

**What are the possible benefits and drawbacks
coming from TTIP agreement for the parties**

Introduction

In first half of February 2013, Mr. Obama (Ewing and Kanter, 2013) said, giving the potential pact between US and EU a name: “And tonight, I’m announcing that we will launch talks on a comprehensive Transatlantic Trade and Investment Partnership [TTIP] with the European Union. Because trade that is fair and free across the Atlantic supports millions of good-paying American jobs.” A bit latter, José Manuel Barroso, the president of the European Commission — the Union’s administrative arm – supported the words of US President: “Both of us need growth, and both us also have budgetary difficulties. Trade is the most economic way of promoting growth.” Therefore, it was possible to expect huge progress in the question of free trade agreement signing. However, it is not so as it could be seen already. More than one and half years were already spent on trying to find compromise, but the progress had not yet been achieved.

The lack of compromise could be not only issue of TTIP at the current moment. Therefore, my goal in this essay is not only find the possible benefits and drawbacks of TTIP but also to analyze other issue of it to understand the situation around TTIP agreement, perspectives of its signing, and to propose some way to avoid the current deadlock in agreement. It is understandable that TTIP agreement is the political question in the whole but not everything could be pushed through by politicians currently (The Economist, 2015a). Sometimes, lawmakers are too afraid to confirm the foreign trade agreement which conditions are obscure.

Chapter 1. Connections between US and EU

Transatlantic Trade and Investment Partnership (TTIP) agreement is very important not only for EU and US economies but also for worldwide trade: they account together for about half of the entire world GDP and for nearly a third of world trade flows. Therefore, any new free trade agreement (FTA) could stimulate additional growth in worldwide trade not only between these countries, but also between EU or USA and other countries; also, it could create additional spillover effect and stimulate growth of trade even between other countries that is not part of TTIP agreement (Commission staff working document, 2013).

As it is shown of Fig. 1.1, foreign direct investments of EU into USA is equal to \$1.6 billion that is around eight times higher than the amount of EU investment in India and China (two biggest emerging markets currently) together. At the same time, total USA investment in the EU is three times higher than in all countries of Asia (European Commission Statistics, 2015).

Source: European Commission (<http://ec.europa.eu/trade/policy>)

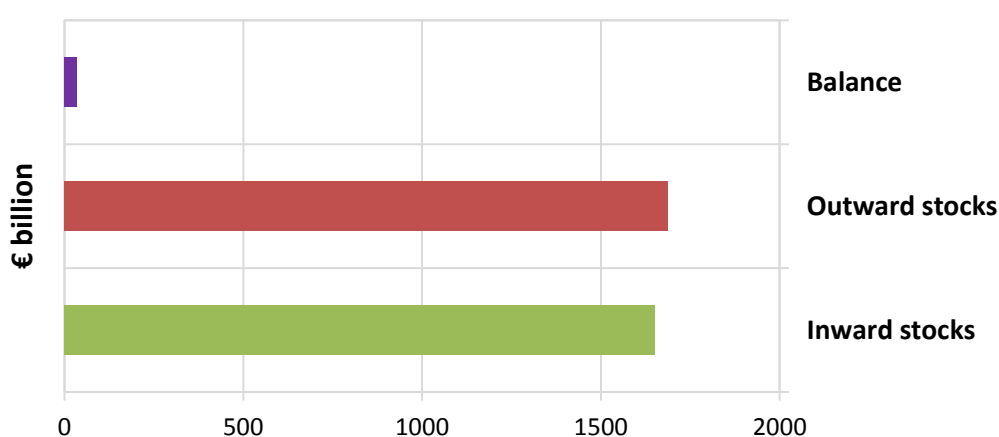


Fig. 1.1 Volume of foreign direct investments (FDI) from EU into USA and vice versa

Additionally, the transatlantic relationship also defines the shape of the global economy as a whole. Either the EU or the US is the largest trade and investment partner for almost all other countries in the global economy. Moreover, the third of the trade across the Atlantic actually consists of intra-company transfers by some estimates (European Commission Statistics, 2015).

Source: European Commission (<http://ec.europa.eu/trade/policy>)

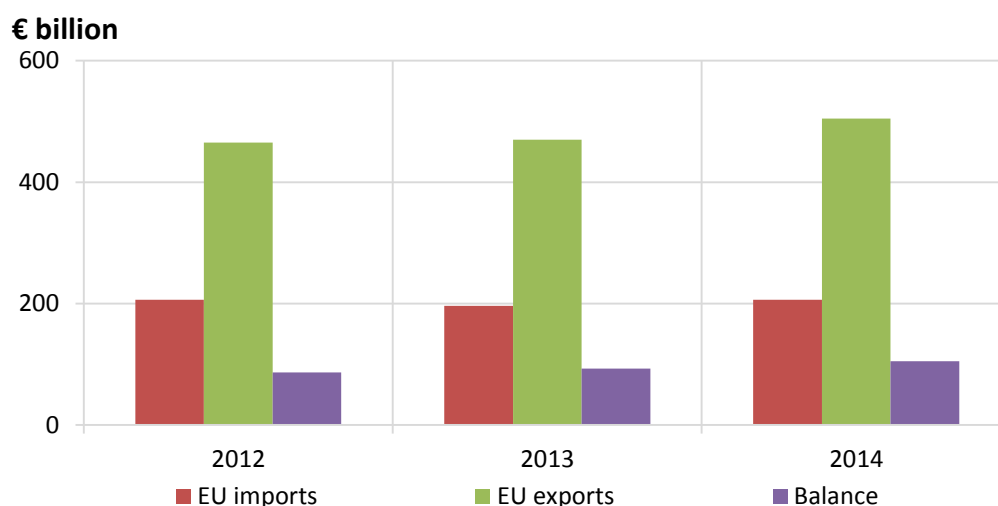


Fig. 1.2 Volume of trade in goods and services between EU and USA

As it could be seen from Fig. 1.2, the TTIP agreement is important to trade relations between EU and USA due to low growth rate of trade volume between two countries in the last years. The total trade volume (imports and exports) grew on 8.09% in 2014 but it fell on 0.3% in 2013.

Generally, the elimination of trade barriers (tariffs) could create additional stimulus to trade between countries; however, the average tariffs in EU and USA are too low as a whole. The WTO estimates that average tariffs of the USA are equal to 3.5% and for the EU they are equal to 5.2%. However, due to high level of trading flows – some €2 bln. daily (European Commission, 2014) – the economic effect could be huge enough to justify the new rounds of negotiations in economic sense.

But, the elimination of non-trade barriers is more important for stimulation of EU-USA trading. According to European Commission survey (Commission staff working document, 2013), 46% of respondents to the public consultation is concerned by regulatory barriers that is unnecessary by their opinion, 38% by customs procedures, and 20% by barriers to investment (for example, 45% is concerned by tariffs level).

According to economic analysis (Ecorys, 2009), trade cost equivalents are higher than 10% and above 20% for many sectors. For example, the trade costs in the US insurance sector are added some 19.1% to transatlantic trade and trade related investment costs, while the restrictions add some 10.8% to costs in the EU. Net trade cost equivalents are more equal from the perspectives of USA and EU in sectors like automotive and chemicals: 26.8% / 25.5% and 21% / 23.9% respectively. The highest trade cost equivalents are in food and beverages sector: 73.3% in USA and 56.8% in EU.

Additionally, only 32%, or €178bn, of the U.S. procurement market is open to EU businesses under the commitments recently taken by the US in the framework of the GPA (Commission staff working document, 2013). However, these commitments are not yet implemented.

Chapter 2. Benefits and drawbacks of Transatlantic Trade and Investment Partnership Agreement

According to EU Commission (Commission staff working document, 2013), there are three main goals for TTIP agreement: promoting growth and expansion of trade, creation of new job places and welfare gains (incl. lower consumer prices and other consumer benefits), and improving of Europe's competitiveness in the global markets. To make the goals more precise, they could be rewritten as follows: increasing the volume of bilateral trades in goods sectors, increasing the volume of bilateral trades in services sectors, and achieving market access to the government procurement markets of both countries. These objectives, of course, could be the benefits of TTIP agreement.

However, the main accent of negotiations from European (2013) Commission perspectives should be on the status-quo preserving; and deeper negotiations are only possible within the ensuing negotiations. "Low" start point is accompanied by huge negative commentaries from all sides due to obscure and slow process. The main negatives from EU side are follows (Arthuis, 2014; BBC, 2015; Independent, 2015; Vanbergen, 2015; Zuesse, 2015):

1. No private arbitration of disputes like between United States and businesses. The main critics consist of the corporate arbitrators role in litigation that put corporations statement above any nation's law when that companies sued the nations due to lose of profits that is expected only in some future and not surely.
2. No eliminating of European system of appellations of origin (except for wines and spirits). The elimination of European system could kill many European products that are depended too much on their certified origin.
3. No agreements with countries that are spying on you. The TTIP agreement should also solve the problem of personal data protection of European customers.
4. No unification of financial space without creation of common rules. Common regulation of banking sector is limited even in the area of European Union; therefore,

additional unification of banking systems could be very harmful for European Union banking industry. At the same time, creation of common space without common regulation is too risky due to spreading effect as it was seen in the time of financial global crisis of 2008.

5. No eliminating of European health projections. European Union is very contrary to the GMO products or to the chemical decontamination of food or non-therapeutic antibiotics in animal feed, etc.
6. No US monetary dumping. By some opinions, TTIP agreement should include conditions to limit the hegemony of US dollars across global financial world as the main reserve currency.
7. No allowing digital services in Europe to be swept up by US giants. Currently, the digital services are not developed enough to be opposable to the US giants like Google, Apple, Microsoft, or Netflix.

Additionally, “[T]he EU is only discussing standards and regulations with the US on one strict condition: that we neither give up nor dilute the levels of protection we have in Europe” (European Commission, 2014). Therefore, the TTIP represented, as for me, for EU representatives something similar to agreement for creation some counterbalancing system between EU and USA that is missed after quick globalization process worldwide.

As alternatives to baseline scenario (status-quo), there are additional scenarios that are considered as possible: partly scenarios and full-fledged. Partly scenarios has three options: tariff-only agreement (98% elimination of all tariff lines), services-only agreement (reduction 10% of all existing barriers), and government procurement-only agreement (reduction 25% of barriers in this field). Full-fledged has two options: conservative (simply unifying of three partly scenarios) and ambitious (100% elimination of all tariff lines, reduction 25% of all existing barriers for service trade, and reduction 50% of barriers in procurement field). However, it is unlikely that these scenarios will be accepted due to “low” starting point.

Chapter 3. TTIP agreement influence on economic indicators

As it was already mentioned before, the scenario that is discussed by the EU negotiators as baseline is simply retention of status-quo. Someway, it is understandable because negotiators should always win; therefore, if we get something better than baseline scenario than it will be our victory. However, that is very bad position through the lenses of public opinion. The taxpayer could expect something better than retention of status-quo when the public money is spending on that task. In other way, they will try to limit the possibilities of negotiator to negotiate in the real democracies like US and EU: the petition about TTIP agreement opposing was signed already by 3 million of people - the biggest number in EU history (The Guardian, 2015; Vanbergen 2015).

According to the EU Commission (Commission staff working document, 2013) estimations, the best achievements of EU will be increasing of GDP growth rate on 0.48% from the baseline scenario level (as baseline scenario level was taken the average figures of GDP growth level in the period 2007-2027 according to Table 3.1), or something like 40% increasing. But such improvement will be possible only if the negotiations finish in signing full-fledged trade agreement (FTA covering tariffs, regulatory barriers for goods, services, investment and government procurement simultaneously) and ambitious estimate will be proved by the time.

Table 3.1

Baseline level of GDP growth rate			
	2001-2007	2007-2016	2007-2027 (baseline level)
European Union	2.28	0.7	1.17
USA	3.3	1.74	1.9
Other OECD	2.54	1.84	2.02
Eastern Europe	6.55	2.03	3.2
Mediterranean	4.98	3.55	3.93
China	11.21	9.06	8.24
India	7.91	7.53	6.19
ASEAN	5.7	5.01	5.19
MERCOSUR	4.28	3.86	3.97
Rest of World	6.12	3.81	4.41

Additionally to European Union GDP improvement, gross domestic product also will improve in USA after implementation of TTIP agreement in full-fledged form – ambitious estimate is 0.39% improvement. However, it will be only 20% improvement for US GDP in relation to USA baseline level figures.

Improvements for all other scenarios are much lower. For example, improvements of GDP for partly scenarios (like tariff-only, services-only, or government procurement-only) are lower than 0.05% for USA and EU, or in other words, the improvements in GDP is much lower than GDP baseline level scenario. Therefore, it is possible to say that only the full-fledged should be negotiated because even conservative estimate will improve the GDP on 0.27% for EU and 0.21% for US. But then the negotiators agenda should also be changed. Somebody could argue that this will weaken theirs negotiations position; however, I am not sure that somebody need the agreement that is limited on the stage of its creation.

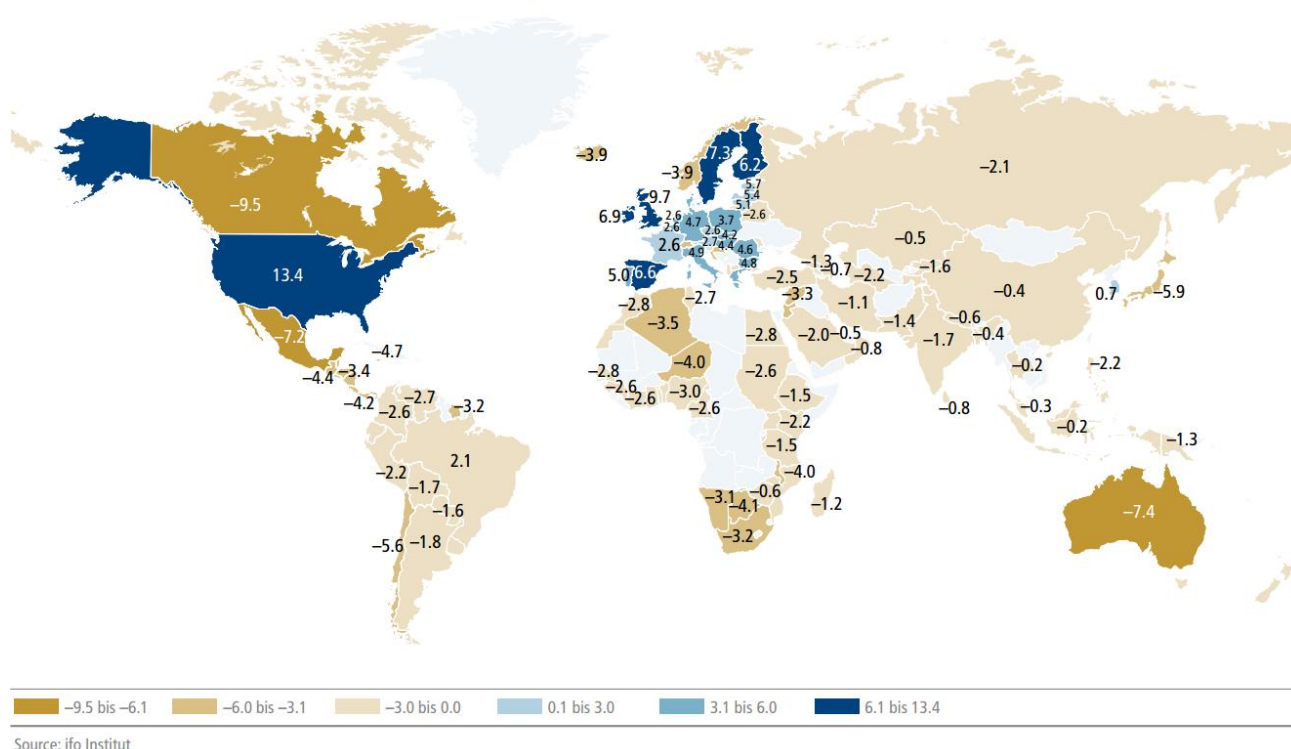


Fig. 3.1 Effect on real per capita income after “deep” liberalization (as of 2013)

Additionally, it should be mentioned that improvement of GDP according to ambitious scenario for other countries (except EU and USA) is expected on the level of 0.14% that is only 3% improvement in comparing to GDP growth rate according to baseline level. Also, the gain of total world income from TTIP agreement in ambitious scenario should be equal to \$238 bln. (\$86 bln. for EU, \$65 bln. for USA, and \$87 for other countries).

However, there are also more ambitious estimates for TTIP agreement from the other experts. For example, according to survey (2013) from Bertelsmann Foundation and ifo Institut, Leibniz Institute for Economic Research at the University of Munich, the global growth of real income in average will be higher on 3.27%, if the “deep” liberalization, which is similar to ambitious scenario of EU Commission, lie in the foundations of TTIP agreement. Additionally, more than 2 million jobs will be created. However, the main problem as always is in economic divergence between the countries that get benefits from FTA agreements and other. As it could be seen from Table 3.2 and Fig. 3.1, EU and USA are expected to get stimulus for their economies, but other countries are expected to see fall of real income and growing of unemployment rate. There is huge risk that such non-equal distribution of FTA effects may lead to trading war, as it was often in time of the crisis (The Telegraph, 2011), that will nullify the positive effect from FTA.

Additionally, it should be mentioned that the effects from TTIP agreement is estimated much lower by Bertelsmann Foundation and ifo Institut if only-tariff liberalization will lie in the foundations of TTIP agreement – the same situation as for EU Commission estimations. In that situation, the global real income is expected to stay almost the same (0.1% growing) and only 0.5 million of jobs are expected to be created.

Table 3.2

Effect on unemployment rate of some countries after “deep” liberalization

Country	Employment rate in 2013	Change in unemployment rate in percentage points
United Kingdom	7.75	-1.27
Portugal	10.79	-0.76
Finland	8.40	-0.75
United States	9.63	-0.71
Greece	12.53	-0.68
Sweden	8.37	-0.65
Spain	20.06	-0.62
Italy	8.42	-0.57
Hungary	11.16	-0.53
Poland	9.62	-0.53
Denmark	7.46	-0.50
Slovakia	14.37	-0.48
France	9.36	-0.43
Germany	7.06	-0.43
Czech Republic	7.28	-0.42
Netherlands	4.45	-0.34
Austria	4.39	-0.27
Belgium	8.29	-0.08
Japan	5.03	0.11
South Korea	3.72	0.12
New Zealand	6.53	0.28
Turkey	11.88	0.38
Switzerland	4.54	0.41
Iceland	7.56	0.42
Australia	5.23	0.44
Norway	3.61	0.44
Canada	8.01	0.56

Conclusion

Despite the fact that the official starting of TTIP agreement was done already in the first half of February 2013 (Ewing and Kanter, 2013) and negotiations started in July 2013, the process of finding compromise is still not finished. Additionally, the whole process is perceived by EU residents as obscure and as such that has only negative effects on EU economies. Therefore, the perspectives of TTIP agreement signing before 2017, the ending of Obama administration, are murky. And its perspectives thereafter are even murkier due to negative position about it from all or almost all candidates for US Presidency. From beforementioned information, it could be done the main conclusion that the aims of TTIP agreement should be reworked and created anew; they are too obscure and bureaucratic at the moment and also too risky, as for me. And the question about Pan-Atlantic region creation could not be on the agenda at the moment.

One of possible reframing of TTIP agreement should include the answer on next three questions (Jensen, Lee-Makiyama, and Vastine; 2015):

- I. Should they leave the possibility for TTIP agreement to be the standard FTA or should it be something special that is going beyond the existed precedent?
- II. Who is willing to pay for TTIP agreement started to work? Is there willingness to find compromise between US and EU negotiators (or the negotiations are at a deadlock)?
- III. Could TTIP agreement be the third and leading pillar of new global economic governance?

Without answers on those questions the future perspectives of TTIP cannot be improved, and it will be voted down by the legislation authority finally even if the negotiators will find the compromise and will sign the agreement. The political complications of international agreements voting should be also taken into consideration, for example TTP agreement issues (The Economist, 2015b).

Bibliography

1. Arthuis, J., 2014. '7 bonnes raisons de s'opposer au traité transatlantique', [<http://www.lefigaro.fr/vox/politique/2014/04/10/31001-20140410ARTFIG00323-jean-arthuis-7-bonnes-raisons-de-s-opposer-au-traite-de-libre-echange-transatlantique.php>, last access 05.12.2015].
2. Bertelsmann Foundation, and ifo Institut, (2013). 'Transatlantic Trade and Investment Partnership (TTIP). Who benefits from a free trade deal?' Part 1: Macroeconomic Effects', [http://www.bfna.org/sites/default/files/TTIP-GED_study_17June_2013.pdf, last access 05.12.2015].
3. Commission staff working document, 2013. 'Impact Assessment Report on the future of EU-US trade relations', Recommendation for a Council Decision.
4. European Commission, 2014. 'The Transatlantic Trade and Investment Partnership. TTIP explained', [trade.ec.europa.eu/doclib/docs/2014/may/tradoc_152462.pdf, last access 05.12.2015].
5. European Commission Statistics, 2015. 'Countries and regions. United States', [<http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/>, last access 05.12.2015].
6. Ewing, J. and Kanter, J., 2013. 'A Running Start for a U.S.-Europe Trade Pact', The New York Times, [<http://www.nytimes.com/2013/02/14/business/global/obama-pledges-trade-pact-talks-with-eu.html>, last access 05.12.2015].
7. Jensen, B. J., Lee-Makiyama, H., and Vastine, R.J., 2015. 'The Transatlantic Trade and Investment Partnership: An Accident Report', Policy Briefs, No. 1.
8. The Economist, 2015a. 'The TTIP of the spear', [<http://www.economist.com/news/europe/21674772-selling-europes-trade-agreement-america-strategic-has-problems-ttip-spear>, last access 05.12.2015].

9. The Economist, 2015b. 'Twelve countries reach an agreement on trans-Pacific trade', [<http://www.economist.com/news/finance-economics/21671151-tpp-now-faces-hard-road-passage-national-legislatures-twelve-countries-strike-ambitious>, last access 05.12.2015].
10. The Guardian, 2015. 'What is TTIP and why should we be angry about it?', [<http://www.theguardian.com/business/2015/aug/03/ttip-what-why-angry-transatlantic-trade-investment-partnership-guide>, last access 05.12.2015].
11. The Telegraph, 2011. 'Trade wars have escalated since the financial crisis, warns ICC', [<http://www.telegraph.co.uk/finance/globalbusiness/8550820/Trade-wars-have-escalated-since-the-financial-crisis-warns-ICC.html>, last access 05.12.2015].
12. Vanbergen, G., 2015. 'Transatlantic Trade and Investment Partnership (TTIP) Negotiations Fall Apart Following Mass Protest in the EU', Global Research, [<http://www.globalresearch.ca/transatlantic-trade-and-investment-partnership-ttip-negotiations-fall-apart-following-mass-protest-in-the-eu/5479985>, last access 05.12.2015].
13. Walker, A., 2015. 'TTIP: Why the EU-US trade deal matters', BBC [<http://www.bbc.com/news/business-32691589>, last access 5 December].
14. Williams, L., 2015. 'What is TTIP? And six reasons why the answer should scare you', Independent, [<http://www.independent.co.uk/voices/comment/what-is-ttip-and-six-reasons-why-the-answer-should-scare-you-9779688.html>, last access 5 December].
15. Zuesse, E., 2015. 'The Western Alliance Is Crumbling: EU Is Abandoning U.S. on Overthrowing Assad', Global Research, [<http://www.globalresearch.ca/the-western-alliance-is-crumbling-eu-is-abandoning-u-s-on-overthrowing-assad/5479566>, last access 5 December].