

Swiss Institute for International Economics
and Applied Economic Research



University of St.Gallen

***“From insight
to impact”***



TTIP: Prospects and Challenges

*International Trading System: Prospects and Challenges
St Petersburg University*

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Purpose of this presentation

Now that the Trans-Pacific Partnership has been signed:

- *What are the prospects for TTIP?*
- *What is the motivation for completing TTIP?*
- *What are the challenges facing completion of these negotiations?*
- *What are the implications of TTIP for the WTO?*
- *What are the options open to third parties?*

Launch of negotiation in 2013

1. Significant given previous flawed attempts to launch transatlantic trade talks.
2. Key role of Germany.
3. Welcomed by US President Obama: “And tonight, I am announcing that we will launch talks on a comprehensive Transatlantic Trade and Investment Partnership with the European Union – because trade that is free and fair across the Atlantic supports millions of good-paying American jobs” (State of the Union Speech 2013).
4. Excellent media management initially.
 - Why launch these negotiations?

What's on the negotiating table?

1. Eliminate remaining tariffs on trade in non-agricultural goods.
2. Binding highest level of investment and service sector reforms agreed in existing FTAs with third parties.
3. Open public procurement markets at all levels of government.
4. Take steps to reduce the complying with different regulations across the Atlantic—plus align future regulations.
5. Developed shared approaches to a wide range of regulatory and other policies that can distort trade.


Economically speaking, is it worth it?

1. Strategic versus economic benefits—former harder to quantify but may be significant.
2. Best study of economic effects claims that “focusing efforts on reducing non-tariff barriers is critical to the logic of transatlantic trade liberalization.”
3. Gains in trade liberalisation of manufacturers small—69.0% of US goods enter EU duty free already; for EU it is 66.0%.
4. Also modest gains from opening public procurement markets.
5. Direct adverse economic effects on third parties modest.

Francois et al (2013) estimates of gains from different scenarios

Effects (billions of euros)	Tariffs only	Services only	Partial procurement reform only	Less ambitious comprehensive deal	Ambitious comprehensive deal
<i>GDP impact</i>					
EU	23.7	5.3	6.4	68.3	119.2
USA	9.4	7.4	1.9	49.5	94.9
<i>Bilateral export impact</i>					
EU	43.8	4.6	7.0	107.8	187.0
USA	53.8	2.9	3.4	100.9	159.1

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**Very small gains:
0.01% to 0.04% of GDP**

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**Modest gains:
0.21% to 0.48% of GDP**

The damage done by...



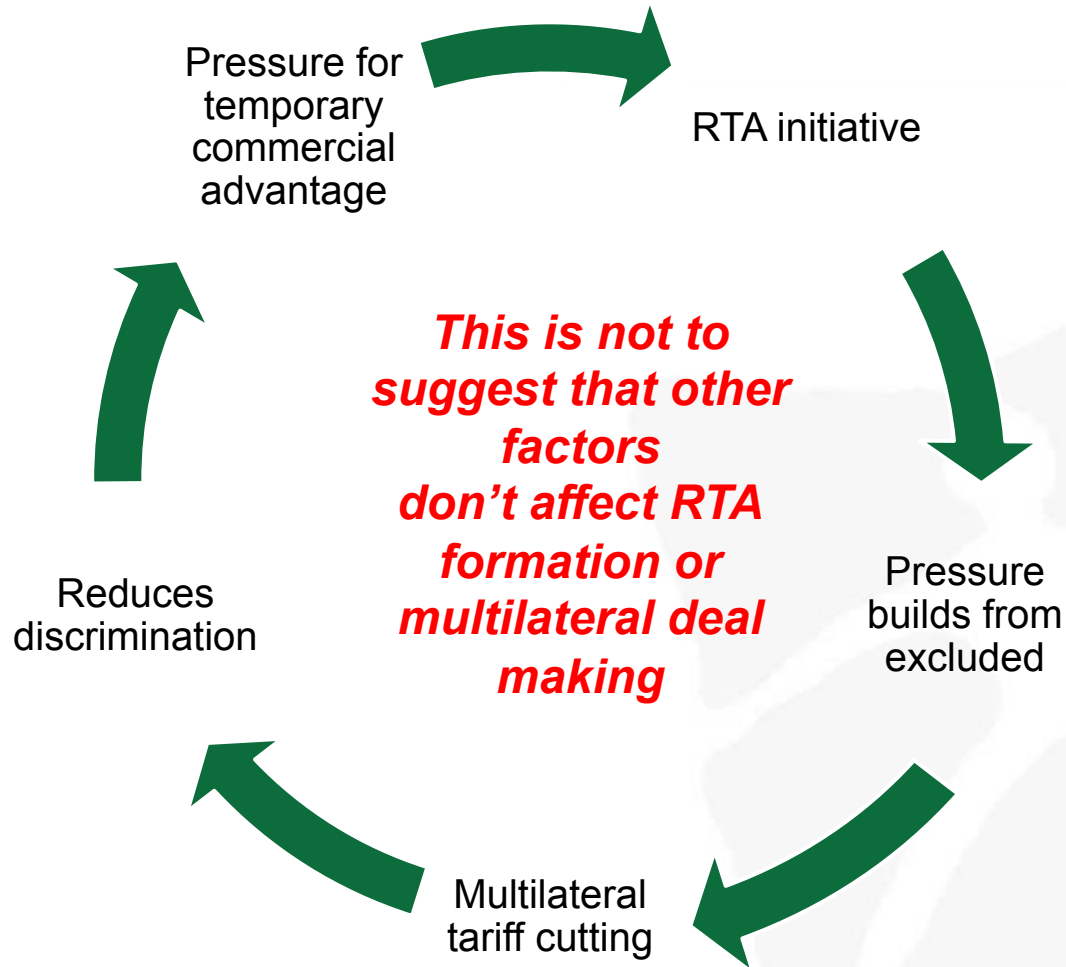
U B E R



What can be learned from the historical record about mega-RTAs?

1. Large “preferential” arrangements have long shaped the evolution of the GATT and WTO.
 - Examples.
2. Recall Hudec: “(t)he real thrust of the GATT has been to control and contain discrimination rather than to eliminate it.”
3. Government preserve options by
 - not tightening RTA rules
 - not leaving the WTO—but membership does not necessarily mean constructive engagement.
4. Record suggests a cyclical relationship that moves in fits and starts.

Mega-regionals as if the historical record really mattered



Prospects for TTIP

1. Watch Berlin—who has supported this deal to now, but remains the pivotal player on the EU side.
2. Expect little economic benefits to US and EU but lots of talk of this accords “strategic value.”
3. Much depends on foreign policy value of TTIP—rises as EU and US relations with China and Russia deteriorate.
4. Wild cards here are the EU Parliament and the US Congress when a deal is done.
5. Rest of world has plenty of options—including “wait and see.”