

The Transatlantic Trade and Investment Partnership: Opportunity and Challenge for International Trade

Berend Diekmann¹

German Federal Ministry of Economics and Technology

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On February 13, 2013, President Obama, European Council President van Rompuy, and European Commission President Barroso announced the launch of negotiations for a Transatlantic Trade and Investment Partnership (TTIP). This decision was based on recommendations made by an EU-US working group.

Talks between some of the world's biggest economies

Given the sheer economic weight of the trading partners, this announcement has already transformed the landscape for global trade policy. Together, the EU and the United States account for:

- almost 60% of total FDI
- almost 50% of global output (in \$)
- almost 40% of the global GDP (in terms of purchasing power parity)
- almost 40% of industrial added value
- 1 in 3 patent applications in the world
- 1/3 of the global trade in goods and services
- about 16% of added value in the agricultural sector
- and almost 12% of the global population.

The figures for 2011 show just how important the EU and the United States are for each other: 18% of US exports went to the EU. 16% of US imports came from the EU. Direct investment (flows) from the EU accounted for almost 40% of total FDI in the United States. More than 50% of all US FDI went to the EU. US subsidiaries employ about 4.2 million people in the European Union and recently achieved about \$2.4 trillion in sales, whilst companies from the EU provide jobs for 6.4 million workers in the United States, selling about \$3.5 trillion worth of goods and services.

Last year, the US market regained importance for German exporters, after several years of relative decline. Exports to the United States were up 18% (global German exports: + 3.4%), and accounted for almost 8% of all German exports (2011: 7%). German exports to the US rose faster than the country's exports to any other market in the world in 2012. During the same period, German imports from the United States rose by 4.2% in 2012 (compared to a 0.7% rise in total German imports), bringing the share of imports from the US up to 5.6% of total German imports (2011: 5.4%).

Among the distinctive features of transatlantic trade are the similar cost structures and levels of productivity in the EU and the United States. As a result, the differences in relative unit labor costs are small. Instead, transatlantic trade is driven by intra-industry trade and by transactions between associated companies. It is estimated that transactions between associated companies account for more than 75% of German exports in the vehicle manufacturing sector and the chemical industries.

Talks focusing on the key areas

Given the economic weight of both parties and the nature of transatlantic trade, the high level of public interest and the key areas cited in the final report of the EU-US working group are certainly no surprise. The group recommends reducing tariffs and opening up the public procurement markets, with particular emphasis on the need to cut technical barriers to trade and to improve co-operation in this area. Another key ambition is to establish a set of overarching principles which set a benchmark for international trade

¹ The views expressed are those of the author and do not necessarily represent the views of the German government.

with other countries and at multilateral level. The aim is to make a transatlantic partnership the pacemaker for international trade policy.

All of the studies published so far conclude that the most effective way to boost trade and investment is to reduce technical barriers to trade. Whilst the weighted average tariffs imposed on transatlantic trade vary between 3 and 5%, depending on the sector, the burden on trade due to technical barriers to trade in the US and the EU is estimated at between 7% (electronic goods exported to the EU) and far above 100% (wool exported to the United States) in tariff equivalent.² Moreover, as the distribution of the non-tariff trade barriers between the United States and the EU is very uneven in terms of tariff equivalent, there is enormous potential for agreements which offer tangible advantages with scope for offsetting between different sectors.

Such agreements could include:

- the automotive industry, an area with major potential for improving regulatory co-operation; the on-going co-operation in the field of electric mobility has highlighted some of the benefits derived from common standards for new products;
- the electronics industry, where the focus could be on a mutual recognition of safety and security standards;
- a common framework for data privacy, which would be crucial for the establishment and expansion of a transatlantic market place for new media.

This goes to show that the working group has taken account of the special nature of a transatlantic agreement in terms of the partners' weight in international trade policy and the particular structure of transatlantic trade.

Discrimination against non-members or push for liberalization?

Because of the sheer size of the economic areas involved, a transatlantic partnership agreement will have an enormous impact on prosperity, growth, and jobs. The dominance of intra-industry trade and transactions between associated companies does not make positive outcomes less likely. On the contrary: there are some powerful arguments suggesting that the high levels of mutual investment and business integration, the strong value chains and the strong cultural ties could in fact facilitate a reduction of regulatory non-tariff barriers to market access. A focus on well-established trade and investment relations will reduce the incentive to intentionally divert trade and thereby discriminate against non-members. Nor should we forget the significant growth potential that could result from better enforcement of the basic policy principles jointly developed by the EU and the United States in areas such as competition, employment, or environmental protection.

Much of this depends on the reactions of non-members: they may establish regional free-trade areas of their own which are incompatible with the transatlantic partnership. For instance, some of the larger emerging economies might try to conclude agreements with one another, creating their own rules and standards in order to challenge those stipulated by the transatlantic partners. However, there is also the possibility that the transatlantic agreement might create momentum for liberalization: instead of trying to challenge the EU-US agreement (e.g. by forming separate blocs), non-members might respond by pushing for liberalization themselves; for instance by tabling new proposals at multilateral level or asking to join the TTIP.

There is also potential for significant liberalization on some new issues. With the creation of a network of trade, investment and services relations as part of the new, global production chains, major corporations in particular have started to call for other forms of liberalization. Stronger integration in the areas of competition policy, the movement of capital, copyright and data privacy are increasingly seen as more important than improved market access and lower tariffs. A transatlantic agreement could take account of

² Depending on the calculation methods used in the various studies and differentiated according to sector.

this new demand for liberalization by including areas such as competition policy, copyright and standardization, which are not traditionally part of WTO agreements.

Putting multilateral rules at stake?

In principle, under GATT Art. XXIV, bilateral and regional agreements are consistent with the aim of increasing freedom of trade. The article stipulates notification requirements and the examination of individual measures. For free trade zones to be compatible with WTO rules, they must comply with the following main requirements:

- Within an appropriate transition period, trade barriers and tariffs should be eliminated for substantially all trade.
- In terms of tariffs and non-tariff treatment, the overall burden placed on non-members should not be greater than before the formation of the free trade zone.

This means that excluding certain sensitive areas (e.g. agriculture, audio-visual services) from the negotiations from the start would risk violating WTO regulations.

Requirements under the WTO General Agreement on Trade in Services (GATS) are similar; however, the difficulties in collecting reliable data on trade in services make the results much more difficult to monitor, and so there might be greater scope for the transatlantic negotiations in this area.

WTO rules are based on the assumption that regional agreements may well conflict with the multilateral approach. However, instead of enforcing a blanket ban on such agreements, the WTO uses flexible, workable mechanisms which are open to interpretation. Given the mixed empirical evidence on whether regional agreements distort or boost trade, this route seems appropriate. Furthermore, it is perfectly possible to integrate such regional agreements into the multilateral framework. For instance, regulatory standards can be designed in such a way that they are open to non-member states as well. Non-discrimination clauses with regard to non-members are permissible and sometimes politically wise. They are also desirable with a view to multilateral liberalization.

The EU and the United States have declared that they want to dismantle tariffs on all but a very small number of sensitive products. As the aim is to completely abolish tariffs for well over 90% of bilateral trade, there is currently no indication of a formal breach of WTO rules. In other words, in embarking on a transatlantic partnership, the EU and the United States are not closing the door to a multilateral trade system.

Tough talks between familiar partners

When assessing the opportunities and risks of a transatlantic partnership, it is worthwhile taking stock of the experience gained so far.

Discussions related to the agricultural and financial sectors and to data privacy are bound to be difficult – irrespective of the fact that the potential for trade, growth and jobs is very different for each of the three areas. Different attitudes to risks and opportunities in the IT sector on the two sides of the Atlantic are likely to prove major obstacles in this area. With regard to chemicals, there are major differences in authorization procedures, notification requirements, legal limits and environmental standards in the EU and the United States. The automotive sector is an example of an industry with safety standards (e.g. indicators, rear fog lights) that have evolved differently on both sides of the Atlantic, despite decades of calls for greater harmonization. Major differences in the way the regulatory system works in Europe and in the United States, and differing views on whether standardization policies should be global, mean there will be cultural barriers to be overcome before talks on specific matters can even begin. However, there are also some areas which are likely to prove less complicated, for instance environmental and labor standards, movement of people, or tariffs on industrial goods.

Finally, it is worthwhile taking a look at negotiations the EU and the United States have been conducting with other partners.

As many US policymakers see the Trans-Pacific Partnership (TPP) as a blueprint for “modern” trade agreements, it is highly likely that many of their proposals for the transatlantic agreement will be “quarried” from the TPP. It is interesting to note, for instance, that the TPP was designed as an “open” partnership, which other countries can join as long as they sign up to what has already been agreed. Some proposals for the TTIP will probably be based on this approach. Furthermore, in TPP negotiations, the United States have been advocating stricter rules of origin stipulating that all of the processing steps of a product have to be performed within signatory states of the agreement. Other TPP partners favor more generous rules for primary products. As for intellectual property rights (IPRs), the United States is pushing for rules that go far beyond the TRIPS agreement concluded under the umbrella of the WTO. In terms of institutionalizing IPRs, the United States would like to see a central enforcement authority shaped in the image of its own administration.

Last but not least, much of the talks’ success or failure will depend on the negotiation strategies adopted by the partners and on the order in which individual topics are discussed. It would neither seem wise to start with highly controversial and emotional subjects (chlorine-washed chickens, genetically modified food), nor to leave all the difficult topics until the eleventh hour – as happened in the EU-Canada negotiations. It will therefore be very interesting to see the outcome of the debate between EU Member States and the European Commission on the mandate drafted by the Commission.

Background reading:

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