

TTIP – Is free trade coming to the north Atlantic?

Dennis Novy

The negotiations for the Transatlantic Trade and Investment Partnership are about a year old and making only slow progress. This column argues that TTIP is a long-run project that will probably take several years to complete. Despite its significance to global trade, without support from the top echelons of government it might falter.

If concluded successfully, the Transatlantic Trade and Investment Partnership (TTIP) would be the most ambitious free trade agreement in history. This is partly due to its sheer scale, with the EU and the US representing about 45% of global output. It is also partly because of the attempt to tackle non-tariff barriers and regulation. As a mega-deal, TTIP could be a game changer for 21st-century trade (Hoekman 2014).

The UK House of Lords recently published a report on TTIP on the basis of an in-depth investigation (House of Lords 2014). While the potential benefits from liberalised transatlantic trade could be large, the road will be long and arduous, and many difficulties will have to be overcome. (Disclaimer: I was the Specialist Adviser to the House of Lords on TTIP. The views expressed are those of the author and do not necessarily reflect the views of the House of Lords.)

Winners and losers

A study produced by the Centre for Economic Policy Research (CEPR 2013) indicates that in the best-case TTIP scenario, the average EU household of four could see its disposable income rise by EUR 545 per year by 2027 as a result of lower prices and higher productivity. But the degree of uncertainty involved in such predictions is immense, not least because they depend on the extent of the agreement. Will there be a comprehensive agreement with full-fledged liberalisation of non-tariff barriers, or a 'light' agreement with not much more than a cut in tariffs?

We probably have a better sense of the cross-industry gains and losses. It is likely that the car industry stands to gain considerably from TTIP on both sides of the Atlantic. Not surprisingly, it is one of the best organised industries in relation to the agreement. In the case of the UK, other industries likely to gain include chemicals and the pharmaceutical industry.

But even if we believe that TTIP would be beneficial for countries and consumers as a whole, there will inevitably be losers. For example, highly protected sections of the Mediterranean agricultural industry might shrink once their tariff and non-tariff barriers are removed. It is unclear how governments envisage mitigating the adverse effects.

Losing the public debate

In any case, numbers alone will not win the hearts and minds of the electorate. The potential benefits of TTIP are likely diffuse, while costs will be concentrated. The lack of transparency creates further suspicion.

Governments have to come up with convincing narratives and concrete examples if they want to sway the public debate. At the moment, in most EU countries there is either no debate about TTIP, or it is centred around cherry-picked items such as chlorinated chicken. It seems that governments across the EU are currently losing the public debate.

Communication cannot be left to the EU Commission alone. Governments should engage more with their national electorates, and this engagement needs to happen at all levels of government, not only through trade and economics ministers.

Important sticking points

A number of difficult issues stand out. These include:

- Regulation and non-tariff barriers: The meat of the TTIP negotiations is not about tariffs but rather about aligning regulation and removing non-tariff barriers. A classic example is car safety regulation. There is no evidence that cars are less safe in either the EU or the US. However, car manufacturers currently have to comply with two different sets of regulation. Removing duplicate regulation would bring down production costs and arguably consumer prices, even if this does not automatically generate new trade. While car safety is a common sense issue, negotiators face many controversial issues such as food safety regulation.
- Agriculture: Agriculture is traditionally a contentious area. For example, not all geographical indications such as Parma ham and champagne will be recognised by the US. Meat exports are another difficult issue.
- Government procurement: Fair and open access to government contracts is supposed to be an essential part of TTIP. But access is especially difficult to obtain at the sub-federal level where national governments might have less power to legislate. Some promising progress has recently been made by the EU on that front in the CETA agreement with Canada.
- Investor-State Dispute Settlement (ISDS): ISDS turns out to be a particularly contentious issue in the European debate. In particular, a hostile stance has been adopted by the German government and large parts of the German public. Perhaps not surprisingly, ISDS is also an issue where a great deal of misinformation is inserted into the public debate. At its core, ISDS is only an enforcement mechanism. What matters more are the substantive protections afforded to foreign investors in the TTIP investment chapter. Nevertheless, there is considerable pressure on the EU to drop ISDS from the negotiations. But given that the EU typically insists on ISDS mechanisms when negotiating trade agreements with lower-income countries, it would smack of hypocrisy to oppose them when negotiating with the US.
- Financial services: Financial services are a priority for the UK given their weight in the British economy. However, the US Administration strongly resists the inclusion of financial services under the TTIP umbrella, partly because it is occupied with implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Geostrategic considerations: Writing the rules of 21st-century trade

International trade in the modern world is increasingly about ‘making things’ and no longer as much about ‘selling things’ (Baldwin 2012). The rise of outsourcing, back-and-forth trade and global value chains has fundamentally transformed international trade and foreign direct investment (FDI). Governance and regulation is needed to facilitate these trends.

Given the enormous size and clout of the EU and US, TTIP might be a forum where 21st century trade rules are set. TTIP is supposed to be a ‘living agreement’ that creates a permanent dialogue for the future where new regulation is discussed and implemented. In that sense, TTIP is not only an economic but also a political project to promote transatlantic ties.

Given the rise of emerging economies, TTIP might be the last opportunity for individual EU member countries such as the UK to have a major impact on setting high-standard global trade rules. The price of failure may be high.

Parallel developments and the role of China

The US is currently also negotiating TPP – the Transpacific Partnership that includes 12 countries in total (US, Canada, Japan, Australia, New Zealand, Singapore, Malaysia, Brunei, Vietnam, Chile, Mexico, Peru). TPP is seen as more difficult politically since it involves low-wage countries such as Vietnam. Issues of labour and environmental standards are likely to come up. But these play less of a role in the TTIP negotiations with the EU.

It has been suggested that TTIP and especially TPP are designed to contain China, or at least to encourage China to engage more actively in global trade initiatives. TTIP should not be a closed shop. Third countries should be allowed to participate, and appropriate arrangements need to be discussed (Winters 2014).

Political uncertainty

TTIP involves an enormous political agenda and would be difficult to handle even in the best of circumstances. Additional complications are manifold given the changing political landscape on both sides of the Atlantic. In the EU, the European elections are likely to give rise to an EU Parliament that is less friendly towards international trade and investment (Erixon 2014). It is unclear what stance the future EU Commission will take in the ongoing negotiations.

On the US side, the midterm elections in November 2014 have taken momentum away from the TTIP agenda. The US Administration is yet to secure Trade Promotion Authority (TPA) from Congress. Without TPA, the US Administration cannot make serious negotiating offers. If no major progress is made in the narrow window of opportunity after the US midterm elections in late 2014 and before the presidential election cycle kicks in, then we might not see a successful conclusion of TTIP until 2017 or even 2020.

How can the academic literature contribute?

Evidence on the causal effects of trade agreements is hard to produce. Nevertheless, there is strong demand for high-quality academic work. For instance, it is frequently claimed that trade liberalisation leads to lower consumer prices. While it is easy to write down theoretical models with this result, it is harder to convincingly show this in the data. Prices can move for dozens of reasons, and international trade is only one factor.

Furthermore, there is not enough focus in the academic literature on non-tariff barriers. These are typically much harder to measure than tariffs, but businesses clearly perceive them as the biggest impediment to free trade.

Finally, some aspects of political economy have received relatively little attention in the trade literature. For instance, sometimes there is a mismatch of negotiators from both sides. Many negotiators on the US side tend to be ‘technocrats’ – often lawyers – who have in-depth expertise on specific issues such as regulation. In contrast, their EU counterparts might be political appointees who delegate specific issues to expert aides. As a result, it can be hard to make substantive progress.

Conclusion

TTIP has the potential to benefit millions of consumers, but it is far more than an economic project. Its current timetable seems ambitious, and without considerable attention and support from the highest levels of government it will be hard to lead TTIP to a successful conclusion any time soon.

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This piece first appeared on Voxeu on 28 May 2014
<http://www.voxeu.org/article/ttip-free-trade-coming-north-atlantic>

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Published by the Centre for Competitive Advantage in the Global Economy
Department of Economics, University of Warwick, Coventry CV4 7AL
www.warwick.ac.uk/cage

Artwork by Mustard, www.mustardhot.com