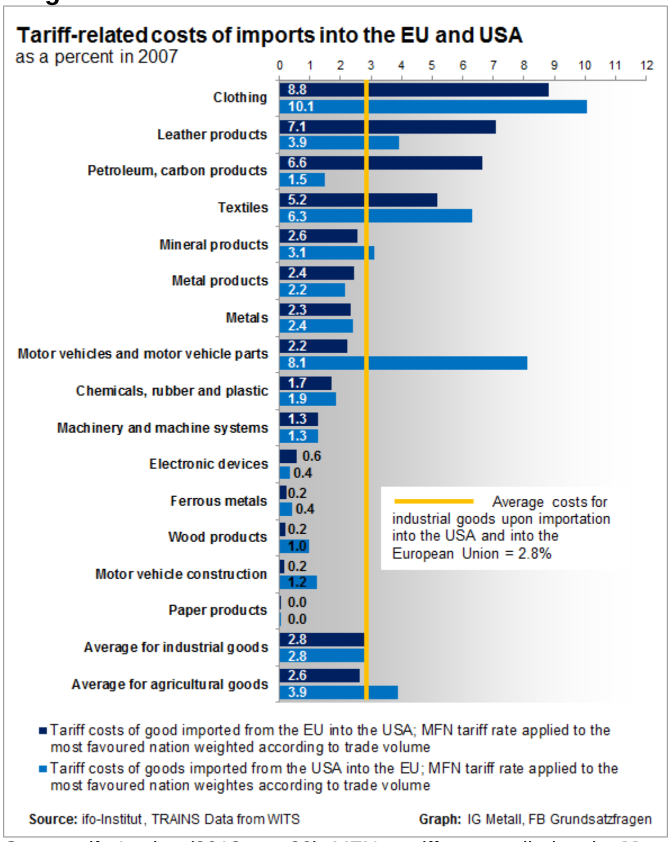
The most important non-tariff barriers to trade for imports into the USA include, for example, imposed quality requirements, bureaucratic requirements at customs, labelling obligations and rules on protection of intellectual property. One well-known import prohibition from the recent past is the ban on imports of beef into the USA following the massive outbreak of BSE in the 1990s. In the other direction, EU restrictions apply to imports of genetically engineered plants from the USA. In both cases, steps were taken in an attempt to protect the health of the population. A legitimate interest which should not be brushed aside!

However, such arguments are frequently put forward primarily to protect domestic producers from undesirable competition. It is a difficult balance to strike. On the one hand, non-tariff barriers to trade increase costs to exporters, as they have to organize the production of exported goods differently to meet quality requirements and provide evidence that the standards of the importing countries are met. On the other hand, these costs are also the expression of the value importing countries place on the needs of employees and consumers that promotes prosperity. To avoid having to pay the increased costs themselves, businesses raise the price by the amount of these costs, in effect having the same impact as tariffs: the product becomes more expensive for consumers in the importing country.

2.4 Existing trade restrictions between the USA and the EU

To be able to determine how the elimination of tariffs and non-tariff barriers to trade impact the exchange of goods and services and hence growth and employment, current costs need to be measured and assessed. While this is relatively simple to calculate for tariff costs, in the case of non-tariff barriers to trade it is only possible by making complicated estimates.

Diagram 2.2: Barriers to trade - tariffs



Source: ifo-Institut (2013a, p. 39), MFN - tariff rate applied to the **M**ost **F**avoured **N**ation weighted according to trade volumes

The ifo-Institut published a study on this at the beginning of 2013. To sum up the results briefly:

The comparison of tariff costs shows that European and US importers in the industrial sector are subject to roughly the same costs on average. Average tariff rates are approximately 2.8% (weighted with the share of production in import volumes), a relatively low level (Diagram 2.2). There are significant differences between industries. Exports by the EU into the USA in the areas of clothing, petroleum/carbon products and textiles are saddled with the highest tariffs. Conversely, the price of motor vehicles and motor vehicle parts exported from the US rises by about 8.1% when they are imported into the EU.

It can be expected – and this is also shown by estimates – that the elimination of relatively low industrial tariff rates on average will not lead to any major trade and prosperity effects. As a result of asymmetrical costs in individual industries, however, the elimination of tariffs may have an impact on the ratio of imports and exports in sectors.

A different picture is produced by estimates from the ifo-Institute of non-tariff barriers to trade. These attain an estimated (price-related) cost in individual industrial sectors in the European Union that would roughly approximate a tariff rate of more than 50%. The sectors with the greatest costs being saddled on imports from the USA into the EU include chemicals (111.5%), paper products (73.5%) and leather production (50.1%). Elimination or harmonization of non-tariff barriers to trade in these sectors could lead to more exports from the USA into the EU.

By comparison, the European market for products in the mechanical and plant engineering sector is free of barriers to US imports. Here the Europeans apparently place their trust in the strong competitive advantages of their products. Americans have a similar impression, as for their part they rely on non-tariff barriers to the import of mechanical and plant engineering goods into the USA on a (price-related) scale estimated at 46%. Thus the German mechanical and plant engineering sector could profit from an elimination or harmonisation of non-tariff barriers to trade.

Relatively high barriers to exports into the USA in the non-tariff area have been confirmed by a survey of 60 sectoral associations in the ifo study, according to which the three most important restrictions are:

1. *Administrative barriers at customs to the import of goods into the USA (customs procedures, certificates of origin, etc.),*
2. *Quality requirements imposed on goods imported into the USA (health, safety regulations, product classifications, etc.) and*
3. *Special labelling obligations for goods imported into the USA.*

Industrial sectors in Germany are marked by technical standards that apply to production and sales conditions. What is specifically supposed to change here? An internal working paper of the EU Commission proposes a far-reaching approximation or recognition of technical standards and norms for EU and US automobile regulations (EU Commission, 2013). Different arrangements, for example with respect to bumpers or the colours of the blinker or CO_2 emission levels (which apply to the surface area of the automobile in the USA and to the weight of the automobile in Europe) mean that individual models cannot be offered in both markets (Wirtschaftskammer Österreich, 2013). An approximation of standards would boost productivity and reduce manufacturing costs, competitiveness would improve, products could be supplied at lower prices and sales could increase.

2.5 What benefits would a Free Trade Agreement hold for the countries involved?

The first obvious benefit is the direct impact on trade volume. An ifo-Institut study shows that trade-creating effects tend to grow with increasing liberalisation. If there was comprehensive liberalisation (elimination of tariff and non-tariff barriers to trade) the study estimates there would be a strong average growth in trade between the USA and EU amounting to around 71%. Export-oriented small and medium-scale enterprises are also to profit by improved conditions governing market access. In Germany the strongest growth is to be expected in the economic sectors of textiles and leather, but mechanical engineering and bilateral exports of services (transport/logistics) can be expected to pick up considerably as well.

Table 2.1: Effects from the elimination of tariffs and non-tariff barriers to trade

	USA	EU 26	Germany
Prosperity effects, real GDP per capita, change as a per cent	2,2	1,7	1,6
Jobs (net effect)	68.790	98.910	25.220
Average real wage, change relative to base balance as a per cent	2,2	1,7	1,6
Average weighted labour productivity, change relative to base balance as a per cent	1,1	1,3	1,1
Price index, change relative to the base balance as a per cent	-2,1	-1,0	-0,6

Source: ifo Institut (2013a, p. 96 ff)

A glance at the macro-economic effects is sobering, however. Under the realistic assumption that there will not be complete integration, i.e. a single market based on the European model with free traffic in capital and complete free movement of labour, but merely tariff and non-tariff barriers to trade will be eliminated, approximately 25,000 (net) jobs will be created in Germany. Gross Domestic Product per capita will grow 1.6%, labour productivity will rise by 1.1%, the price level will drop 0.6% and average real wages will grow by 1.6% (Table 2.1).

If one takes into account that there were 41.6 million gainfully employed persons in Germany in 2012, this would only be 0.06% more. And when one considers that there were 29.9 million employees subject to obligatory social security, this growth would be 0.08%. 110,000 jobs could only be created in Germany under the assumption (which is as ambitious as it is unrealistic) that a single market similar to the European model would come about (free movement of employees and free movement of capital).

At the same time it must be kept in mind that the additional jobs estimated only constitute a net effect. Underlying this figure are adjustment processes and shifts in and between sectors and regions, which may take on a much larger dimension than the net effect would suggest. This is associated with enormous requirements applying to flexibility and mobility of employees and under some circumstances major time lags before the impact makes itself felt. At the same time it is clear flexibility is a necessary precondition for a positive overall effect ultimately prevailing.

Trade diversion effects associated with the Free Trade Agreement would suggest greater changes in global trade. This is the conclusion of an additional study performed by the ifo-Institut upon the commission of the Bertelsmann Foundation that was published in June 2013. The calculations were performed on data from 126 countries. A comprehensive presentation of this report is not possible here. One key finding, however, is the very simplified assumption "... that trade between the USA and the EU member states will increase on average on the same exact scale that (...) (can be) measured with the data for comparable existing treaties (ifo Institut 2013b, p. 13)."

The estimates of adjustments are based on quantifiable reactions by trade in the wake of declining trade costs resulting from comparable treaties in the past. Doubt must already be cast on the comparability of these findings, however, as present conditions and in particular trade structures between the EU and the USA are not identical with intra-European trade and the trade between the partners of the North American Free Trade Agreement (NAFTA), which served as the reference trade areas. The adjustment period moreover remains unclear. It may be very long, causing the effects to be spread out over time, and may not trigger the hopped-for growth impetus in any significant way in the short term.

Whereas Germany may hold hopes for a surge in trade with the USA in the event of intensive liberalisation, both exports as well as imports of Germany to and from the EU states hit by crisis (Greece, Italy, Ireland, Portugal and Spain) will drop. On the whole, a "disengagement" will take place between the EU countries, while Transatlantic trade will intensify. It should also be mentioned that Germany's and the USA's trade with the BRICS states (Brazil, Russia, India, China and South Africa) will decline considerably.

Table 2.2: Effects of a "deep" liberalisation taking into account trade diversion effects

	USA	Germany
Prosperity effects, real GDP per capita, change as a per cent	13,4	4,7
Jobs (net effect)	1.085.501	181.092
Average real wage, change relative to base balance as a per cent	3,7	2,2

Source: ifo Institut (2013b)

A declining price level and mounting demand for labour (growing employment) would increase real wages by 2.2% in Germany and 3.7% in the USA. Disposable real income would grow, promoting consumption.

The study suggests that Germany would see a rise in real Gross Domestic Product per capita (up 4.7 per cent) and a significant employment effect (a net increase of 181,092 jobs).[1]

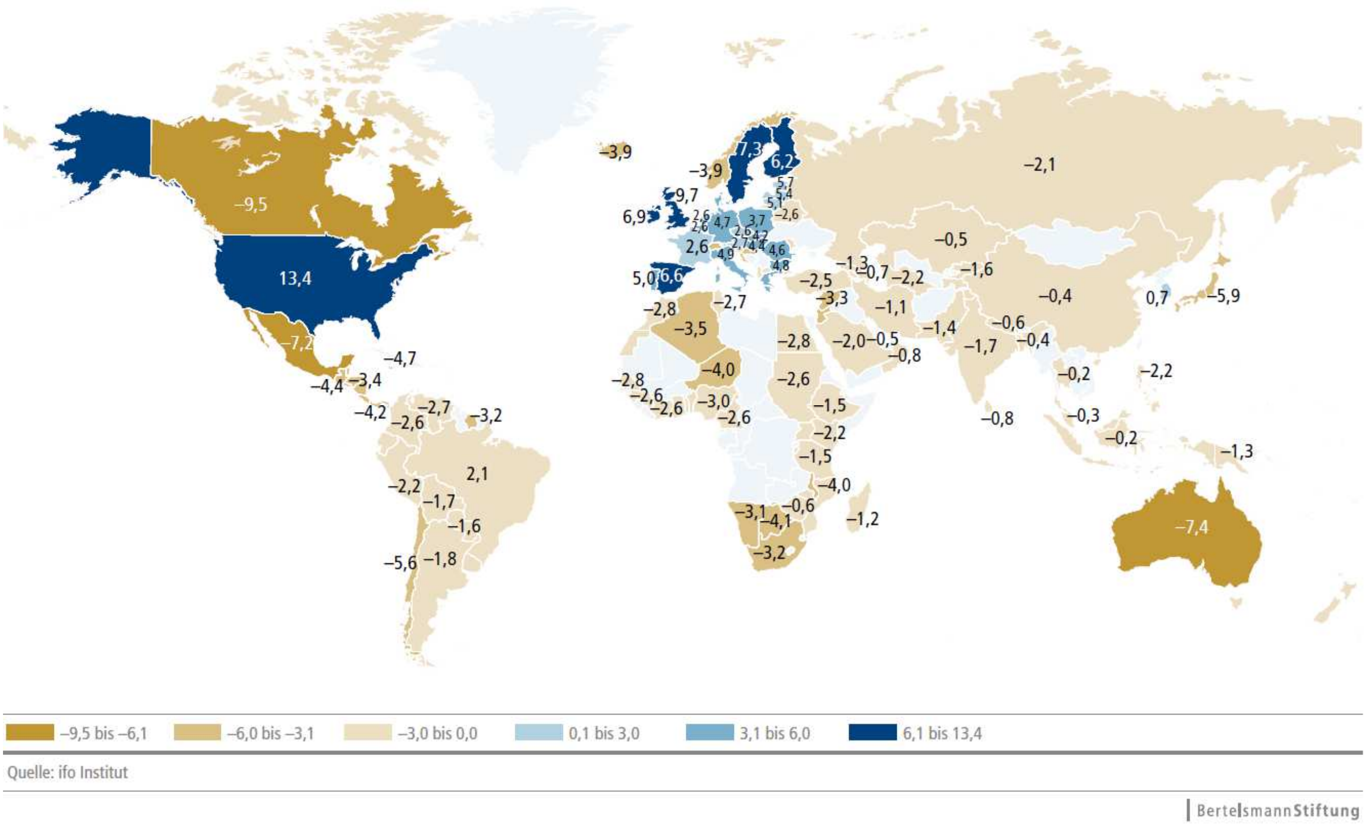
The overall effect is based on the following logic: declining trade costs make exports cheaper and the demand for exports to grow. Employment increases, Gross Domestic Product rises, real disposable income and domestic consumer demand along with imports grow, increasing employment and Gross Domestic Product through trade ties. The overall effect will thus be greater than the reduction of trading costs would at first suggest (Table 2.2).

Diverted trade flows will have an impact on real per capita income in the countries involved. Europe and the USA would register gains, while other countries would in some cases see considerable losses (Diagram 2.3).

As a result of the trade diversion effects, it is very clear that the positive impact on the Transatlantic Trade and Investment Partnership would be at the expense of other trading partners. A growth strategy based on liberalisation means a loss in competitiveness for players that are not covered by this Agreement, increasing the pressure on them to adapt. The report by the ifo-Institut appears undismayed in this regard, optimistically noting that: "These countries (countries with substantial losses in per capita income) will thus have strong incentives to join in on the liberalisation of non-tariff barriers (ifo Institut (2013b), p. 43). In other words: the competitive pressure will mount.

[1] Because information is not available for all EU27 countries, no statements can be made on employment effects at this level.

Diagram 2.3: Possible effects of the Free Trade and Investment Agreement between the USA and the EU on real per capital income worldwide, change as a per cent.



Source: ifo Institut (2013b, p. 30)

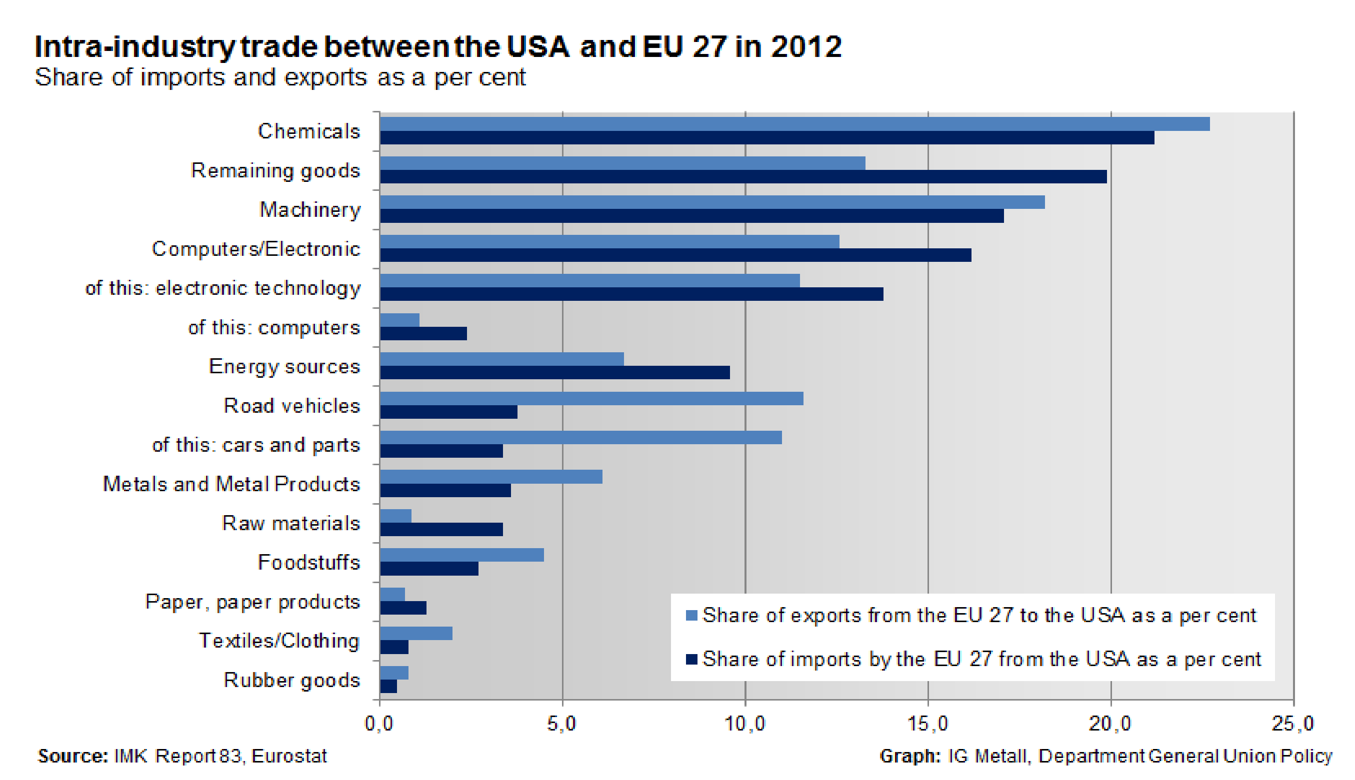
One repercussion could also be that wage costs move to centre-stage in the struggle for more competitiveness, setting a downward spiral in motion, at the end of which employees are the losers - both in third countries as well as in the EU and the USA.

This "discriminating" effect on newly industrialising and developing countries can not be avoided by making it possible for third countries to join the TTIP, as this would also require developing countries to open up their agricultural markets. India in particular has not been willing to do this to date. The effort towards greater multilateral liberalisation under the auspices of the World Trade Organization failed for this reason (Doha Round, middle of 2007) (see Langhammer, R., 2013, p. 10).

A current **study by the Institut für Makroökonomie und Konjunkturforschung** (IMK) comes to a sceptical conclusion regarding possible growth effects. According to the study, although an intensification of trade relations can be expected between the EU and the USA as a result of large trade volumes of exports and imports within sectors (intra-sectoral trade, Diagram 2.4) as well as between affiliated companies, no major overall economic growth effect is to be expected over the short term (IMK Report 83, June 2013, p. 14).

An additional IMK study casts doubt on the 13% growth in per capita GDP over the long term projected for the USA. They conclude that the importance of exports to the EU by the US (measured in terms of their percentage of GDP at 2.4 per cent) is too low for liberalisation to have any significant effect (IMK Report 85, July 2013, p. 17).

Diagram 2.4: Intra-industry trade



Source: IMK Report 83, June 2013, p. 13

The overall assessment by the ifo-Institut of a positive but weak effect is supported by a **study conducted by the Center for Economic Policy Research** (CEPR, 03/2013], which in methodological terms is structured completely differently than the ifo study and for this reason comes to different conclusions as well. The study assigned by the EU Commission, projects a 0.5 per cent increase in GDP in the EU and a 0.4% rise in GDP in the USA in the event of comprehensive liberalisation up until 2027 (i.e. over the entire period!) in comparison to an extrapolation of the status quo. The assumed requirement for increasing flexibility on the part of employees is negligible, as it is only expected that employees would change their place of work and have to also migrate to another sector on a limited scale.

On the whole, studies performed to date exhibit considerable uncertainty regarding the effects of the TTIP. Moreover, even in the case of ambitious or comprehensive liberalisation, the effects appear to be very marginal. Significant effects in the EU and the USA, according to the ifo study, are associated with a redistribution of global wealth at the expense of the developing and newly industrialising countries. Competitive pressure will mount globally, but it is unclear how quickly or successfully newly industrialized countries will respond in the short- and medium-term.

2.6 Requirements with regard to a Transatlantic Trade and Investment Partnership in the interests of employees

As is well known, the devil is in the details. The prosperity effects to be expected of the Transatlantic Trade and Investment Agreement depend less on how strongly parties strive for a complete liberalisation and more upon how the interests of employees and consumers in the participating countries can be asserted vis-à-vis the interests of investors.

The aforementioned impact analyses neglect social and environmental effects. These analyses are less concerned with qualitative prosperity, and more with quantitative economic growth. This is no doubt partially related to valuation problems, but also due to the unresolved question as to whether social and environmental standards will be maintained, eliminated or harmonised in the course of trade liberalisation. That is why even before the mandate was issued there were heated debates in trade unions and other non-governmental organisations on how best to exert influence on the cornerstones of the negotiating mandate.

Generally speaking the Confederation of German Trade Unions (DGB) welcomes a free trade agreement between the EU and the USA under certain conditions. For some sectors there is a hope that liberalisation will lead to greater productivity and allow growth potential to be leveraged, especially by virtue of uniform technical standards. There is major scepticism, however, regarding the scope of the

growth effects and hence TTIP's its effective contribution to surmounting the crisis in the Euro zone.

Visions of the Confederation of German Trade Unions with regard to the Free Trade and Investment Partnership between the EU and the USA

- *Comprehensive **democratic participation and checks and controls** by legislatures and civil societies,*
- *Clear, binding and realisable arrangements for the **protection and expansion of employee rights as well as social and environmental standards** and no impeding of social and environment regulation in individual states,*
- *A guarantee that the employees transferred to another country will be afforded the same **working standards and labour rights** that apply to other employees in their country of destination,*
- ***No additional liberalisation or privatisation of public areas -** in particular public services - or agreements impeding regulation,*
- *No arrangements for protection of investment that could have a negative impact on **employee rights** or which limit the possibility of the state to establish useful arrangements in the public interest and / or to **protect the environment.***

It would be better to stabilise exchange rates and eliminate global imbalances by increasing coordination of economic policy at the international level. A common initiative against tax evasion and avoidance as well as the introduction of a global financial transaction tax would also be expedient measures, as tax revenue could be used to finance investment required in the European infrastructure. This would create a direct growth impetus through this economic activity's multiplier effect in the short-term, instead of banking on medium to long-term increases in productivity and declines in cost through liberalisation of trade.

However, as TTIP continues to be negotiated, it is critical to remember that although trust is good, checks and controls are better. The crucial factors are transparency and participation of legislatures and civil societies. IndustriAll Europe's experience in the past in the monitoring of free trade agreements suggests that it will not suffice to simply involve NGOs in a sort of "advisory committee" (based, for example, on the model of the "Advisory Group" involving NGOs within the framework of the Korea – EU Free Trade Agreement). More checks and controls and "publicness" can be achieved by following IndustriAll Europe's recommendation to form a bilateral parliamentarian commission involving trade unions, employer associations and other NGOs. Whether this will happen or not is doubtful; it would be a unique and new development in the history of EU free trade agreements to date.

The negotiations must be perceived as an opportunity to attain or safeguard a high level of international labour protection standards. A key demand in the Confederation of German Trade Unions' position is that, at a minimum, basic core labour standards of the International Labor Organization also be ratified by the USA within the framework of the Free Trade Agreement. To date the USA has not ratified Conventions 87 and 98 on the freedom of association and right to collective bargaining. If employee rights in the USA are raised to a higher standard in the course of negotiations, that would constitute a success.

In addition, ILO conventions on health and safety at the jobsite and additional priority accords (Convention nos. 81 and 129 on labour inspections and supervision, no. 122 on employment policy and no. 144 on the tripartite inclusion of so-called social partners) must be ratified and implemented as well.

What use is the right to be informed and consulted with if unacceptable conditions are not identified and can not be eliminated in a reliable procedure within the framework of the tried-and-tested "dispute settlement procedure" of the World Trade Organization? Safeguarding a comprehensive protection of investment by means of a "general dispute settlement procedure" would be in line with free trade agreements signed to date.

There have also been complaints filed by investors against countries when their expectations of yields and profit targets were frustrated by government energy and environmental policy measures under this protective arrangement (for example the "phase out of nuclear energy": Vattenfall versus the Federal Republic of Germany"). In the opinion of the trade unions in the Confederation of German Trade Unions, protection of investment and hence returns on investment must not reach the point where regulatory possibilities of states to protect citizens or the environment are curtailed.

To achieve a more just accommodation of interests, the general dispute settlement mechanism should also apply to all arrangements involving employee rights or having social or environmental relevance. Here it is necessary to have an independent, transparent complaints procedure that includes the exchange of information between governments, trade unions and employer associations as well as other NGOs and independent experts at the International Labour Organization.

According to all the information which has been provided to date, the negotiating mandate does not provide for an inclusion of disputes in connection with employee rights or social and environmental

issues in the general dispute settlement mechanism. The EU Commission is apparently satisfied to leave out these areas of rights.

The goal of ensuring that protection of investment does not limit the rights of states to regulate markets to accommodate social or environmental interests is only mentioned as an objective in clauses of secondary importance. If protection of investment is not expressly limited in the Treaty to a very narrowly and clearly defined "definition of property" which, for example, rules out any guarantee on certain return-on-investment targets, this will throw the door wide open to lawsuits by investors to prevent improvements in the area of employee rights and in the area of social and environmental standards. This would also shatter the hopes of US trade unions for a ratification of the ILO's core labour standards (see also the position of the American Federation of Labour and Congress of Industrial Organization – AFL-CIO)

3. Quo vadis?

The glitter and belief in the virtues and benefits of unbridled globalisation through liberalisation of markets has been significantly tarnished by the latest financial and economic crisis. People have seen what damage can be caused by deregulated and liberalised global financial markets. Markets are not perfect and policy thus far has not been able to get an effective grip on unrestrained financial markets through reliable, understandable and transparent regulation.

This experience should enhance our vigilance regarding any and all future steps in the direction of comprehensive globalisation. This also applies to the Free Trade and Investment Agreement between the USA and the EU.

In view of the expected moderate or uncertain growth effects in unknown periods of time which such liberalisation would bring, the following **risks** should be kept in mind:

1. *Jeopardising of high labour, social and environmental standards,* which have helped bring about prosperity in the European community,

2. *The danger of a loss of democratic controls* as rules for the creation and monitoring of the free trade zone are negotiated in non-parliamentary committees,

3. *Far-reaching protection of investment sanctioned by international law,* which in extreme cases may be satisfied by trampling on fundamental international labour, social or environmental standards.

In the opinion of IG Metall together with the other trade unions in the German Trade Union Confederation, it is absolutely essential that the **core labour standards of the International Labour Organization (ILO) be ratified.** Even though the USA is a member of the ILO, it has not ratified central labour standards – in contrast to Germany and more than 120 other ILO member states.

The eight core labour standards of the International Labour Organization (ILO)

87 – Freedom of association and protection of the right to organise, 1948*
Article 2: Workers and employers ... shall have the right ... to establish and, subject only to the rules of the organisation concerned, to joint organisations of their own choosing without previous authorisation.
98 - Right to organise and collective bargaining, 1949*
29 – Forced labour, 1930*
105 – Abolition of forced labour, 1957
100 – Equal remuneration for men and women workers for work of equal value, 1951*
111 – Discrimination in employment and occupation, 1958*
138 – Minimum age on the admission to employment, 1973*
182 – Prohibition and immediate action for the elimination of the worst forms of child labour, 1999

*= Core labour standards which have not been ratified by the USA, status: August 2013

The task in the negotiations will be to defend supreme international labour, environmental and social standards and in addition oppose the undermining and erosion of existing national or European environmental standards. These are achievements of democratic processes and a reflection of societal prosperity.

One especially disconcerting aspect is that the negotiating mandate of the EU Commission has thus far been treated as a "secret" document. This limited a democratic and transparent debate during the preparatory phase for the negotiating mandate and in the first stage of negotiations. DIE LINKE called upon the Federal German government to reject the negotiating mandate for the EU Commission. The SPD and Greens have called for regular, comprehensive and continuous information in the German Bundestag.

Things are getting down to business!
The negotiating mandate has been issued.

The European Trade Union Confederation, the DGB, IndustriAll Europe and IG Metall are intensifying their work to bring sufficient political pressure to influence the outcome of these trade negotiations. We are in contact with representatives of American trade unions to further these efforts.

Our common goals are:

To leverage growth opportunities to safeguard and promote production sites and jobs while preserving a high level of labour, social and environmental standards.

At **IG Metall** we are convinced: Prosperity can only thrive when high labour, social and environment standards are upheld; when those standards are whittled away, and employee rights are undermined, growth and prosperity will suffer. Globalisation should not and must not mean the abandonment of our values and democratic principles. Good governance and high standards are necessary to ensure workers and businesses alike experience growth and prosperity.

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