

# US-EU TTIP: estimated impact on Italian Economy

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# agenda

- ▶ **Italy – US trade**
- ▶ **Trade barriers**
- ▶ **Impact on the Italian Economy**
  - > Assumptions and tools
  - > Direct and indirect impact



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# Trade: Italy - EU versus US

US important for UE countries, not so much the opposite

2014 composition	USA in % italian export	USA import % share: Italy	USA import % share: others EU	USA import % share: others NAFTA
Food & Beverage	10.4	4.3	17.4	30.9
Fashion	7.3	3.0	3.9	6.6
Furniture	7.8	2.5	7.3	29.1
Domestic Appliances	3.6	1.2	4.3	26.1
Pharma & Cosmetics	5.3	1.8	58.8	8.5
Other consumer goods	9.1	1.6	11.5	8.7
Automotive (incl. Motorcycles)	8.9	1.2	18.5	47.0
Other transportatio	24.2	4.5	40.4	23.2
Mechanical Engineering	9.1	5.0	27.6	24.9
Medical Appliances	11.6	1.9	32.4	20.5
Electrotechnical	4.4	0.8	14.1	34.7
Electronics	6.9	0.2	3.9	21.5
Base metals	6.4	2.1	14.5	35.1
Metal Products	4.9	2.3	15.8	24.0
Chemicals	5.4	1.4	29.5	23.9
Other industrial input	3.3	1.0	11.4	38.0
Constructions Materials	11.3	6.5	16.6	23.8
<b>Total Manufacturing</b>	<b>7.9</b>	<b>2.1</b>	<b>18.5</b>	<b>26.5</b>
Agriculture	1.3	0.2	5.0	43.2
Mines and refined petroleum	2.9	0.2	6.1	44.1
<b>Total Goods</b>	<b>7.6</b>	<b>1.8</b>	<b>16.3</b>	<b>29.6</b>

- 8% of Italy's total export is directed to the US, 3° market.
- For Germany is the 9.6%, for France the 7.2%, for Spain the 4.5%
- Italy's market share is very low, about 2% of US import, EU is far less important than NAFTA and the Asian countries.
- Large sectoral differences: for Food and Beverages, Medical appliances and Construction materials (ceramic tiles), the US represents a more important market, while it is the most important for Other transport equipment.

# Italy – US trade

## Trade balance in surplus

2014 composition (thousand €)	Italy vs. USA	USA vs. Italy	trade balance
Food & Beverage	2 957	407	2 549
Fashion	3 457	300	3 157
Furniture	688	23	665
Domestic Appliances	188	13	174
Pharma & Cosmetics	1 344	1 933	-589
Other consumer goods	902	499	402
Automotive (incl. Motorcycles)	2 599	498	2 101
Other transport	2 309	407	1 902
Mechanical Engineering	6 886	1 363	5 523
Medical Appliances	1 288	1 053	235
Electrotechnical	689	372	317
Electronics	459	527	-68
Base metals	1 717	1 044	672
Metal Products	798	189	610
Chemicals	1 072	721	350
Other industrial input	724	596	128
Constructions Materials	1 059	200	859
<b>Total Manufacturing</b>	<b>29 135</b>	<b>10 147</b>	<b>18 989</b>
Agriculture	79	581	-501
Mines and refined petroleum	435	1 025	-591
<b>Total Goods</b>	<b>29 706</b>	<b>11 762</b>	<b>17 944</b>

- Italy is in surplus (over 17 billion € in 2014), thanks to the contribution of Mechanical engineering, Transport equipment, Food and beverages and Fashion.
- From the US, Italy imports Mechanical products, Base metals, Mining and refining products and Pharmaceuticals.
- Among the manufacturing products, Pharmaceutical is the only sector in which Italy registers a trade deficit with the US.

Source: Fipice (Prometeia-ICE) data base

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# Italy – US trade

## Not only goods - Services

### Italy - USA current account in services (mln. €)

	credit	debt	balance
Transportation	779	578	201
Travel	3 351	1 958	1 392
ICT	634	280	354
Insurance	237	201	36
Financial Services	259	209	50
Software	90	399	-309
Royalties	216	909	-692
Other Business Services	1 513	2 045	-532
Other Services	19	42	-23
<b>Total Tradable Services</b>	<b>7 104</b>	<b>6 629</b>	<b>475</b>

- Beyond goods, service trade (especially tourism) strongly contributes to the overall Italian trade surplus.
- However, Italy registers a trade deficit for business related services.

# Italy – US trade

## Not only trade - FDI

### Italian FDI in USA

	enterprises	in % total Italian FDI	Turnover (mln. €)	in % totale turnover italian FDI
food & beverage	20	3.7	2 466	18.3
fashion	18	1.5	357	4.8
transportation	31	5.9	16 491	23.1
pharma	11	7.0	392	7.1
mechanical and electrical appliances	88	8.8	2 311	8.7
ict, medical appliances	65	13.7	2 261	12.9
metals	36	4.0	679	3.8
chemicals	19	4.5	1 062	12.5
industrial input	58	4.9	4 064	17.7
other manufacturing	106	7.8	2 843	5.7
<b>total manufacturing</b>	<b>452</b>	<b>5.8</b>	<b>32 926</b>	<b>13.7</b>
mines and refined petroleum	24	6.7	93	0.1
wholesale	1 460	11.1	9 515	7.6
other sectors	476	7.9	2 214	1.6
<b>total</b>	<b>2 408</b>	<b>8.9</b>	<b>44 723</b>	<b>7.7</b>

- For Wholesale, Paper industry and Automotive, Italian FDI in the US have great relevance.
- US FDI stocks in Italy are particularly relevant in sectors like Fashion, Refining industry, Mechanical engineering and Chemicals.

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# Trade barriers

## Tariff vs non tariff barriers

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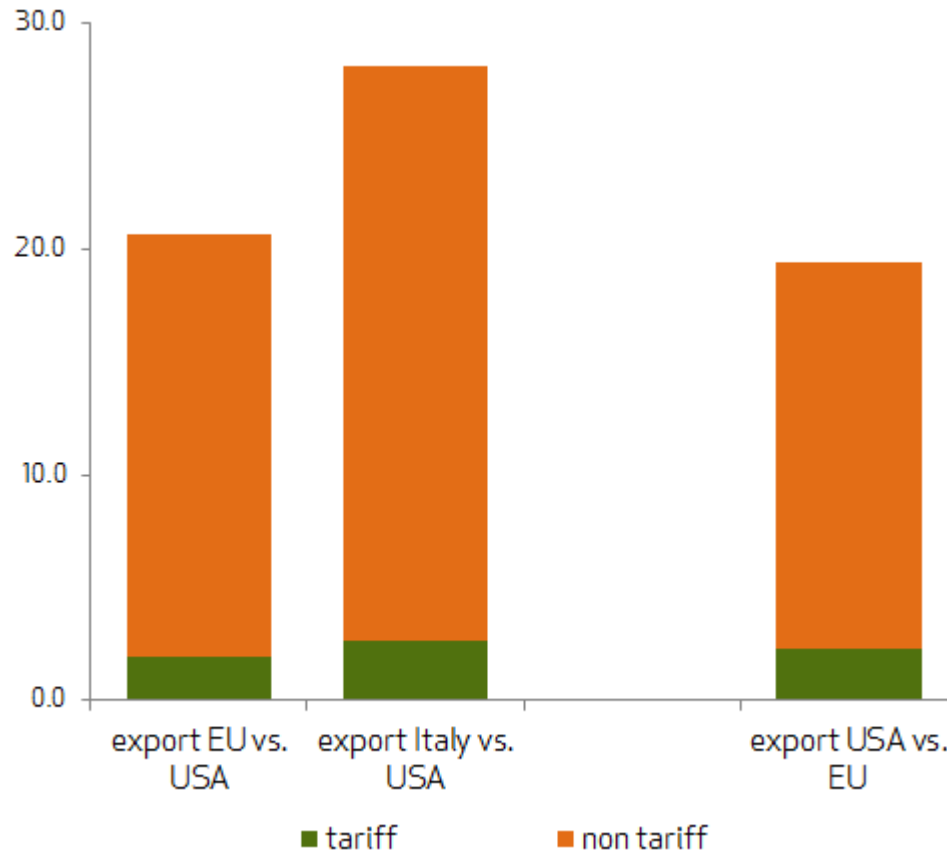
1. A tariff is an import/export monetary duty
2. A Non-tariff barrier is any obstacle to international trade that is not an import or export duty, it can be not a formal measure on trade but it takes often the form of rules and restrictions motivated by security, health, technical standards, etc...
3. According to the WTO, non-tariff barriers to trade include import quotas or licensing, subsidies, customs delays, technical barriers, rules for valuation of goods at customs, pre-shipment inspections, rules of origin ('made in), etc.



# Trade barriers

## Non tariff more important and competitiveness gap for Italian goods...

Tariff and non tariff barriers among US, EU and Italy | as % of goods value



• Tariff: on average of UE goods to US is 1.9%, the opposite is 2.3% (WTO database)

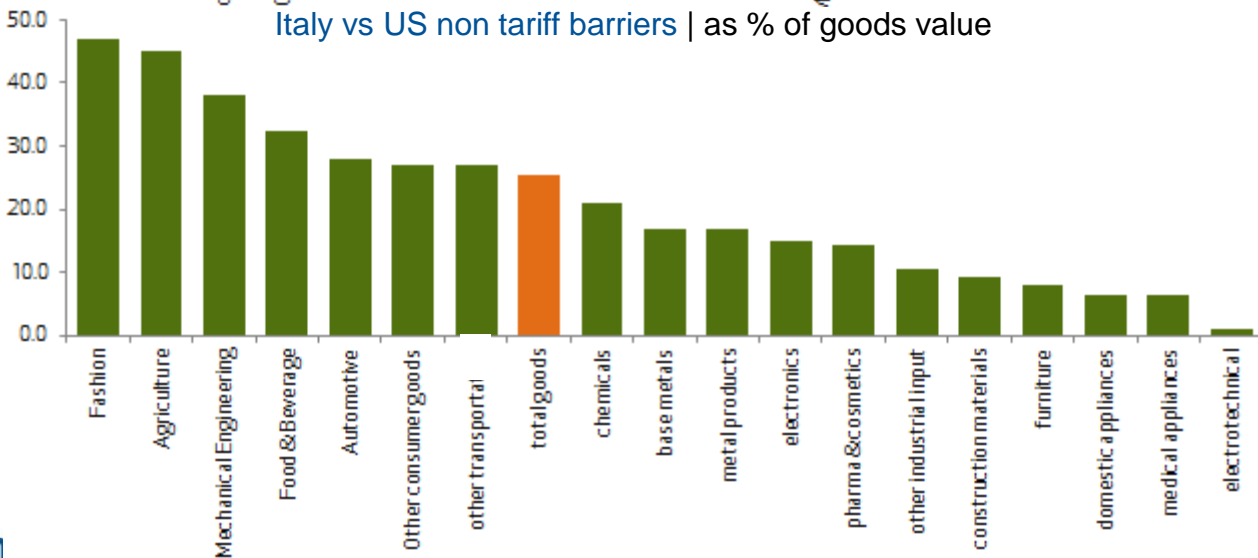
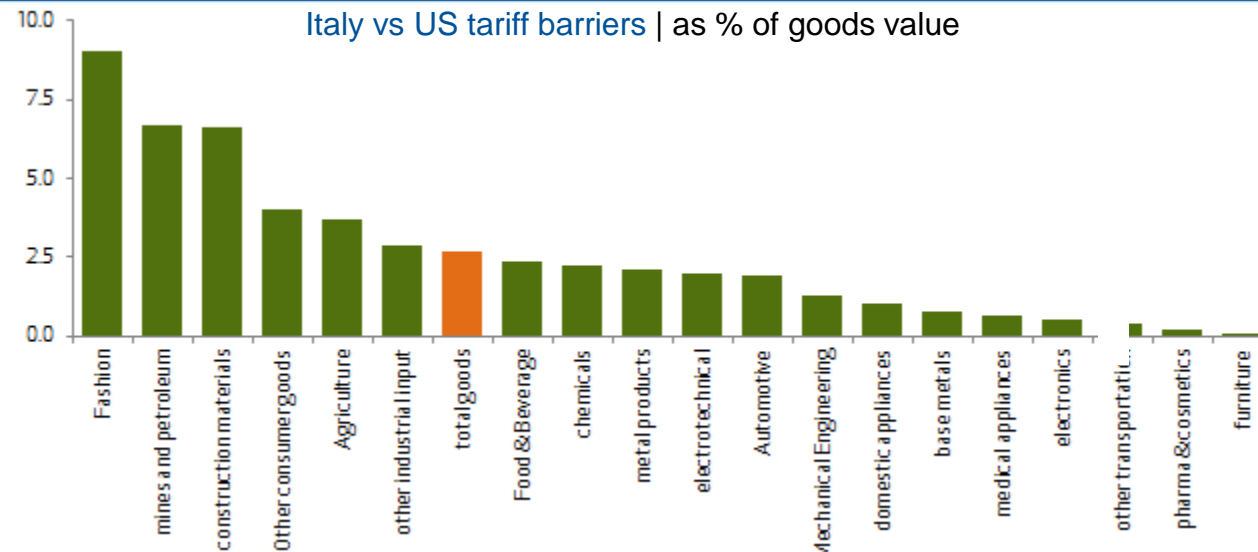
• Non tariff: on average of UE goods to US is 19%, the opposite is 17% (Ecorys, Ifo, Prometeia calculations)

• Sectoral differences are remarkable:

- **In the US: 2350 codes out of 5200 considered have no tariff, for 459 codes tariffs are higher than 10% (350% for tobacco)**
- **In the EU: 1461 codes out of 5200 considered have no tariff, for 591 codes tariffs are higher than 10% (75% for tobacco)**

# Trade barriers

... which differs among sectors



- **Tariff barriers:** on the average for Italian goods are near 3%.
- Fashion suffers the highest tariff barrier (around 9%), as well as Construction materials (6.6%).
- **Non tariff barriers** (25% on average) affect more fashion, mechanical engineering and agro-food industries

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# Assumptions and tools

## Econometric models

### MOPICE international trade model

- Forecast for > 120 industrial sectors' imports in > 70 countries.

### Prometeia macroeconomic international model

- > 2500 equations, forecast of monetary, fiscal and economic variables for 26 world regions.

### Prometeia quarterly Italian macroeconomic model

- > 1000 equations, forecast almost all monetary, fiscal and economic variables for Italy.

# Assumptions and tools

## Econometric models

Gain of competitiveness via reduction of export price (via reduction of trade barriers)

- Direct impact on Italian export and international trade prices.

Changes in international and domestic prices, changes in foreign aggregate demand

- Impact on world's inflation and growth.

Impact on Italy's economy via import prices and demand growth changes

- Direct and indirect impact on industrial production, occupation, consumption, GDP, etc.

# Assumptions and tools

## Three scenarios

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1. **Cautious:** abolition of tariff barriers only
2. **Intermediate:** removal of tariff barriers and 50% cut of non tariff barriers
3. **Extreme:** removal of both tariff and non tariff barriers

# Direct and indirect impact

## Inputs from international to Italian econometric model

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### differences from base scenario (% annual changes)

	cautious	intermediate	extreme
italian export prices	-0.09	-0.54	-0.93
competitors' export prices	-0.02	-0.08	-0.13
italian import prices	-0.03	-0.15	-0.27
potential foreign demand	0.14	0.78	1.38



# Direct and indirect impact

## Effects on Italy's economy

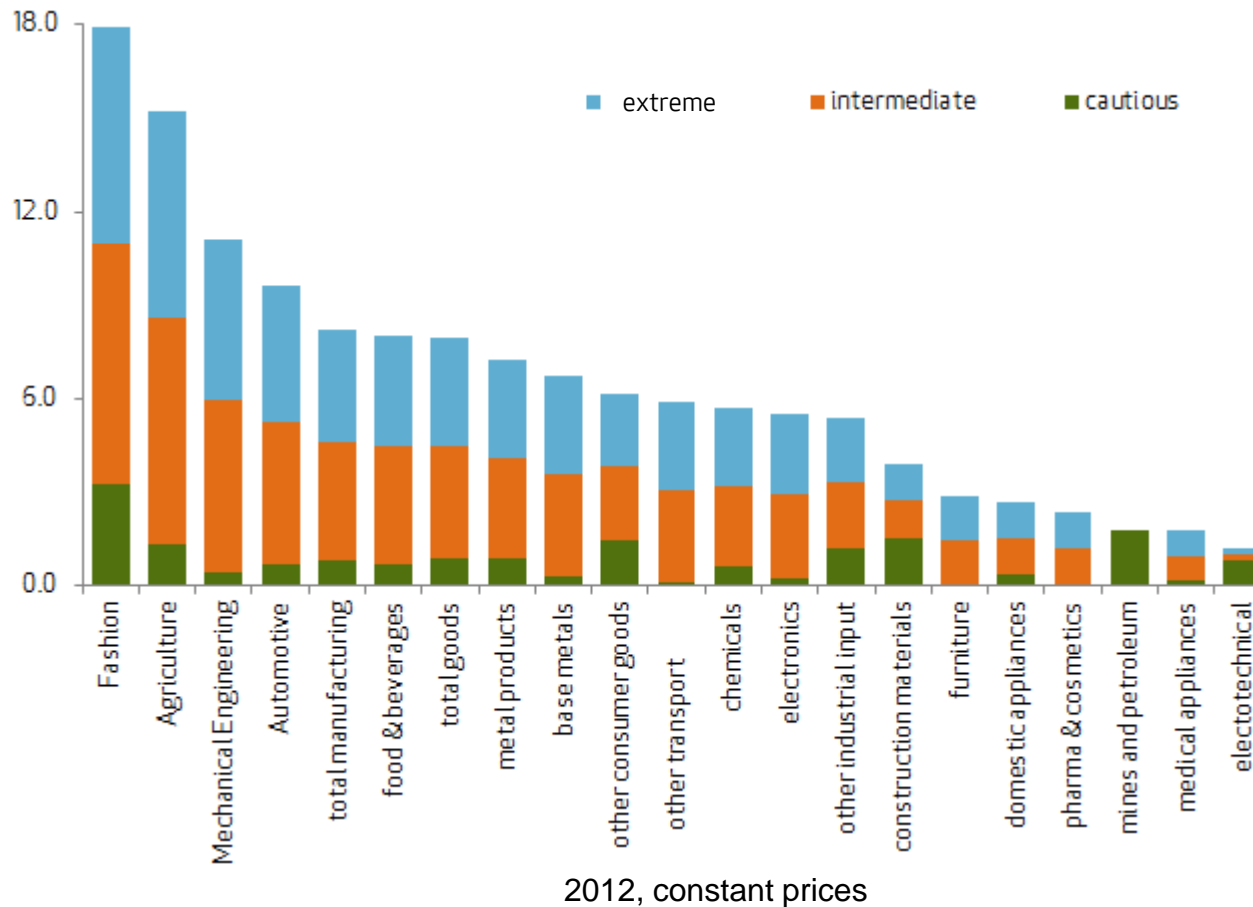
differences from base scenario (% changes, constant prices)

	cautious		intermediate		extreme	
	after 1 year	after 3 years	after 1 year	after 3 years	after 1 year	after 3 years
GDP	0.01	0.04	0.09	0.23	0.17	0.49
- export	0.05	0.17	0.33	0.92	0.58	1.60
- machinery investment	0.03	0.15	0.21	0.80	0.38	1.40
- consumption	0.00	0.01	0.00	0.02	0.00	0.04
employment	0.00	0.02	0.01	0.08	0.01	0.19

- Positive effects but only relevant with high liberalization.
- Impacts will reach their whole effect after 3 years from liberalization.
- The creation of 30.000 jobs is the most relevant result, but in the extreme scenario and after 3 years.

# Direct and indirect impact

## Italian export vs. US - % change vs. baseline

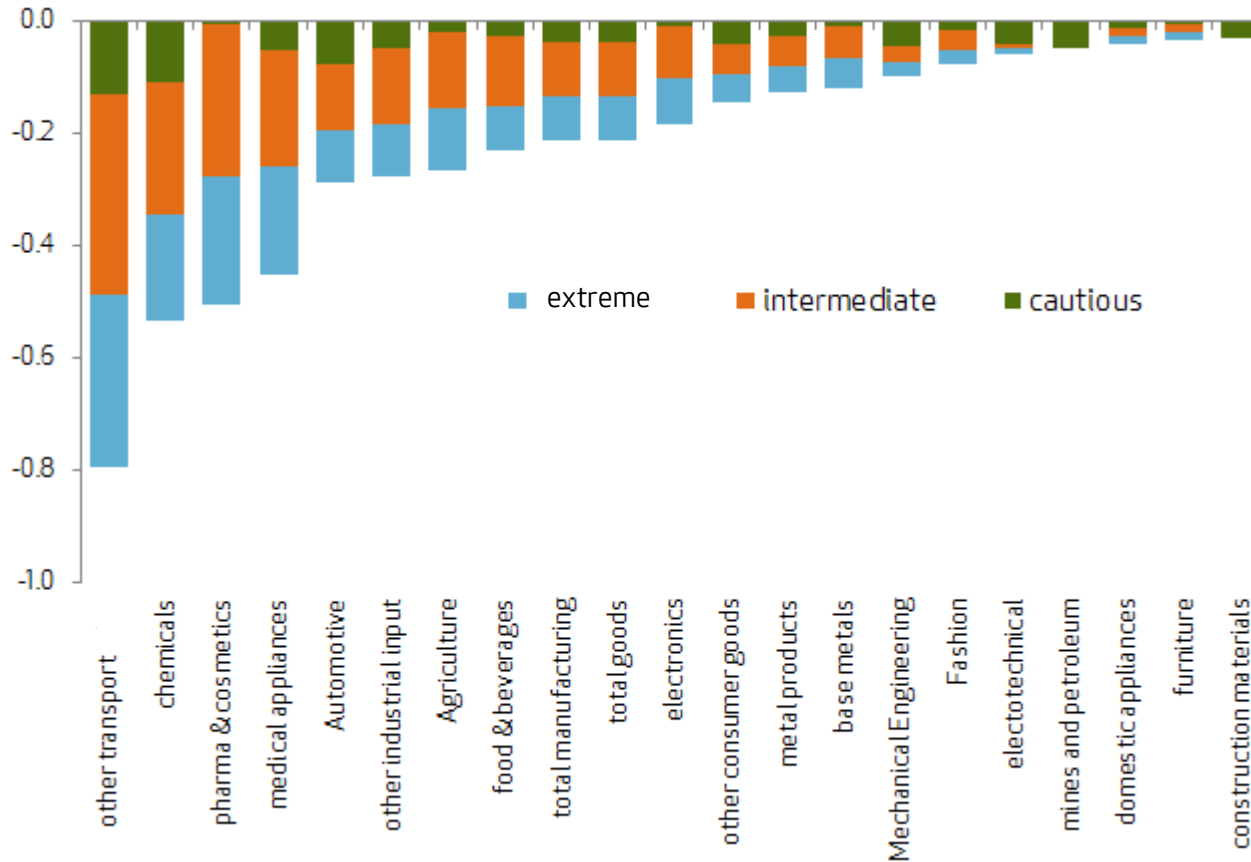


- Fashion, Agriculture, Construction products, Refined petroleum and other consumer goods (jewellery) gain the most from liberalization, also in cautious scenario; for other sectors, instead, gains begin only from the intermediate scenario.
- In manufacturing, also Mechanical engineering and Automotive are expected to experience a relevant growth, both in the intermediate and extreme scenario.

Source: Prometeia

# Direct and indirect impact

## Italian export vs. other EU countries - % change vs. baseline

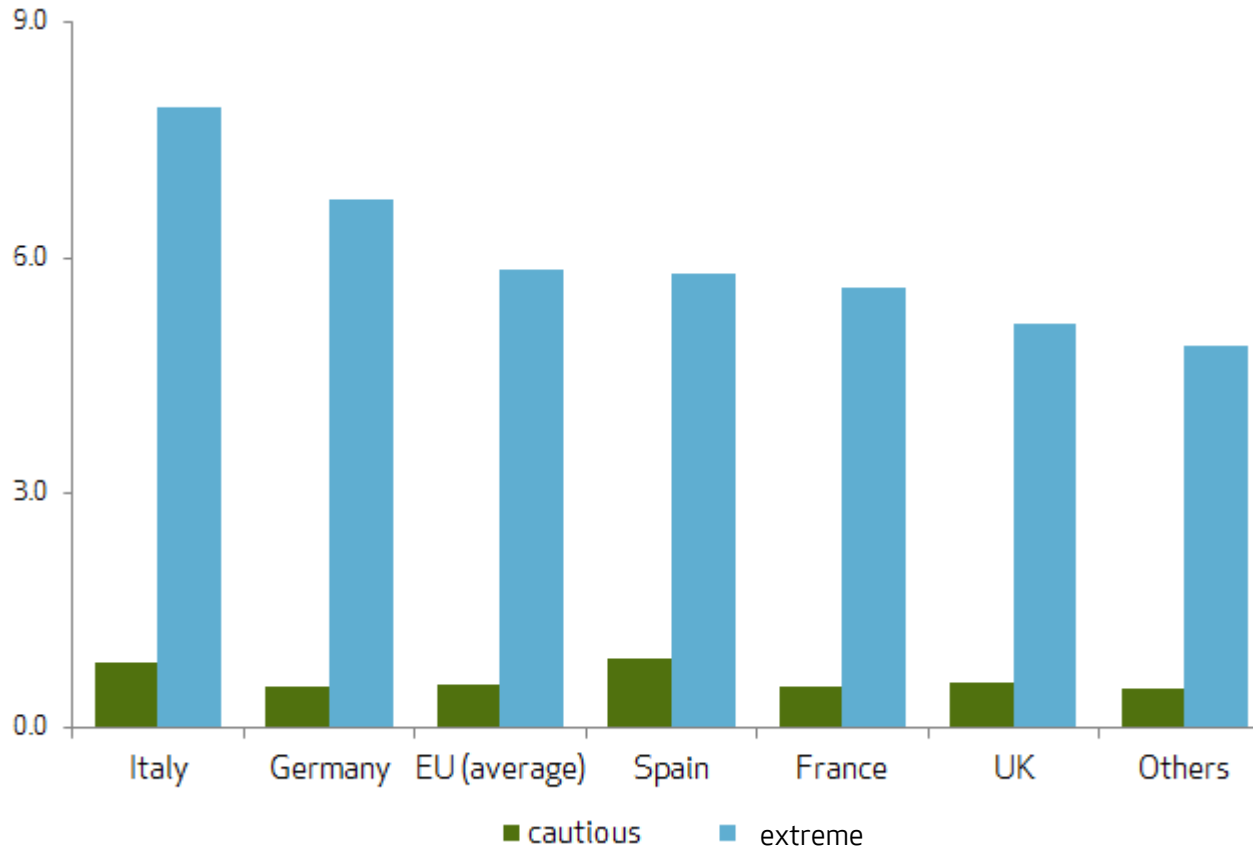


- US export growth towards EU markets could affect Italian export; by the way, overall impact should be limited, also in the extreme scenario.
- Other transport equipment, Chemicals and Medical appliances the most affected sectors, but with less than 1% drop in Italian export vs. other EU countries.

Source: Prometeia

# Direct and indirect impact

## EU countries export vs. US - % change vs. baseline



- Strong relevance of extra EU competitors on the US market and high exposure of Italian manufacturing sectors to non tariff barriers, make Italy the most favoured country in case of total liberalization of trade between US and EU.

Source: Prometeia

# Summing up

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1. Non-tariff barriers are much more important than tariff ones.
2. Sectoral effects can vary substantially and can be far more important than aggregate effects.
3. The use of estimated model allows to evaluate the dimension of direct and indirect effects and also the time in which the effects are likely to arise/develop.
4. Effects can differ widely among countries.



**THANK YOU!**

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