Are the TTIP roadblocks for real?

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Last year's absolute euphoria about the transatlantic trade and investment (TTIP) agreement seems to have taken a beating of late, what with the rising political barriers and popular-consumer group activism on both sides of the Atlantic. Opposition from the anti-trade campaigners that a deal will damage consumer, labour and environmental regulation and undermine sovereignty of signatory countries has been coupled with the now-anticipated slippage in the completion timeline beyond the original 2-year negotiation timeframe; officials caution that the informal mid-2014[2] deadline to conclude TTIP negotiations is now likely to be pushed back to 2015. Furthermore, the range and complexity of the potential regulatory issues are so vast that EU officials admit they would be unlikely to be finalised in an original deal. Instead, TTIP is expected to function more as a 'living agreement', which would establish a framework for regulators.

Projected gains from market integration

TTIP is the newest mega-regional agreement in formation, with negotiations launched in March 2013; thus, talks are still at a very early stage and the 4th round of negotiations took place in Brussels on March 10-14, 2014. Together, the US and the EU already account for almost half of global GDP and a third of world trade; each day, goods and services worth US$2.7 billion are traded bilaterally. The stock of shared direct investment adds up to more than US$3.6 trillion. The trade and investment agreement under negotiation is aimed at consolidating and deepening this existing bilateral partnership between the two major global trade blocs.

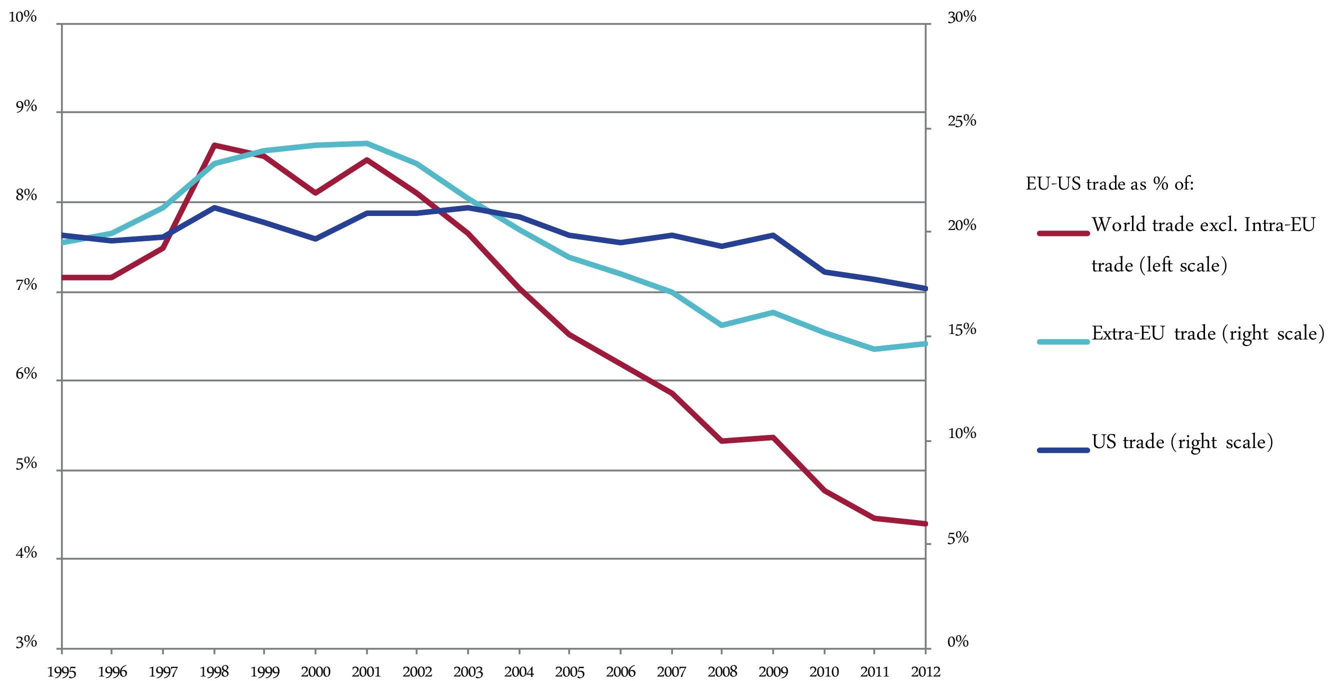
Before the launch of negotiations, the EU commissioned independent studies to estimate potential benefits of an integrated transatlantic market. A CEPR study had estimated that an ambitious and comprehensive agreement could bring significant economic gains for the EU as a whole (approx. US$88.7 to 155.1 billion a year through 2027, depending on level of ambition in the negotiated agreement) and the US (US$64.4 to 123.5 billion a year), while also increasing global income by almost US$130 billion annually as a result of increased bilateral trade. Therefore, an ambitious and comprehensive agreement which eases behind the border impediments to trade and investment is likely to increase annual GDP of both parties by 0.5 to 3.5 percent, depending on the degree of integration.

As much as 80 percent of the total potential gains from the TTIP are however estimated (by Ecorys consultants) to come from cutting costs imposed by administrative procedures and divergent regulations (the so-called non-tariff barriers or NTBs), as well as from liberalising trade in services and public procurement. Although tariffs between the US and the EU are already low (on average less than 4 percent), the cost of dealing with unnecessary bureaucracy can add a tariff-equivalent of 10-20 percent to the price of goods, which (although usually borne by the consumers) affect competitiveness of both domestic producers and exporters in the highly cost-sensitive modern global value chains. It is estimated that eliminating even half of the NTBs to trade arising from regulatory divergences could increase transatlantic GDP by half a percent, or US$150 billion.

But tackling these NTBs is not easy, endorsed by the fact that the two trade partners have been discussing regulatory harmonisation in key traded products/sectors for nearly two decades now, since the adoption of the Transatlantic Declaration in 1990. Furthermore, as most of the gains are expected to emerge from eliminating bilateral regulatory and beyond-the-border barriers, an inability to sufficiently reduce the NTBs will imply that a large part of the projected trade gains may remain unrealised. Also, reducing the remaining tariffs will be harder than imagined: the reason why high tariffs in sugar, textiles and garments, steel, and trucks have existed for so long is because of powerful vested interests that are loath to forgo their advantages, and negating which calls for political appetite for challenging key constituencies at a time of weak economic prospects. Hence, and despite different studies having already outlined the economic and strategic benefits of TTIP, the debate on the feasibility of a deep trade agreement and even its desirability is still an open issue.

Political economy of TTIP negotiations

The political economy of launching the TTIP stems from a desire to reverse the partners' increasing loss of influence in world trade matters. The trends in the shares are quite remarkable. After hovering for 25 years around 40%, the EU-US share in world trade (excluding intra-EU trade) declined sharply in the 2000s. As can be seen from the chart below, trans-Atlantic bilateral trade as a share of global (extra-EU) trade has suffered a strong secular decline, falling by half (around 4 percentage points) since the Asian financial crisis, but more sharply since 2001, the year China joined the WTO. Also notable is that the 2008 global financial crisis and the ensuing recession has not reversed the trend decline in bilateral trade; this implies that the recession and fall in world



Source: Calculated from UNCTAD data

trade was region-neutral share-wise, although bilateral trade as a share of extra-EU trade declined by nearly 10% since 2001, and more than the corresponding decline of the same vis-à-vis US trade.

To that end, the TTIP's intent to craft a 'gold standard' deep and comprehensive trade agreement, setting new rules and regulatory standards that are expected to put pressure on the large emerging market countries (EMs) left outside the deals to adapt or suffer the consequences, is therefore interpreted by some as the west's last attempt to regain control of global trade system. Strictly speaking, and as seen in the above chart, the TTIP would affect only trade between the EU and the US, which in 2012 represented 4.4% of world trade (excluding intra-EU trade). The corresponding figure for the ASEAN+6 countries is 14.9% and the for TPP group 13.6% (Bruegel's calculations from UNCTAD data). Furthermore, long-term prospective scenarios by CEPII[3] suggest that these trends are likely to persist in the present and immediately succeeding decades, resulting in trade between the members ASEAN+6 (17%) dwarfing that between transatlantic partners (2.4%) in 2035.

This reorientation of the world economy toward Asia has been entrenched and a transatlantic partnership will most likely not be able to reverse it, especially in view of the aging population in the TTIP partner countries and consequent labour competitiveness concerns. It is undeniable that there is an ongoing tectonic shift in the global governance system towards the multi-polar Pacific. However, the TTIP may allow the signatories to continue to play leading roles in world trade through the setting of influential norms, standards, and other rules, at least for the duration of the transition period.

Are the TTIP roadblocks significant?

The above then sets the context of our query; what does this rising anti-trade rhetoric imply for the TTIP's prospects? Is the slippage for real, or is it simply a matter of waiting for the electoral storms to blow over? Parsing the many causes for rising disquiet about the proposed trade agreement, it is clear that part of the TTIP opposition has come from the Snowden revelations of US intelligence monitoring European politicians and policymakers, which has been a definite dampener for the EU pro-TTIP groups' call for stronger broad-based cooperation with the US. Building momentum for a radical response to the National Security Agency spy scandal since Germany's chancellor backed calls for European internet services that are walled off from the US, is likely to escalate in the current election season. And that development is unlikely to bode well for boosting general transatlantic bonhomie, which is necessary if the TTIP talks are to regain last year's momentum.

Other opponents fret that the inclusion of an 'investor-state dispute settlement' (ISDS) mechanism in TTIP would allow US companies to sue European governments to force a change in national laws. US oil companies might, it is argued, use TTIP to challenge France to lift its ban on fracking, say environmentalists. But the issue of investor-state litigation is more nuanced. ISDS has been and continues to be a much contested provision; recently concerns of private sector profit motives trumping legitimate public policy regulations have been on the rise, including, in Europe, on environmental

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regulations and food labelling issues. On the other hand, UNCTAD statistics reveal that use of ISDS measures have been on the rise in recent times, and EU investors accounted for over 52% of the cases during 2008-2012.

This dichotomy has raised differential reactions on the proposal from different stakeholder groups. This matter is however being handled well by the DG Trade which has announced a 2-month long public consultation on the subject to collect views on the desirable contours of the ISDS draft text for the TTIP and future trade and investment agreements (viz. with China). It is to be noted that the US had also undertaken a similar exercise to gauge popular sentiments on the issue a couple of year's back, before drafting their own model ISDS text to be used for future negotiations.

Similarly, with respect to the TTIP not being able to comprehensively address the regulatory coherence agreements and finalise all the different 20 plus issues in an original deal by 2015, this doesn't seem to be a concern that portends a failure of the proposed transatlantic deal. It is accepted that FTAs by EU and US tend to entrench the regulatory philosophy and practice in their respective trade hubs as these practices are exported to their partners; in practice each tend to present their draft of the agreement and expects that negotiation partners will simply sign on. Such a negotiation modality will not work for TTIP, given the nearly equal economic and strategic weight of the negotiating parties, which calls for more nuanced and mature negotiation tactics from both partners. Both the negotiators and the citizens on both sides of the Atlantic know and agree that any way forward will necessarily comprise of sensibly recognising each other's standards (including accepting divergent regulatory philosophies) and attempt procedural streamlining where possible, but never at any costs of safety. An explicit agreement to avoid further regulatory fragmentation will call for cooperation when setting new rules, by motivating regulators to cooperate at an early stage and through the life-cycle of a regulation.

Yet, a real risk for the TTIP's timely conclusion does emanate from the strength of the global growth and trade recovery going forward. Irrespective of the emerging green shoots of hope and positivism across the world, underlined by the revised higher growth forecasts for 2014 and 2015 by the IMF, the global economy still seems to be in the grips of the 2008-financial crisis induced recessionary trends. Clearly recovery is not going in a straight line, and for sure it has remained fragile and uneven across major economies, including in the most promising US.

The eurozone recovery did pick up some speed in the final quarter of 2013, but notwithstanding the faster-than-expected economic growth it is yet to come out of the woods, even after factoring in that unemployment levels and willingness to work in the EU are now similar to the US levels. With the transatlantic economies still week, industry stakeholders and policymakers might not be in a position to make the deep concessions that will be necessary to conclude a 'gold standard' deep and comprehensive trade agreement that could pose a credible threat to the rest of the world to adapt to the new rules out of fear of the consequences. The TTIP's ability to emerge as the new global regulations and standard setter is thus still under a cloud. ■

1. Research assistance by Marco Antonielli is gratefully acknowledged.

2. Since the European Parliament is involved in trade negotiations, the May 2014 election was considered as an effective albeit informal deadline.

3. Fontagné L. & Fouré J. (2013), "Opening a Pandora's Box: Modeling World Trade Patterns at the 2035 Horizon", CEPII Working Paper 2013-22.