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Türkiye Ekonomi Politikaları Araştırma Vakfı

Catalyst? TTIP's Impact on the Rest

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TTIP?

■ What is it?

■ What it is not?

- TTIP is a trade agreement, but not a typical FTA: it is a 'new generation' trade deal
- A new generation deal, but not an ordinary one: it is a *mega deal* (two largest economies)
- A 'mega deal', but also a 'game changer'!

TTIP: What's it for?



Moving beyond the financial crisis
Setting global norms & standards
Addressing global challenge(r)s

via

- Market access
- Regulatory coherence
 - Rules

What TTIP means to protagonists

The importance of the TTIP to the US and the EU should not be underestimated.

A mega deal will generate considerable economic benefits:

CEPR (2013) argued that the 'GDP effect' of an ambitious deal to the US and the EU could be as high as 95 and 199 billion euros per year, and TTIP would generate 240 and 220 billion euros in exports, respectively.

But the real value of the TTIP should not be confined to economic / commercial gains only.

It is a strategic landmark to change the **rules of the game**.

i.e. new global rules and practices to guide the world trading system!

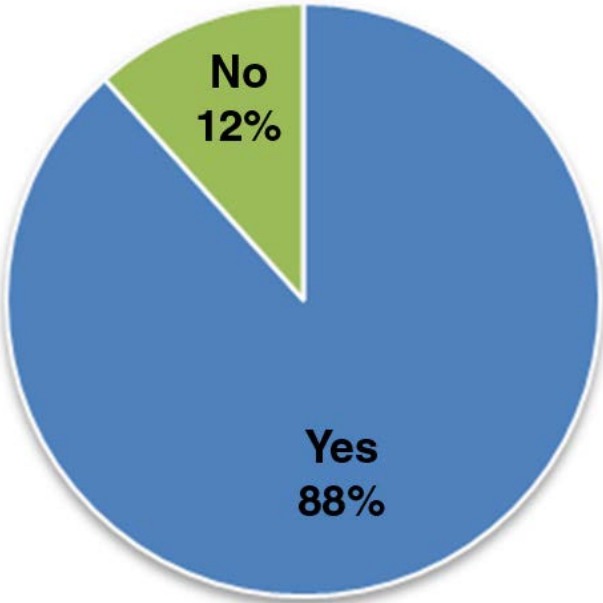
What motivates the Rest in reaction to TTIP?

- The higher the risks and consequences of the perceived **discriminatory impact**.
- The more **restrictive / stringent** is the impact of regulatory measures on extra-TTIP trade (between the EU-Rest or US-Rest).
- The less remote is the possibility of finding **acceptable solutions** to challenges for the Rest.
- The existing **economic integration** between the EU and the US and third country position.

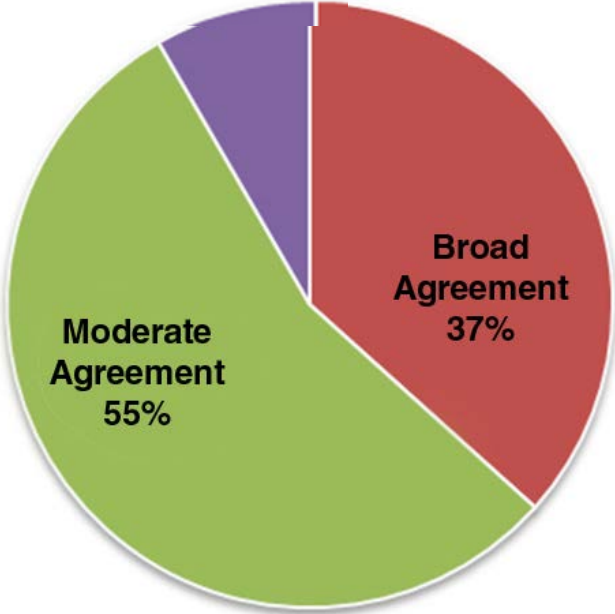


Bertelsmann Foundation-Atlantic Council Stakeholder Survey

Do you think the US and EU will be able to come to an agreement?

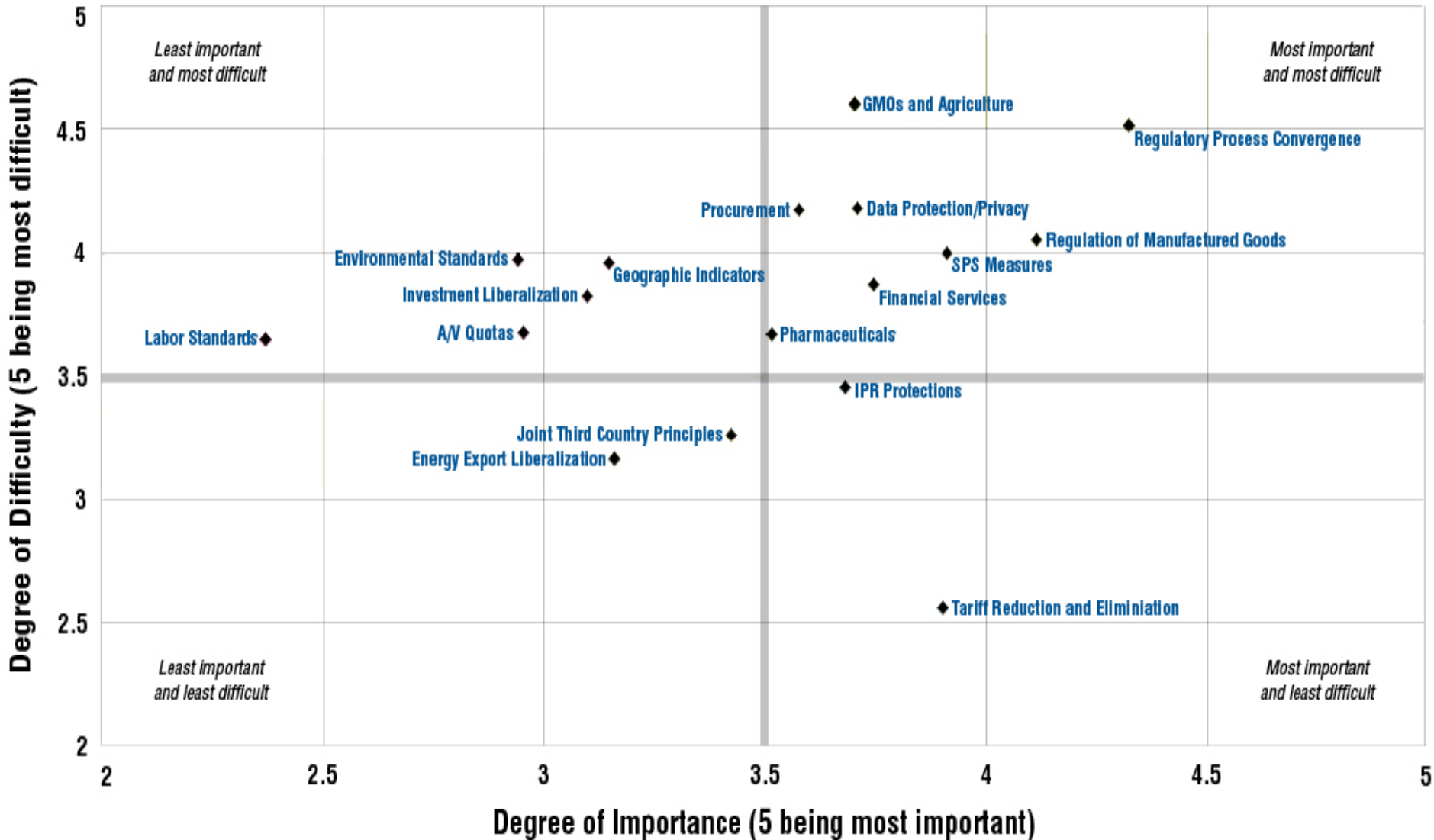


Little to No Agreement
8%



Which of the following scenarios do you believe is most likely?

What is likely? TTIP Stakeholder Survey: (Atlantic Council and Bertelsmann Foundation, 2013)



The current situation in regulatory convergence

■ Texts proposed in areas:

→ Regulatory cooperation (EU proposal)

- http://trade.ec.europa.eu/doclib/docs/2015/april/tradoc_153403.pdf

(BUSINESSEUROPE):

“A key deliverable from the Transatlantic Trade and Investment Partnership (TTIP) will be a chapter on horizontal regulatory provisions... To realize the economic potential of TTIP, meaningful EU-U.S. regulatory cooperation is a priority.”

Harmonisation and the Rest: empirical evidence

Regulatory divergence:

- An ambitious harmonisation program to set higher standards, tends to have negative impact on third countries.
(i.e. EU's New Approach) (Chen and Mattoo, 2008; Baller, 2007)

Indirect spillovers:

- If third countries can adopt TTIP standards, will be a scope for reduction in multiplicity costs (Lejour et.al. CEPS, 2014)
- **But: no supportive evidence and adaptation costs are high for Rest.**

Mutual recognition/equivalence and the Rest: empirical evidence

- Benefits for exporters under **Mutual Recognition (MR)** agreements **with conformity assessment** are stronger than harmonisation for developing countries...
(Chen and Mattoo, 2008; Baller, 2007; Mascus, 2009)
- **But: the positive impact depends on:**
- TTIP must be willing to recognise the standards (or at least equivalence) / recognise conformity assessment of the Rest...
- Nature of the RoO that accompany them.

A succesful approach to standards?

- Building regulatory capacity
- Building trust among parties
- Focusing on simplification and transparency
- Promoting mutual recognition of conformity assessment first
- Identifying priority sectors for harmonisation

TTIP and the Rest: scope for countervailing action

- * **Alleviating detrimental effects:**

Accession, transparency, openness, less restrictive rules and standards, more permissive RoO

- * Counter-regionalism (i.e. **domino effect**)
- * **WTO multilateralism**

- * **Domestic reforms**

(*unilaterally* adopting key TTIP regulatory standards, undertaking trade reforms)

Minimising the damage

■ **Accession clause:**

TTIP reflects only EU-US trade & investment and mutual trade agenda. Inclusion of third nations makes no sense for either side.

TTIP is not an IO with a proper accession procedure.

Docking only appeals to 'inner circle' having RTAs with TTIP parties.

■ **Rules of Origin (RoO):**

Less restrictive RoO with lower thresholds (i.e. "cumulation of origin"). This is essential also for Transatlantic firms to protect their production networks/supply chains

■ **Regulatory convergence and standards:**

Regulatory cooperation should extend to third countries...

Harmonisation is a contested issue with cost-raising impact on the Rest.

Mutual recognition is offered to be an easier method.

Domino effect

- *“One effect of the TTIP initiatives will be to spur a flurry of new trade agreements with the EU and/or the US, as well as among the countries excluded from them...”*
- ‘No ‘explosion’ of RTAs is to be expected’, but some initiatives to revise the existing links i.e.

EU-Turkey CU modernisation:

<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1307>

EU-Mexico FTA upgrading:

<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1305>

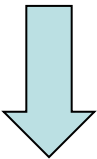
TTIP and the WTO

- *“TTIP mitigates the resistance to further multilateral negotiations and the WTO track”...*
 - ➔ “WTO lost its centrality” (Baldwin, 2009)
 - Defining a new agenda for multilateral cooperation
 - ➔ Doha Round damages WTO’s image!
 - The problem is not with WTO itself, but with the negotiating techniques, and the ambitions of negotiating powers. TTIP can’t reinvigorate WTO promptly.
- May be toward plurilaterals with a critical mass.

Domestic reforms

- *TTIP may induce domestic reforms:*
 - ➔ *Adapting TTIP regulations by developing countries as a stimulus to innovation, competitive repositioning, industrial upgrading, and economic transformation...*
 - ➔ *Reallocation of resources from inefficient to efficient firms (productivity gains)...*

TTIP and the Rest

- *“Supply chain or vertical production arrangements may change the welfare calculus”...*
 - International production networks can mitigate ‘trade diversion’ effects of TTIP...
- 
- Domestic actors in the Rest may instigate trade and regulatory reforms (from below) gradually **juggernaut effect** (Baldwin, 1994).

TTIP and the Rest: existing integration level

■ Integration level (2004-2012)

- (König & Ohr, 2013)

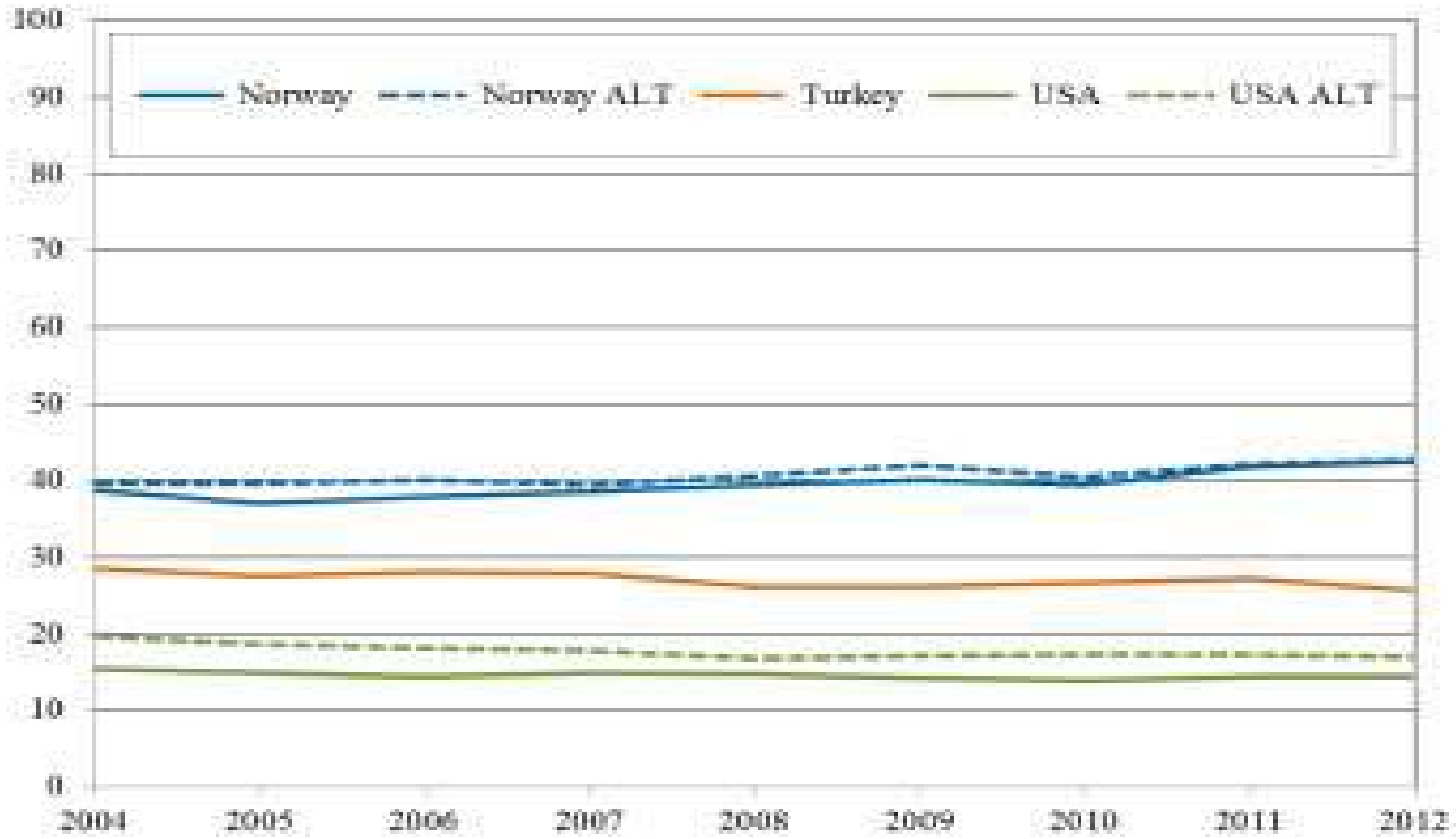
→ Index for **Single Market** integration

- **US** was least integrated
- **Norway** is highly integrated
- **Switzerland** is the highest
- **Turkey** relatively better than the US (but decreased slightly)

→ TTIP can raise US integration index (what impact for **Turkey** and others?)

Integration with SEM

(Jans & Plaschnick, 2015)



TTIP and Turkey

- Turkey is in 'inner circle':
 - CU with the EU and in the accession process, but has no RTA with the US

- TTIP impact on Turkey:
 - Trade diversion due to 'preference erosion' (shallow TTIP to cause \$130 million)
 - Unemployment would increase 0.42%
 - Real wages drop by 1.94 % (Felbermayr *et al.* 2013)
 - More trade deficit with the US due to asymmetry in CU.

TTIP and Turkey

- “The EU can give away access to Turkey’s large and growing market to the US without asking for a *quid pro quo* for Turkey, only for itself.
- The US, on the other hand, can gain access to the Turkish market without reciprocating.
- For the same reason, once a TTIP deal is struck, there is no incentive for the US to enter into an FTA with TUR unless Turkey’s concessions are **TTIP+**”.
(U. Dadush)

TTIP and Turkey

- TTIP with:

- **liberal rules of origin** and,

- a system of **mutual recognition** of quality standards,

Turkey through CU with the EU could obtain significantly improved access to the US market, compensating for the losses from the preference erosion.

- TTIP with:

- a **regulatory harmonization**, without recognizing Turkish quality certificates  Turkey's losses would be far greater...

(M. Raiser, World Bank)

Conclusive remarks (cont.)

- **No domino effect** → “The large emerging economies are not actively negotiating deep PTAs with each other or with the large OECD nations. This suggests that the WTO will remain an important vehicle...” (Hoekman, 2014 in CEPR)
- **But, no immediate return to the WTO track** →
TTIP is not bringing multilateralism by the back door.
TTIP argues to become a ‘game changer’ to strengthen trade rules beyond WTO (**WTO+ and WTO-X**), but can TTIP disciplines be easily translated into WTO accords?

Conclusive remarks

■ TTIP protagonists:

- If TTIP is for more 'business opportunities', and jobs, US and EU must recall that global economy requires developing more trade-friendly norms with the Rest,
- Assist **capacity building** for the Rest to **improve standards** and regulatory convergence (in goods, services, investment)
- More simplified and less 'trade-diverting' **Rules of Origin** considering GVCs
- TTIP not to be on the whole more restrictive to developing country (esp. LDC) exports (recall **development** aspect in DR)

Conclusive remarks

■ The Rest:

- **no single recipe for all...**
 - A 'differentiated impact' on different countries.
- but **domestic reforms** are important for their future competitiveness and welfare increase.
- antithetic initiatives (i.e. rival RTAs) may not work.

Thank you,

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