

TRANSATLANTIC TRADE & INVESTMENT PARTNERSHIP

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Set up today

- **Literature**
- **Context**
- **Free trade: public opinion**
- **Free trade best option?**
- **EU and US: Trade and investment patterns**
- **TTIP & criticisms**
- **Discussion**

Literature

Reducing Transatlantic Barriers to Trade and Investment

An Economic Assessment

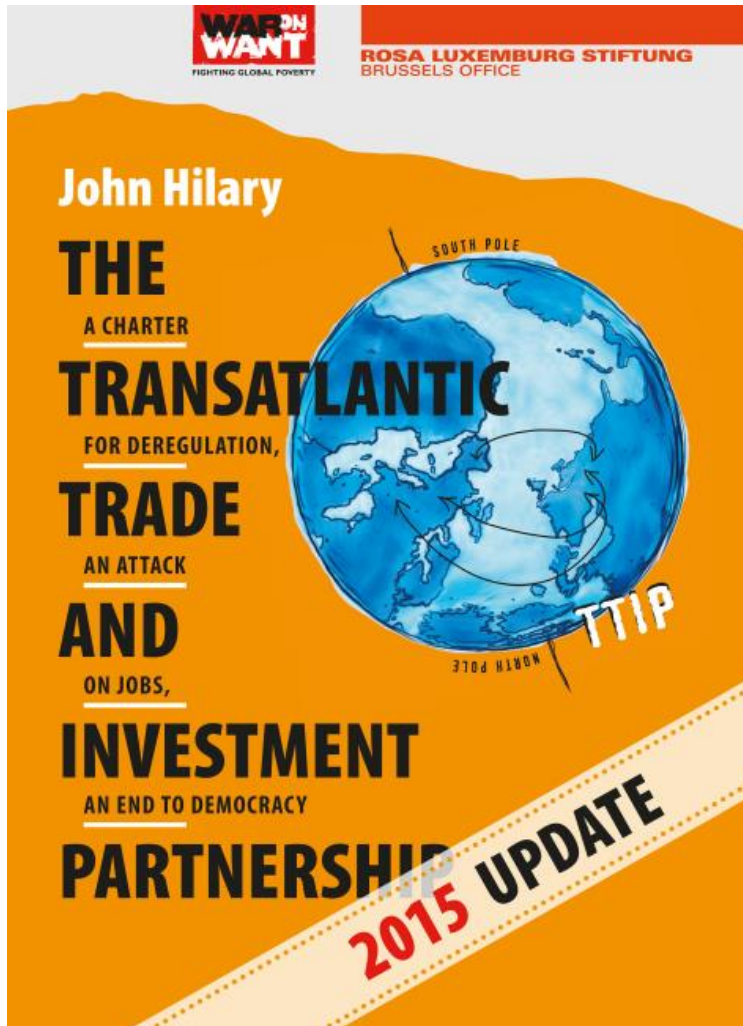
Final Project Report

March 2013

Prepared under implementing Framework
Contract TRADE10/A2/A16

Joseph Francois (project leader)
Centre for Economic Policy Research, London





The Geopolitics of TTIP

Hamilton, D.S. (2014) The Geopolitics of TTIP: Repositioning the transatlantic relationship for a changing world. Centre for Transatlantic Relations. John Hopkins University

Novák, T. Chapter 6: TTIP's implications for the Global Economic Integration of Central and Eastern Europe

Robertson, C. Chapter 9: CETA and TTIP: Implications and Lessons learned

Context

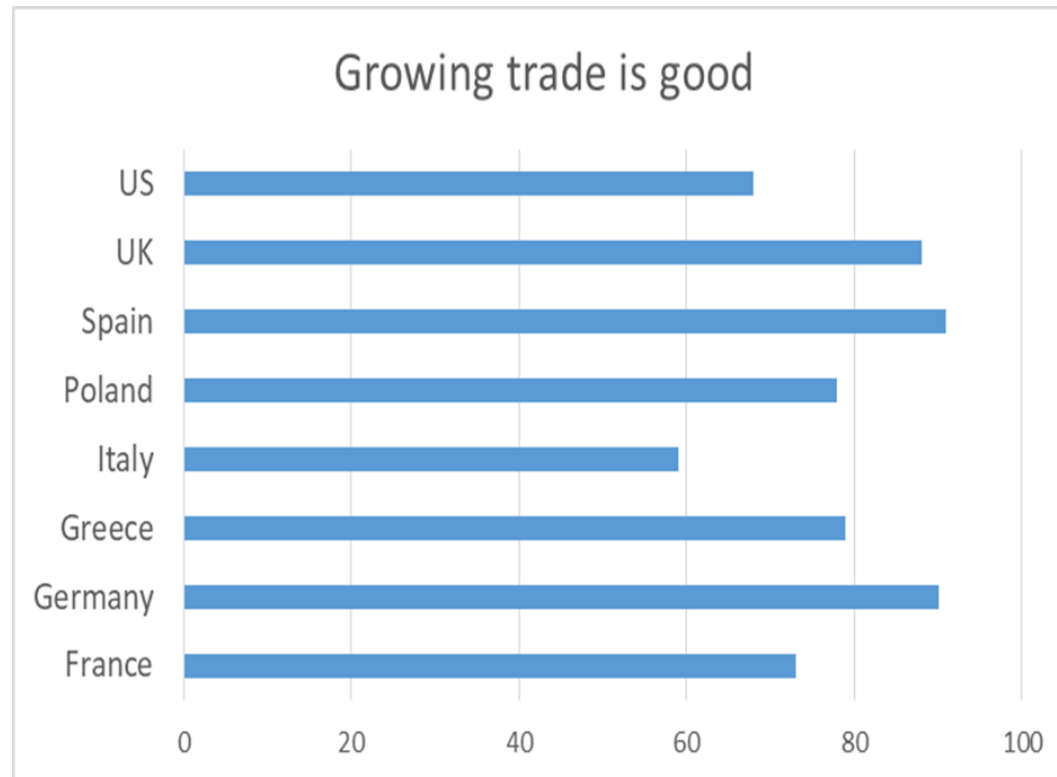
- **Theory: Trade is good for welfare**
- **Global economy is characterised by high level of globalisation**
 - Trade in goods and services, international capital investments, migration flows
- **Large majority of countries follow policies that foster globalisation**
- **Growing levels of interdependence**
- **Growing levels of international governance to manage and foster interdependence**
 - EU strongest example
 - Strong ↑ Regional Trade Agreements

Recent decades

- **Growing dissatisfaction with globalisation and integration**
- **1999 Battle of Seattle**
 - Eye-opener for economists
- **Globalisation seen as one of the causes of latest crisis**
- **EU: growing indications that citizens are questioning further integration**
- **Public is becoming increasingly aware of negative effects / adjustment costs / inequality of positive effects of globalisation and integration**
 - Politicians listen to voters

Opinions on free trade

- Pew Research Center (<http://www.pewresearch.org/>)
- Annual surveys, for a lot of countries world wide
- Survey 2014



Effects of trade

	Trade is good	Trade increases wages	Trade creates jobs	Trade lowers prices	Foreign companies buying companies is good	Foreign companies building factories is good
Spain	91	28	56	22	43	85
Germany	90	28	43	26	19	66
UK	88	34	50	24	39	82
Greece	79	21	44	35	31	67
Poland	78	38	51	26	40	75
France	73	14	24	28	32	75
Italy	59	7	13	22	23	61
US	68	17	20	35	28	75

More powers to EU?

	Q18 To deal with Europe's economic problems, would you favor or oppose giving more decisionmaking power to the European Union?			
	Favor	Oppose	DK/Refused	Total
France	45	55	0	100
Germany	47	50	2	100
Greece	27	71	2	100
Italy	38	50	12	100
Poland	44	41	15	100
Spain	43	53	4	100
United Kingdom	19	76	5	100

EU good for prosperity?

	Q61d Do you think the European Union d. promotes prosperity?			
	Yes	No	DK/Refused	Total
France	42	58	0	100
Germany	47	51	2	100
Greece	30	68	2	100
Italy	31	64	4	100
Poland	66	25	9	100
Spain	53	45	3	100
United Kingdom	53	41	6	100

TTIP: the German perspective

	Positive	Negative	Neutral	Don't know
Economic Growth	27	26	19	28
Employment and Labour market conditions	23	28	22	28
International Competitiveness	29	24	19	28
Your country's global influence	23	21	26	29
Consumer protection	12	48	13	27
Environmental standards	12	46	16	27
Workers' rights / social standards	10	40	22	29
Public services	10	27	31	31
Democracy	10	28	32	29
Regulatory sovereignty	9	37	22	32

Attitudes to global trade and TTIP in Germany;
Bertelsman Foundation.

Brexit: EU has gone too far?



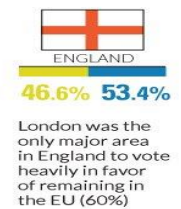
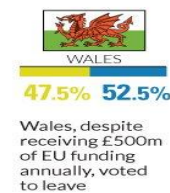
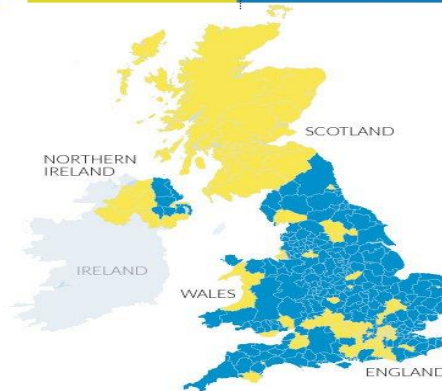
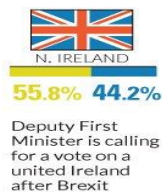
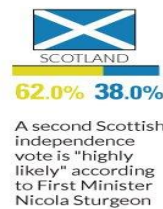
Chart of the Week

IS BREXIT THE FIRST OF MANY DOMINOES? UK and the rest of Europe brace for an uncertain future

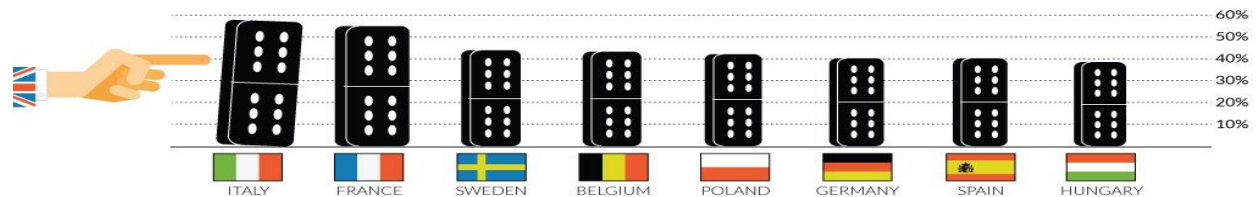
48% REMAIN

THE FINAL TALLY

LEAVE 52% WINNER



WHO ELSE WANTS A REFERENDUM?



What do we see?

- **Free trade popular topic again**
- **Overall, free trade is good**
 - But persistent minority against
- **Less support for positive effects of free trade (globalisation)**
- **Level of development affects opinion**
 - More developed economies already experienced the majority of the positive effects?
- **Growing importance of “non-trade-related” issues**
- **Brexit outlier or start of economic de-integration?**

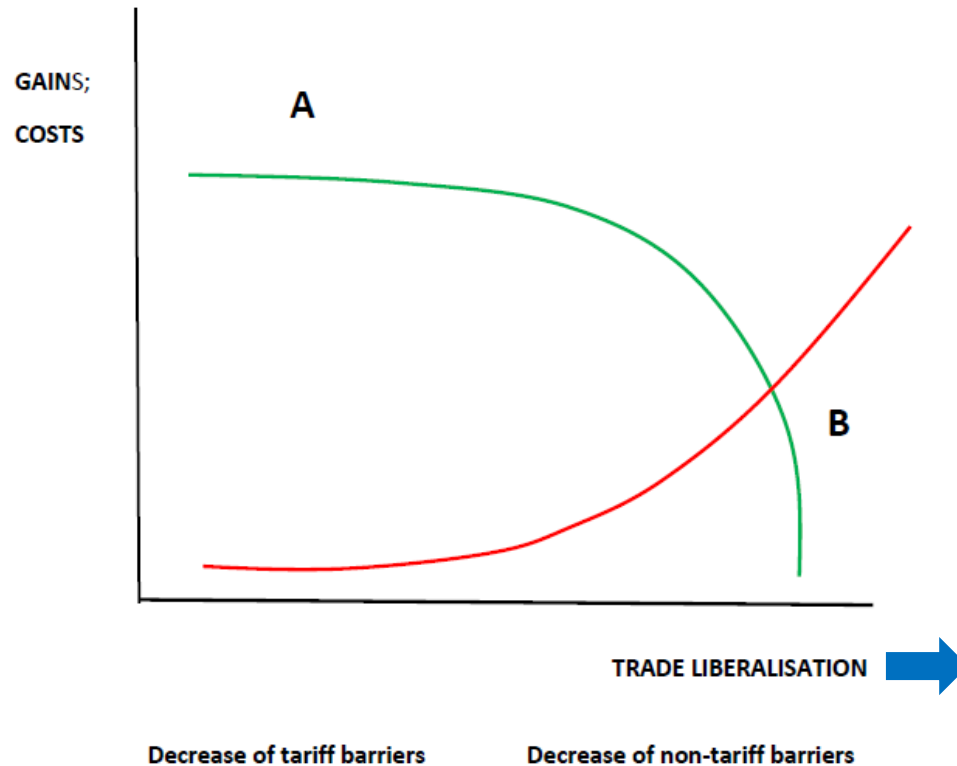
Free trade and welfare

- **Economics 1.01: free trade is best option!**
- **Concept of comparative advantage**
 - (Adam Smith, David Ricardo, Heckscher-Ohlin)
- **A country should specialise in product that it, relative to other countries, can produce most efficient**
- **Other countries do the same**
 - maximisation of production
 - through trade = maximisation of welfare
- **Concept of comparative advantage often misunderstood!**

It's a bit more complex

- **Many countries very similar, so who specialises in what?**
- **Strategic trade policy**
 - First mover advantage
 - Spillovers: everybody wants to have high tech industries!
- **Theory different from real cases**
 - Theory: from no trade to complete free trade
 - Not difficult to show that welfare increases
 - Different types of trade restrictions
 - What happens when trade is liberalised?
 - Adjustment costs?
 - Gains occur on aggregate: winners and losers
 - Redistribution?
- **What can a politician do when citizens don't believe that free trade is best option?**
 - Politician wants to get re-elected

Gains versus costs



(—) GAINS

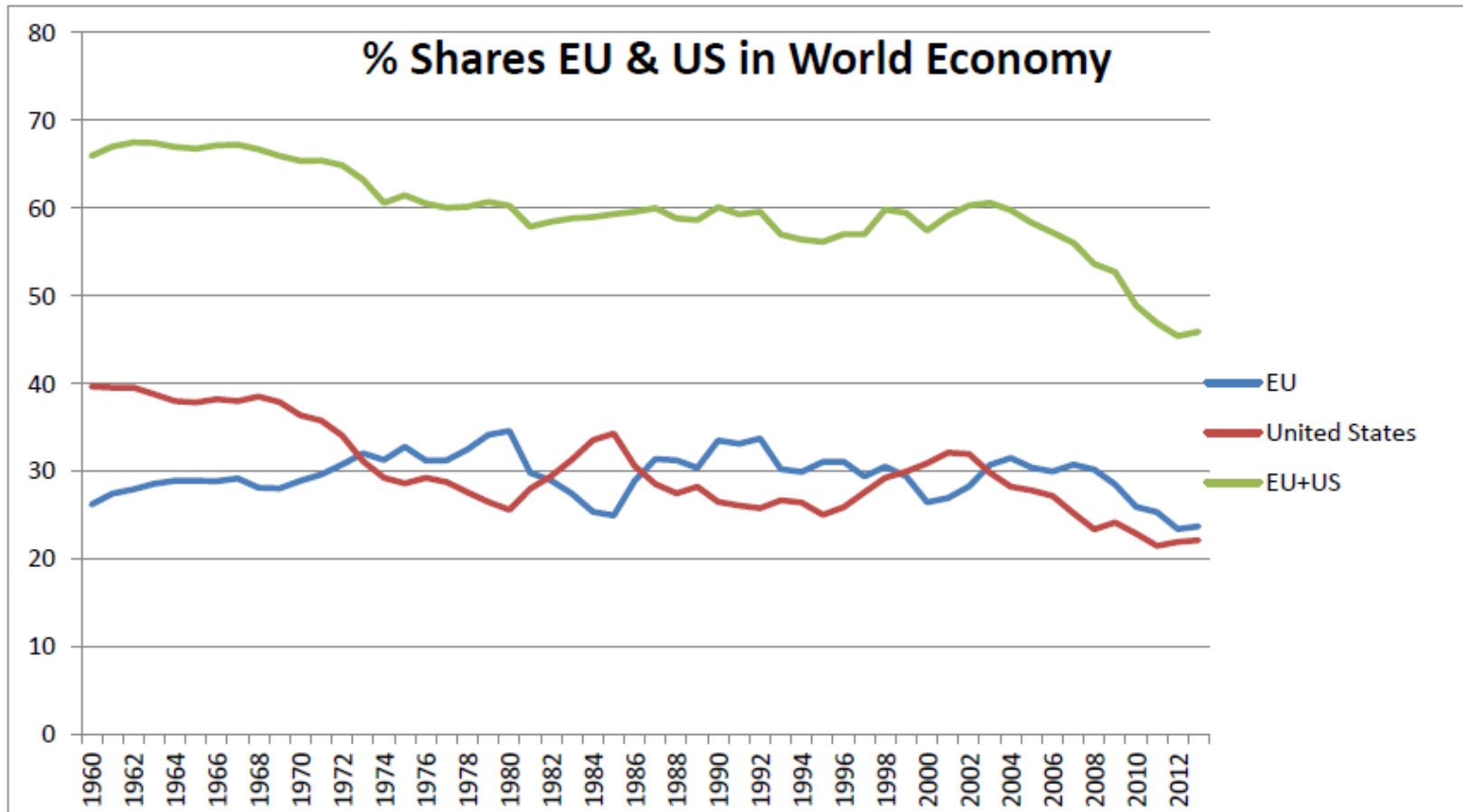
(—) COSTS

3. EU and US

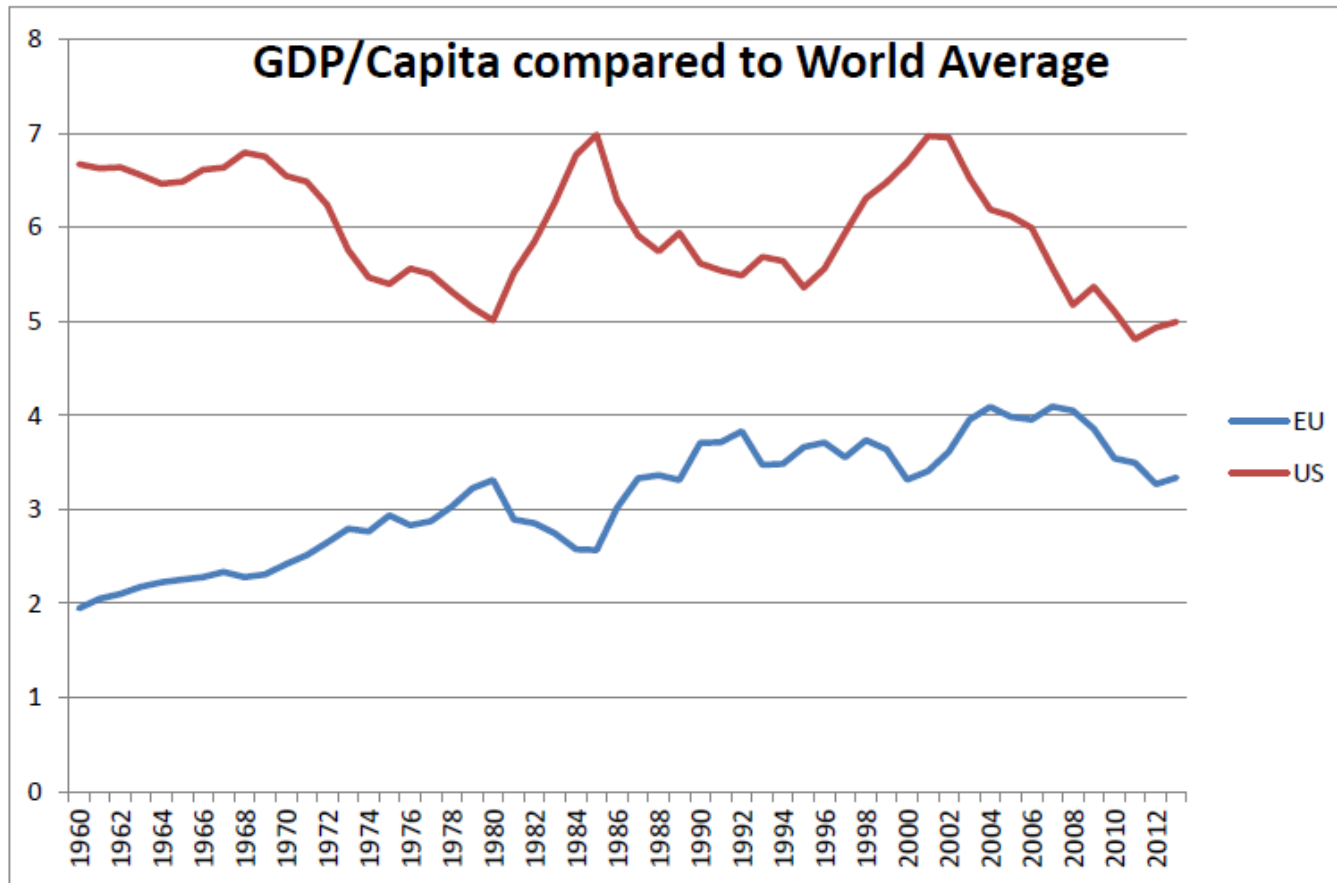
Context of trade negotiations

- **US and EU have problems with recovering from crisis / reinitiating growth**
- **On-going integration in Asia**
 - Trans Pacific Partnership agreement
- **Stagnation trade liberalisation in WTO**
- **Stagnation gains from integration in EU**
- **Multinational enterprises are increasing pressure**
- **Potential of trade agreement between two largest markets in the world economy**

US and EU in world economy



GDP/Capita US and EU



Key role in international trade

Share (%) of regional trade flows in each region's total merchandise exports

	North America	South and Central America	Europe	CIS	Africa	Middle East	Asia	World
World	17.3	4.0	36.7	2.8	3.5	4.2	29.7	100
North America	50.2	8.6	15.2	0.7	1.7	3.2	20.2	100
South and Central America	24.8	25.8	16.4	1.4	2.5	2.4	24.5	100
Europe	7.9	1.7	68.5	3.2	3.3	3.4	10.8	100
Commonwealth of independent states	3.9	0.9	52.4	17.8	2.1	3.1	18.2	100
Africa	7.0	5.1	36.2	0.4	17.7	3.3	27.3	100
Middle East	7.7	0.8	11.5	0.5	2.8	8.8	53.9	100
Asia	18.0	3.1	15.2	2.1	3.5	5.1	52.3	100

Source: Based on data from World Trade Organization; data is for 2014

Key role in international investment

Share in worldwide
inward FDI
EU 35%; US 20%

Share in worldwide
outward FDI
EU 40%; US 24%

Table II.8. FDI stock in the United States, by major source economy, 2012

Source	FDI stock (\$ million)	Share (%)
United Kingdom	486 833	18.4
Japan	308 253	11.6
Netherlands	274 904	10.4
Canada	225 331	8.5
France	209 121	7.9
Switzerland	203 954	7.7
Luxembourg	202 338	7.6
Germany	199 006	7.5
Belgium	88 697	3.3
Spain	47 352	1.8
Australia	42 685	1.6
European Union	1 847 567	62.2
All countries total	2 650 832	100.0

Source: UNCTAD, Bilateral FDI Statistics (<http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>).

Table II.7. United States FDI stock abroad, by major recipient economies, 2012

Destination	FDI stock (\$ million)	Share (%)
Netherlands	645 098	14.5
United Kingdom	597 813	13.4
Luxembourg	383 603	8.6
Canada	351 460	7.9
Ireland	203 779	4.6
Singapore	138 603	3.1
Japan	133 967	3.0
Australia	132 825	3.0
Switzerland	130 315	2.9
Germany	121 184	2.7
European Union	2 239 580	50.3
All countries total	4 453 307	100.0

Source: UNCTAD, Bilateral FDI Statistics (<http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>).

Key role multinationals

- **US and EU have many multinationals**
- **Large shares in modern manufacturing industries**
- **Key role in services**
- **Dominance in international trade**
- **Key role in creating new technologies**
- **International diffusion of technologies**

- **We cannot ignore this in discussions on trade liberalisation and agreements**

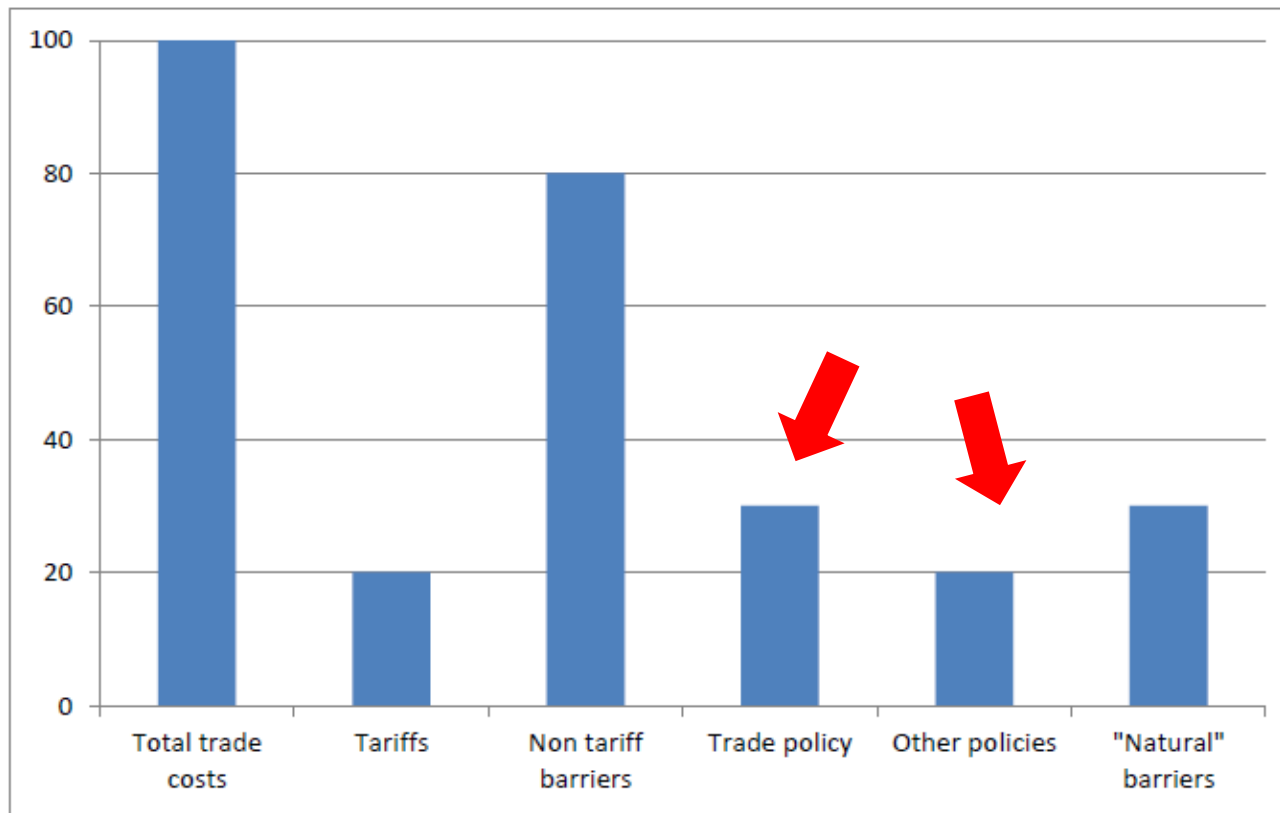
4. TTIP

- **EU-Canada CETA**
- **Negotiations have been completed, EU parliament has voted in favour**
- **Provisional start February 2017**
- **Now it's with the national governments**

- **TTIP**
- **Transparency and disclosure of information is much larger compared to previous trade negotiations**
- **<http://ec.europa.eu/trade/policy/in-focus/ttip/>**

One of the key issues for TTIP

Where will the gains from trade liberalisation come from?



Non tariff barriers (1)

- **Limiting market access**
 - Import quotas, export restraints, discriminatory measures against foreign firms
- **Costs associated with operating in different markets**
 - Approval conditions and procedures
 - Environment and health standards; consumer protection
 - Industry standards; packaging and information requirements
- **How to assess need for NTBs?**
 - Some of the NTBs exist for good reasons
 - Mixture of backgrounds (labour rights, environment)
 - Mix of trade policy and other policies

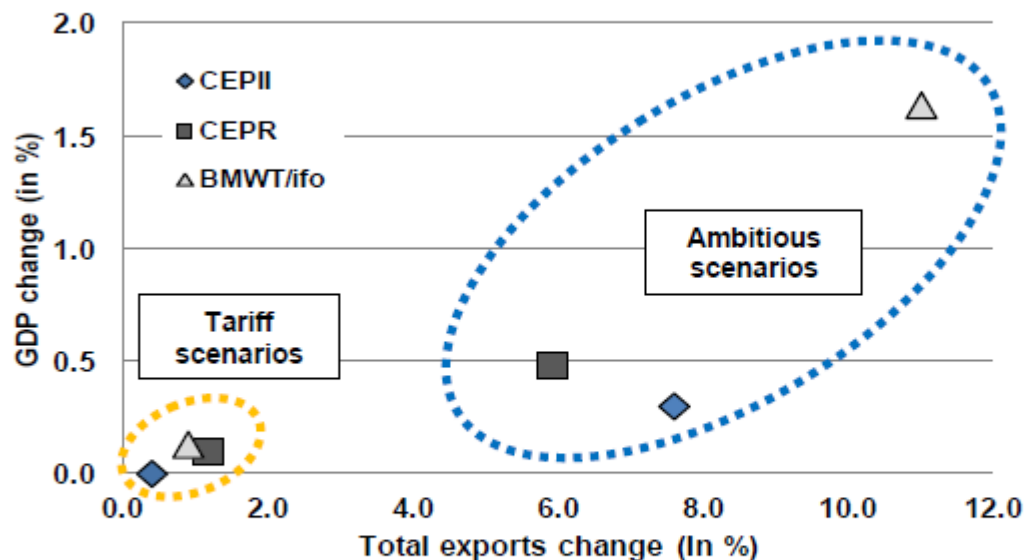
Non tariff barriers (2)

- **Lowering NTBs important to increase gains from TTIP**
- **Completely removing NTBs is going to be very difficult**
- **Alternatives**
 - Harmonisation
 - Mutual recognition
- **Public concern: race to the bottom?**
 - “unfair” competition when NTBs differ: countries will be forced to accept lower standards
- **Is this really the case?**
 - No relation between trade openness and level of standards
 - What about consumer choice?

Predicted effects of TTIP

- **Difficult art of forecasting**
- **Computable general equilibrium models**
- Trade liberalisation = decrease in trade costs → increase in competition → competitive sectors grow → increase trade and GDP
- Ecorys (2009) Non tariff measures in EU-US trade and investment- An economic Analysis. Study for European Commission
- Fontagne et al. (2013) Transatlantic Trade: Whither partnership, which economic consequences? CEPII
- Francois, J. et al. (2013) Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment. CEPR
- FelberMayr, G. et al. (2014) Transatlantic Trade and Investment Partnership: Who benefits from a free trade deal? Bertelsman Stiftung

Figure 5: Comparison of total exports and GDP changes (in %)



Source: CEPR (2013), CEPII (2013), own calculation based on BMWT/ifo (2013)

Changes compared to baseline scenario; BMWT/ifo results based on "NTB-Scenario" (p93 – trade weighted changes with 2007 comtrade data)

Source: Raza et al. (2014)

Effects according to CEPR

Table 16 Changes in GDP (in per cent), 2027 benchmark, 20 per cent direct spill-overs

	A=B+C+ D+E+F	B	C	D	E	F	G
	Total	tariffs	total NTBs goods	total NTBs services	direct spill- overs	indirect spill-overs	procurement
	Stemming from the liberalisation of						
Less ambitious experiment							
European Union	0.27	0.10	0.12	0.01	0.03	0.01	0.02
United States	0.21	0.04	0.11	0.03	0.03	0.00	0.01
Ambitious experiment							
European Union	0.48	0.11	0.26	0.03	0.07	0.02	0.05
United States	0.39	0.04	0.23	0.06	0.06	0.00	0.03

Source: CGE calculations.

€ 500 per household in EU
€ 655 per household US

Figure 3: Change in real per capita income in the EU27, tariff scenario

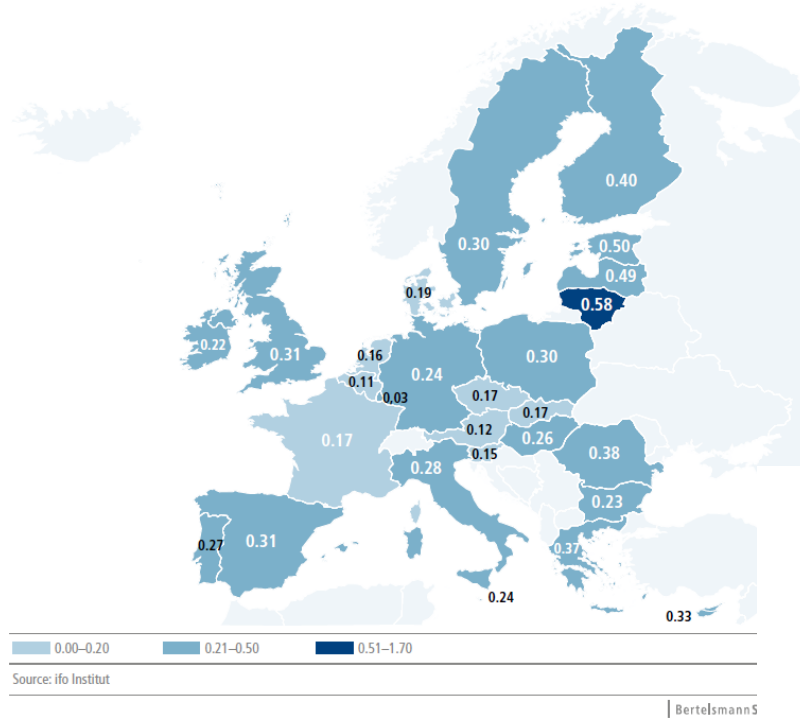
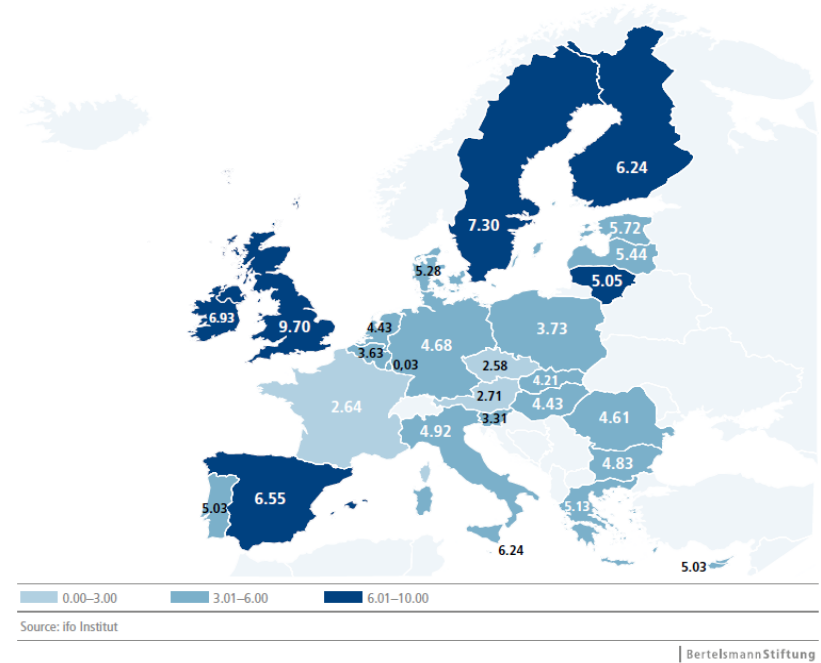


Figure 5: Change in real per capita income in the EU27, deep liberalization



Additional positive effects

- **Consensus on moderate gains**
- **Additional effects**
 - **Dynamic effects**
 - Scale economies
 - Productivity increases
 - Development of new technologies & industries
 - **Restructuring and flexibilization EU economies**
 - See problems with recovering from financial crisis
 - **Positive effects on other countries?**
 - Increase in world demand & easier access to combined US & EU market
 - **Positive effect on trade liberalisation under WTO?**
 - Pressure on China?

Criticisms (1)

- **Impact studies have received a lot of criticism**
- **Macroeconomic adjustment costs**
 - Changing capital flows
 - Public sector
 - Less income from tariffs → decrease government income
 - Needs to be compensated by economic growth
- **Unemployment**
 - More trade, increase GDP → increase employment
 - But: sectoral reallocation of labour!
 - This takes time, is costly, spatially concentrated, not everyone will be successful
 - Adjustment costs likely to be substantial!

Criticisms (2)

- **How to deal with unequal gains?**
 - Some countries will benefit more than others
 - Coherence in EU?
 - Is (Eastern) Europe ready for large increase in competition?
 - Effect on third-party countries
- **Social costs of regulatory change**
 - Which NTBs can be removed, harmonised, mutually recognised?
 - Change in regulation = cost for firms
 - Danger of race to the bottom?
- **Horizontal versus sector specific**
 - Medicines, cosmetics, food, raw materials, motors, etc.
 - What are the gains when there are so many exceptions?

Criticisms (3)

- **Investor state dispute settlement system (ISDS)**
 - System to solve disputes between foreign investors and state
 - Many countries have bilateral treaties
 - Concern: government constrained in designing policies?
- **What about WTO?**
- **Public services under threat?**
 - Role of government versus private sector + increasing participation by foreign firms
- **TTIP is made for multinationals?**
- **Threat to democracy?**

Concluding remarks (1)

- **Globalising world economy**
 - Ongoing liberalisation of trade and investment
 - What is the alternative?
- **Stagnation WTO → Countries are looking for alternatives**
 - WTO has made a lot of progress!
- **TTIP: potential trade agreement between the two largest markets**
- **Negotiations surrounded by a lot of commotion**
- **Difficult to appreciate all the arguments**
 - Substantial minority does not like free trade, even in EU!

Concluding remarks (2)

Key issues from economic perspective

- **Moderate gains versus adjustment costs?**
- **Tariffs versus NTBs**
 - Lowering NTBs key for gains
 - Harmonisation, mutual recognition, many areas affected
- **Unequal gains? Winners and losers?**
 - Redistribution necessary? Feasible?
 - Within and between countries?
- **Effects on third-party countries?**
- **Effect on trade liberalisation under WTO?**