

d·i·e

Deutsches Institut für
Entwicklungspolitik



Years | 1964 – 2014

German Development
Institute

The European debate on TTIP and global impacts of free trade agreements

Axel Berger, Deutsches Institut für Entwicklungspolitik (DIE)

Stiftung Asienhaus
Brussels, 4.11.2015



- 1. What are free trade agreements (FTAs)?**
- 2. FTAs as global governance instruments**
- 3. The TTIP agenda**
- 4. Growing criticism against TTIP in Europe**
- 5. Potential impact of TTIP on developing countries**



1. What are free trade agreements (FTAs)?

2. FTAs as global governance instruments
3. The TTIP agenda
4. Growing criticism against TTIP in Europe
5. Potential impact of TTIP on developing countries

1. What are FTAs?



- World Trade Organisation (WTO) as the central pillar of the global trading system
- But multilateral negotiations in the Doha Development Round are deadlocked
- Countries increasingly negotiate trade rules outside of the WTO



1. What are FTAs?

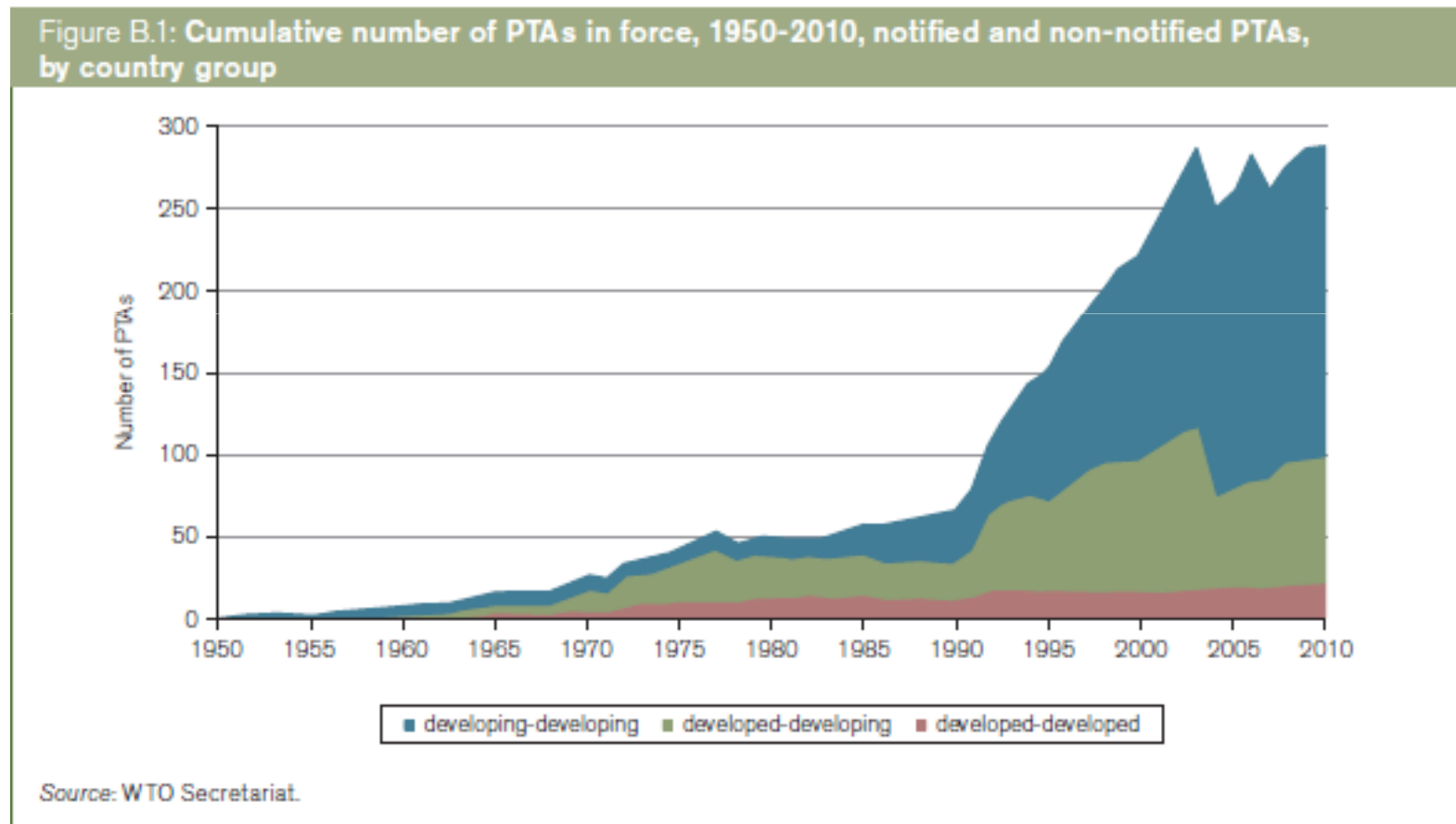


- In FTAs two (or more) countries agree to liberalise bilateral trade barriers without granting these preferences to 3rd countries
- De facto violation of the one of the WTO's core principles : most-nation treatment (MFN)
- WTO (GATT Art XXIV) allows FTAs if:
 - Substantially all trade is liberalised
 - Trade barriers are not raised vis-a-vis 3rd countries
 - Enabling Clause for developing countries

1. What are FTAs?



- FTAs are becoming more **numerous** ...



1. What are FTAs?



➤ ... bigger ...

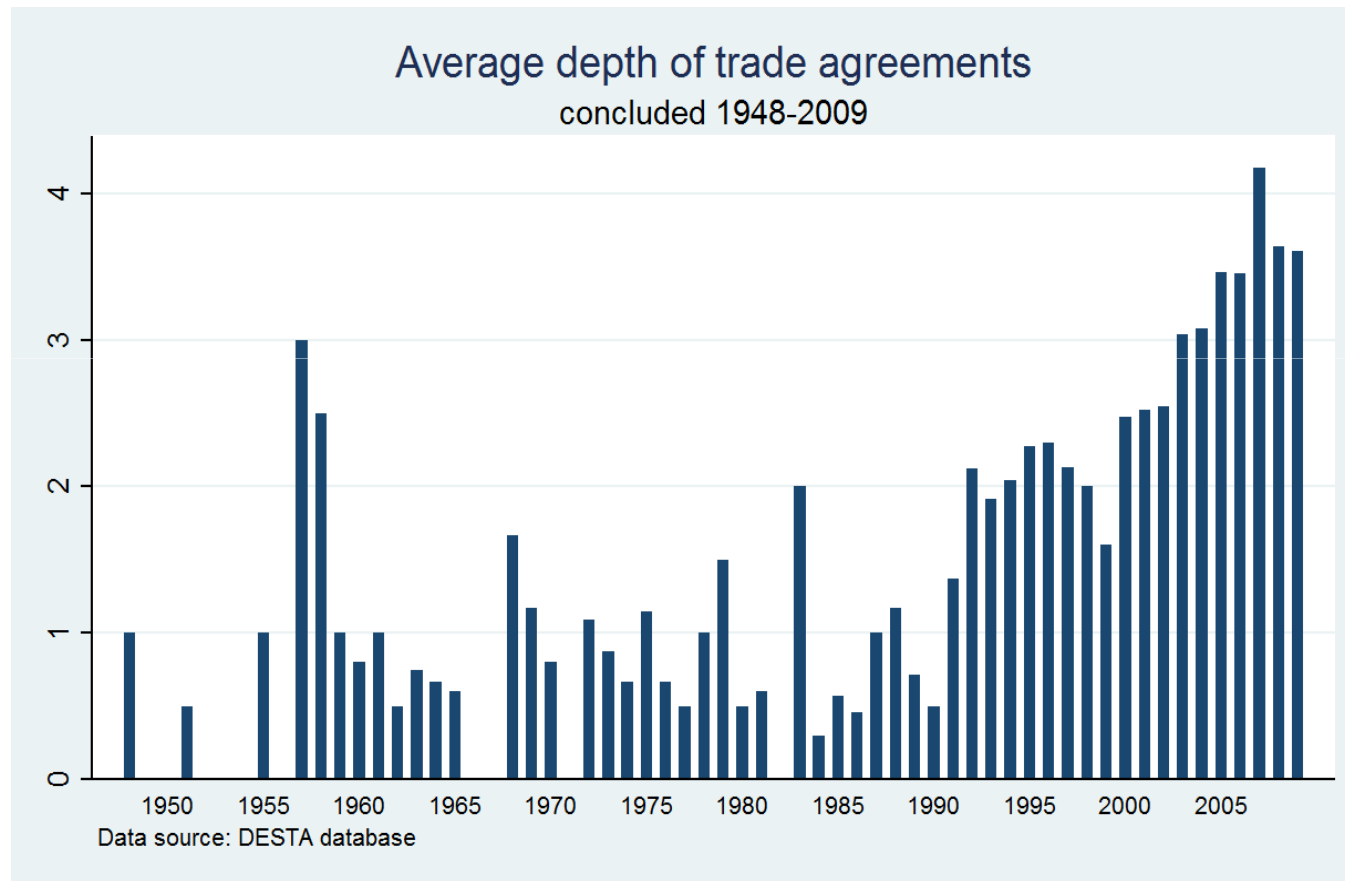
Treaty	Participants	GDP 2012 (% of world)	Trade volume 2012 (% of world)
TTIP	EU, USA („2“)	45%	44%
TPP	Pazifik (12)	39%	26%
RCEP	Asien (16)	29%	27%
TISA	„really good friends of services“ (23)	66%	64%

Source: Dominique Bruhn 2015

1. What are FTAs?



➤ ... and deeper.



Source: Dominique Bruhn 2014



1. What are free trade agreements (FTAs)?

2. FTAs as global governance instruments

3. The TTIP agenda

4. Growing criticism against TTIP in Europe

5. Potential impact of TTIP on developing countries

2. FTAs as global governance instruments



“... the expansion of trade agreements to address so many new issues means that these agreements go far beyond the traditional issues of protectionism and economic integration. In effect, **it makes trade agreements one of the main sources of global governance across all policy areas.** While there is certainly nothing that exists today that could be called a ‘global government,’ global governance is expanding and it is doing so in the form of trade agreements.”

Inu Barbee and Simon Lester (2014): The TPP and the Future of Trade Agreements , in: Latin American Journal of International Trade Law, Vol. 2, Issue 1, 207-225.

2. FTAs as global governance instruments



The expansion of FTAs' agenda

WTO+	FTA Industrial, FTA Agriculture, Customs, Export Taxes, Sanitary and Phytosanitary Measures , Technical Barriers to Trade , State Trading Enterprises (STE), Antidumping, Countervailing Measures, State Aid, Public Procurement , Trade-Related Investment Measures (TRIMS), Services (GATS), Trade-Related Intellectual Property Rights (TRIPs)
WTO-X	Anti-Corruption, Competition Policy , Environmental Laws, Intellectual Property Rights , Investment , Labour Market Regulation, Movement of Capital, Consumer Protection, Data Protection, Agriculture, Approximation of Legislation, Audio Visual, Civil Protection, Innovation Policies, Cultural Cooperation, Economic Policy Dialogue, Education and Training, Energy, Financial Assistance, Health, Human Rights , Illegal Immigration, Illicit Drug, Industrial Cooperation, Information Society, Mining, Money Laundering, Nuclear Safety, Political Dialogue, Public Administration, Regional Cooperation, Research and Technology, SME, Social Matters, Standards , Statistics, Taxation, Terrorism, Visa and Asylum

2. FTAs as global governance instruments



What are the reasons for the inclusion of beyond-tariff issues in FTAs?

- Tackle behind the border barriers to trade
- Trade and investment nexus and expansion of GVCs
- Appeasing anti-trade lobbies
- FTAs have "bite"
- ...



1. What are free trade agreements (FTAs)?
2. FTAs as global governance instruments

3. The TTIP agenda

4. Growing criticism against TTIP in Europe
5. Potential impact of TTIP on developing countries

3. The TTIP agenda



*“A future deal among the two most important economic powers will be a **game changer**. Together we will form the **largest trade zone in the world**.” (José Manuel Barroso, Brussels, 13 Feb. 2013)*

*“An **ambitious, comprehensive** and **high-standard** TTIP can generate new business and employment by **significantly expanding trade and investment** opportunities in the US and the EU.” (USTR notification of TTIP negotiations to Congress, 20 March 2013)*

*“[...] a comprehensive agreement that addresses a broad range of bilateral trade and investment issues, including regulatory issues, and which **contributes to the development of global rules**, would provide the most significant mutual benefit.” (HLWG 2013)*

3. The TTIP agenda



Market access

- Trade in goods
- Trade in services
- Government procurement
- Rules of origin

Regulatory cooperation

- Mutual recognition
- Technical Barriers to Trade (TBT)
- Sanitary and Phytosanitary Standards (SPS)

Rules

- Sustainable development
- Competition
- Investment
- Intellectual property

3. The TTIP agenda



Start of negotiations on July 7th 2013



11th round of negotiation in October 2015



Open end...

- Probably no deal before 2016

Current state of affairs:

➤ Market access

- Preparation for an exchange of revised offers concerning the service sector
- Discussion about useful clarifications on industrial tariffs as well as agricultural market access

➤ Regulatory cooperation

- EU presented revised proposal for regulatory cooperation
- In depth discussion of all nine sectors covered in this pillar

➤ Rules

- EU proposal for a court to settle investment disputes
- EU plans to present a text concerning sustainable development and environment at the next discussion round



1. What are free trade agreements (FTAs)?
2. FTAs as global governance instruments
3. The TTIP agenda

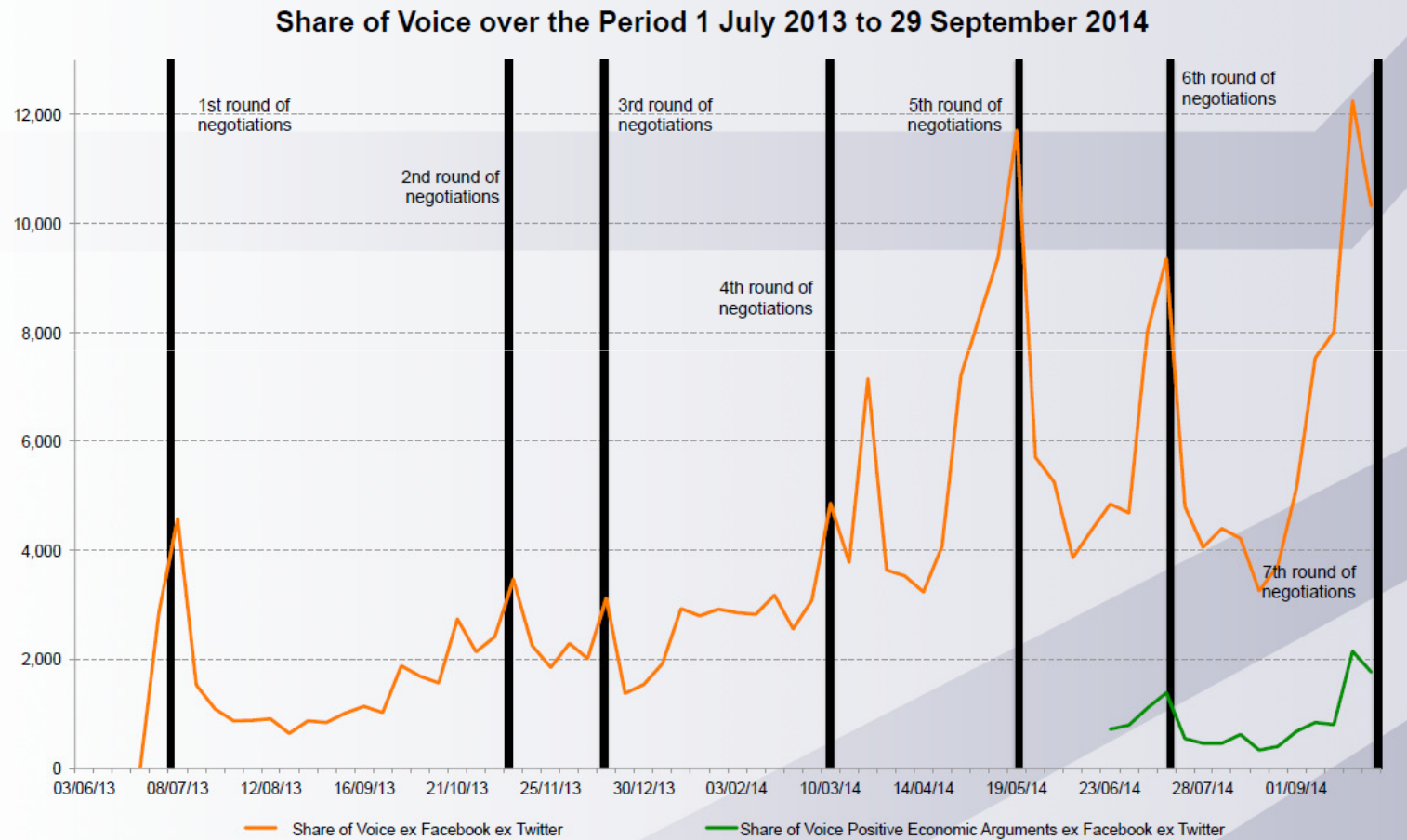
4. Growing criticism against TTIP in Europe

5. Potential impact of TTIP on developing countries

4. Growing criticism against TTIP in Europe



TTIP Online Media Coverage ex Facebook ex Twitter



Source: Matthias Bauer „TTIP Storytellers and Storytelling, 19. November 2014

4. Growing criticism against TTIP in Europe



Controversial issues

- Impact of TTIP on public policy-making and democracy (Investor-State-Dispute-Settlement; Regulatory Cooperation)
- Pressure on level of environmental, social and health standards (GMOs, fracking, etc.)
- Participation and transparency

4. Growing criticism against TTIP in Europe



Who is driving the critical movement?

- 56% of European are in favour of TTIP
- but only 31% of Germany favour TTIP!
- Why Germany? Anti-American sentiments (data protection, spying etc.), high median age (46.1), German „angst“ of reforms ...



1. What are free trade agreements (FTAs)?
2. FTAs as global governance instruments
3. The TTIP agenda
4. Growing criticism against TTIP in Europe
- 5. Potential impact of TTIP on developing countries**



Why should TTIP matter for developing countries?

- Because “free” trade agreements (FTAs) have trade diversion effects that affect developing countries
- Because FTAs establish “deep” rules that affect developing countries’ policy space
- Because “Mega Regionals” question the relevance of the World Trade Organization (WTO) more than ever before

5. Potential impact of TTIP on developing countries



- TTIP negotiations generate many concerns: e.g. lowering of social and environmental standards, dispute rights for investors etc.
- Not yet so much on the agenda in the public: the effects beyond the EU and the US, including for developing countries
- European Commission:

*“More specifically, the GDPs of high income OECD economies (minus the US and EU) are found to gain collectively as much as €36 billion (or +0.19%) in an ambitious TTIP scenario. The same goes – though to a lesser extent – for the low income countries, would see GDP gains of some €2.4 billion. **These expected gains suggest that the benefits to the EU and the US will not be achieved at the expense of the rest of the world.**”*

(COM 2013: Transatlantic Trade and Investment Partnership. The Economic Analysis Explained)

5. Potential impact of TTIP on developing countries

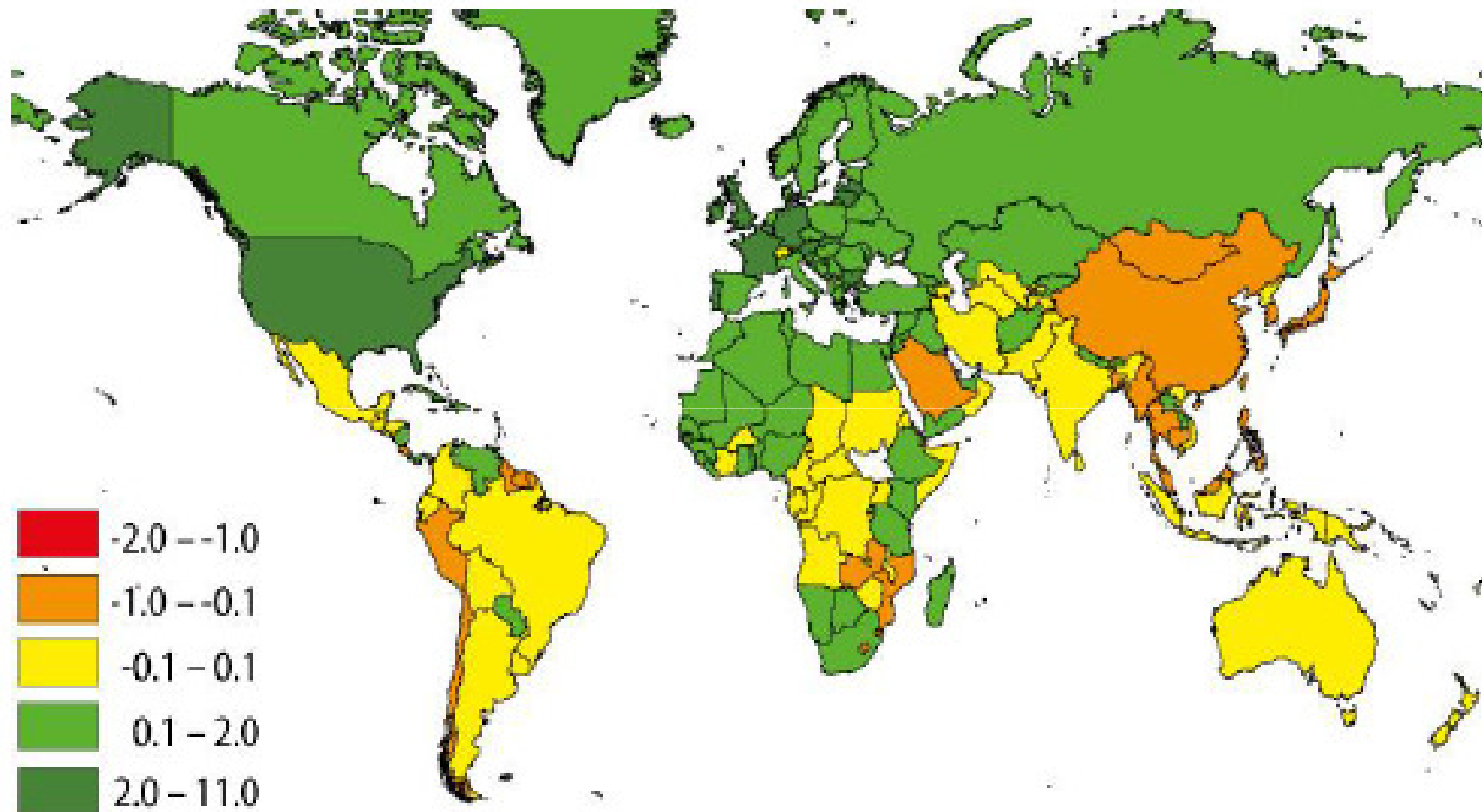


Table 9. Welfare effects: Conditioning effects of different regional mega deals (%)

	[1] TTIP	[2] TPP	[3] RCEP	[4] TPP after TTIP	[5] RCEP after TTIP	[6] TTIP after TPP	[7] TTIP after RCEP	
	EU 28	3.94	-0.21	-0.22	-0.42	-0.15	3.70	4.04
29	United States	4.89	2.14	-0.66	2.06	-0.61	4.82	4.95
30	Australia	-2.01	2.37	7.42	2.98	8.01	-1.50	-1.55
31	Brazil	-0.77	-0.52	-0.43	-0.45	-0.49	-0.71	-0.83
32	Canada	-3.09	0.27	0.16	0.70	0.05	-2.73	-3.20
33	China	-0.50	-0.86	4.86	-0.78	4.98	-0.43	-0.41
34	India	-0.31	-0.24	1.75	-0.20	1.77	-0.27	-0.30
35	Japan	-0.51	8.20	8.88	7.34	9.12	-1.22	-0.31
36	Mexico	-2.56	-1.13	-0.17	-0.97	-0.30	-2.41	-2.69
37	Norway	-1.91	-0.27	-0.29	-0.17	-0.38	-1.81	-2.01
38	Russian Federation	-1.01	-0.64	-0.92	-0.56	-1.03	-0.94	-1.13
39	South Africa	-1.69	-0.52	-0.52	-0.43	-0.64	-1.61	-1.82
40	Turkey	-1.56	-0.24	-0.32	-0.16	-0.41	-1.47	-1.65

Source: Authors' calculations. See the Web Appendix, Table A1 for further details.

5. Potential impact of TTIP on developing countries



Quelle: Aichele et al., 2014.



Which elements of TTIP are particularly important for third parties?

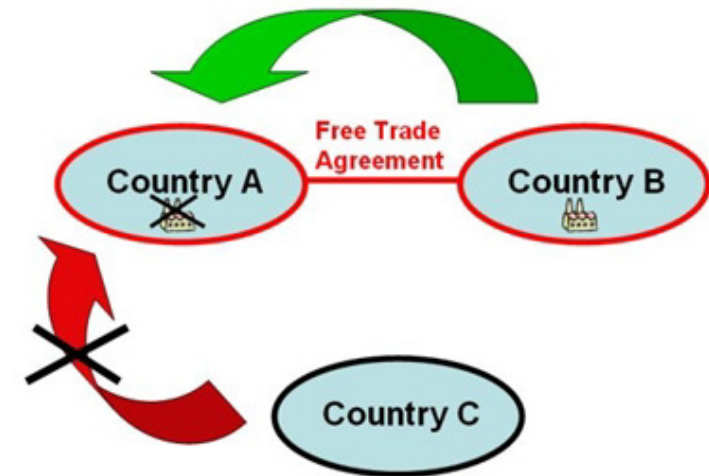
1. tariffs
2. Regulation and standards
3. Rules of origin

5. Potential impact of TTIP on developing countries



1. Reduction of tariffs

- Trade creation versus trade diversion
- Erosion of preferences
- Effects on current PTA-partners



- Transatlantic tariffs are low (ca. 4%)
- But Tariff Peaks: Automobile industry (EU), processed food (EU), agricultural goods (EU & USA)
- E.g. Relatively high tariffs on textiles; problematic for LICs (esp. Bangladesh, Cambodia, Pakistan)



2. Regulation and Standards

Effects depend on modalities:

- *Harmonisation*: new standards may not be adequate for developing countries vs. Economies of Scale
- *Mutual recognition*: positive effects due to recognition of lower standard; positive for developing countries that already comply with these standards (e.g.SPS); but only if discrimination is avoided



3. Rules of Origin

- Determine the added value that has to be fulfilled for the product to benefit from preferential TTIP tariff
- “*hidden protectionism*”: hidden tariff on inputs from third parties, including developing countries
- Potential: EU und USA agree on common and simple rules of origin



Indirect Effects – The Global Trading System

- The end of the WTO?
- Less negotiating resources for the EU and the US?
- *De facto* global rules through the back door?
- Danger of regional blocks (“Economic-NATO”, reaction of the rising powers?)

5. Potential impact of TTIP on developing countries



Options for Development Policy

- 1) TTIP negotiations should under-score the importance of measures for integrating developing countries into global value chains;
- 2) Efforts need to be made to promote greater consistency between TTIP and development policy goals, above all the SDGs
- 3) Reaching out to emerging economies and developing countries with greater transparency and to offer them the opportunity to engage in dialogue;
- 4) WTO process should be reinvigorated and reformed at multilateral level

5. Potential impact of TTIP on developing countries



Options for Development Policy (cont.)

- 5) avoid discriminating against third countries in the area of regulatory cooperation
- 6) Rules of origin should be as generous, uniform and open as possible;
- 7) preference programmes of the EU and the United States should be harmonised;
- 8) third countries should be afforded credible options for joining the partnership in future.

d·i·e

Deutsches Institut für
Entwicklungspolitik



German Development
Institute

Danke!

Axel Berger

Deutsches Institut für Entwicklungspolitik (DIE)

axel.berger@die-gdi.de | www.die-gdi.de



[@ax_berger](https://twitter.com/_ax_berger)