

IN-DEPTH ANALYSIS

The expected impact of the TTIP on EU Member States and selected third countries

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Abstract

The Trans-Atlantic Trade and Investment Partnership (TTIP) is one of the largest trade deals ever negotiated by the European Union. The European Commission, based on studies commissioned externally, has stressed on the extremely positive effects the deal could produce on the EU economy as a whole and tried to dismiss allegations that TTIP could have negatively impacted on a certain number of economic sectors and third countries, especially those benefitting from preferential access to the EU and the US markets.

Several independent studies, both general and regional, have meanwhile been published. These studies, while generally confirming the expected benefits to the EU economy as a whole, often diverge as far as given economic sectors or Member States are concerned.

It is worth to note that at present time, only two studies dealing with third countries have been carried out. Impact on third countries has been analysed revealing that preferential partners of both the EU and the US may face severe losses should the deal be finally concluded following the most optimist scenario (full liberalisation).

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Introduction

Negotiations on a comprehensive Transatlantic Trade and Investment Partnership (TTIP) were launched in June 2013.

According to an EU-funded study, the TTIP will be beneficial to the EU economy.

Not all EU Member States will benefit equally from the conclusion of the agreement, however.

The EU-US High Level Working Group on Jobs and Growth (HLWG) was established during the 2011 EU-US Summit. In its final report of 11 February 2013, the HLWG recommended that EU and US leaders launch negotiations on a comprehensive trade and investment agreement. Negotiations on a comprehensive Transatlantic Trade and Investment Partnership (TTIP) were begun rapidly – in June 2013. To date, six rounds of negotiations have taken place, although efforts from both sides of the Atlantic have not led to a conclusion. Certain issues, such as the inclusion of a full-fledged investor-state dispute settlement (ISDS) clause, may ultimately derail the entire project, which faces growing opposition among many EU citizens.

The initial enthusiasm that accompanied the launch of TTIP negotiations was fuelled by a series of studies highlighting the potentially positive impact of the transatlantic deal for the EU's economy. The European Commission (EC) argued, for example, that 'extra economic growth will benefit everyone; boosting trade is a good way of boosting our economies by creating increased demand and supply without having to increase public spending or borrowing'.¹

According to a study funded by the Commission², each European household would gain an average of EUR 545, while the Union's economy as a whole would expand by 0.5 % of GDP – or EUR 120 billion annually – once the deal was fully implemented. While the study projected a positive economic effect from the TTIP, the deal's real impact will depend upon the level of economic integration that the agreement secures. Merely removing both parties' residual customs duties – which are currently very low – is naturally projected to produce a smaller effect than would the partial or total regulatory harmonisation of the transatlantic market.

On the other hand, as noted by many studies, the economic structure of the EU is so differentiated that the likely impact of the any transatlantic deal will not be the same in all Member States. Member States' starting positions are not the same. The bulk of US foreign direct investments in the EU, for example, is concentrated in three Member States: the United Kingdom, Ireland and the Netherlands.

Given this disparity, the real impact of the TTIP on each Member State is worth exploring.

The TTIP is also likely to produce effects on trade patterns involving the EU's and US's preferential trading partners. This is notably the case for Mexico and Canada, which are tied to the US by the North American Free Trade Agreement (NAFTA). Europe's neighbours and southern Mediterranean countries may also face dramatic changes brought on by the TTIP, as may

¹ European Commission, DG Trade, [Page on TTIP](#).

² Centre for Economic Policy Research (CEPR), [Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment](#) (2013)

developing countries, which could face 'preference erosion' if the EU-US deal enters into force.

1 The TTIP's impact on EU Member States

1.1 The Centre for Economic Policy Research (CEPR) and ECORYS studies

The principal study cited by the European Commission to support the initiation of TTIP talks was published in March 2013 by the Centre for Economic Policy Research (CEPR)³.

According to authors, 'an ambitious and comprehensive transatlantic trade and investment agreement could bring significant economic gains as a whole for the EU (EUR 119 billion a year) and US (EUR 95 billion a year)'.

The income gains are expected to result from increased trade exchanges, although the study warns that the bulk of benefits (80 %) would likely stem from deeper regulatory integration rather than from lifting residual customs duties. Moreover, according to the study, 'benefits for the EU and US would not be at the expense of the rest of the world. On the contrary, liberalising trade between the EU and the US would have a positive impact on worldwide trade and incomes, increasing global income by almost EUR 100 billion'.

The TTIP is also projected to have a moderately negative effect on labour displacement, which is expected to remain within normal labour market movements and economic trends. In other words, according to the study, a relatively small number of people would have to change jobs and move from one sector to another – only 0.2 to 0.5 % of the EU labour force.

Based on EU scale calculations, the study does not provide any clarifications on how the expected benefits and burdens are projected to be distributed among Member States.

To supplement knowledge about the TTIP, the Commission has charged the research and consultancy company ECORYS to prepare a Sustainability Impact Assessment on the agreement, as is normally done when FTA negotiations are opened with third countries. The study is currently being prepared, and only an 'inception report' has been published⁴.

ECORYS has, on the other hand, produced a comparison of those studies on the TTIP that have been published to date. The supplier has concluded that 'results on the EU and the US differ between the studies mostly due to differences in assumed liberalisation scenarios, as well as differences in the

Studies produced by the Centre for Economic Policy Research (CEPR) and ECORYS have stressed that most gains would come from regulatory approximation and that the benefits from tariff cuts would be limited.

The CEPR study is based on calculations for the EU as a whole and do not provide projections for individual Member States.

³ Centre for Economic Policy Research (CEPR), [Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment](#) (2013)

⁴ ECORYS, Trade Sustainability Impact Assessment on the Transatlantic Trade and Investment Partnership (TTIP) between the European Union and the United States of America. [Final Inception Report](#). (2014)

economic modelling techniques. Even though all studies apply Computable General Equilibrium (CGE) models of some sort, the different specifications and data sources used trigger different outcomes. All studies also recognise that in the most ambitious scenario, most of the tariffs applied on bilateral trade could be removed and that most of the gains in economic growth from the agreement stem from aligning NTBs [non-tariff barriers] (roughly speaking 80 % due to NTM [non-tariff measure] alignment and 20 % due to tariff reduction)'.

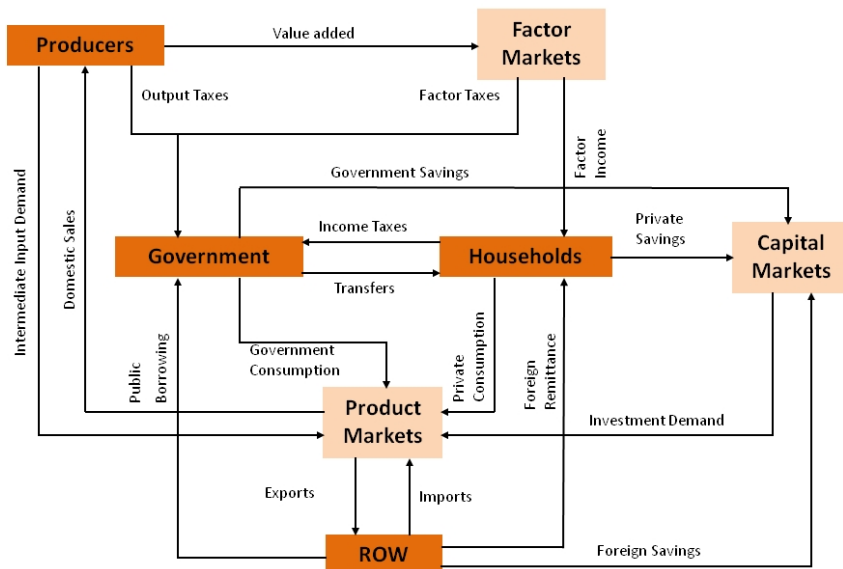
Most impact assessment studies on trade deals are based on the computable general equilibrium (CGE) economic model, considered useful when expected effects of policy implementation are complex.

As noted, most impact assessments published so far are based on the Computable General Equilibrium (CGE) economic model. There is a general understanding that the CGE model is a relatively rigorous, cutting-edge quantitative method to evaluate the impact of economic and policy shocks – particularly policy reforms – in the economy as a whole. The Commission has often used this method in its previous impact assessments of third countries.

CGE modelling reproduces – in the most realistic possible manner – the structure of the whole economy, and therefore the nature of all existing economic transactions among diverse economic agents (productive sectors, households and governments, among others). Moreover, CGE analysis, in comparison to other available techniques, tries to capture a wider set of economic impacts – such as those from a shock or the implementation of a specific trade deal (Table 1). In that sense, the CGE approach is especially useful when the expected effects of policy implementation are complex and materialise through different transmission channels.

There is, however, no unanimity over the accuracy of CGE models' results.

Figure 1:
Structure of the CGE model



Source: Inter-American Development Bank

1.2 The Bertelsmann Stiftung study (2013)

1.2.1 Effects on EU Member States' GDP

An alternative method to the CGE was used by the Bertelsmann Stiftung in 2013. The publication's authors argued that 'in CGE studies, trade costs are typically not estimated consistently from model to model. Other modelling differences consist in the country breakdown and the treatment of unemployment'⁵. The results of similar studies have frequently been criticised because *ex-post* evaluations often revealed the *ex ante* forecasts regarding trade and welfare effects to have been significantly too low⁶. The Bertelsmann study therefore adopted a structural method based on bilateral trade costs, as calculated in 2007 (before the 2008 crisis). The work takes into account 15 750 pairs of bilateral trade fluxes. Calculations of trade costs take both tariff and non-tariff barriers into account, the latter divided into 'trade policy barriers' (e.g. licences or certificates), 'other policy barriers' (e.g. food or health standards) and 'natural barrier' (e.g. infrastructure or climate conditions).

The study provides calculations for two alternative scenarios: (a) a limited trade liberalisation stemming from tariff removal, and (b) a deeper, more ambitious deal tackling non-tariff barriers.

In the first scenario, all MS benefit from trade liberalisation. The change in real per capita income ranges between 0.03 % (Luxemburg) and 0.58 % (Lithuania), with an average at EU level of 0.27 %.

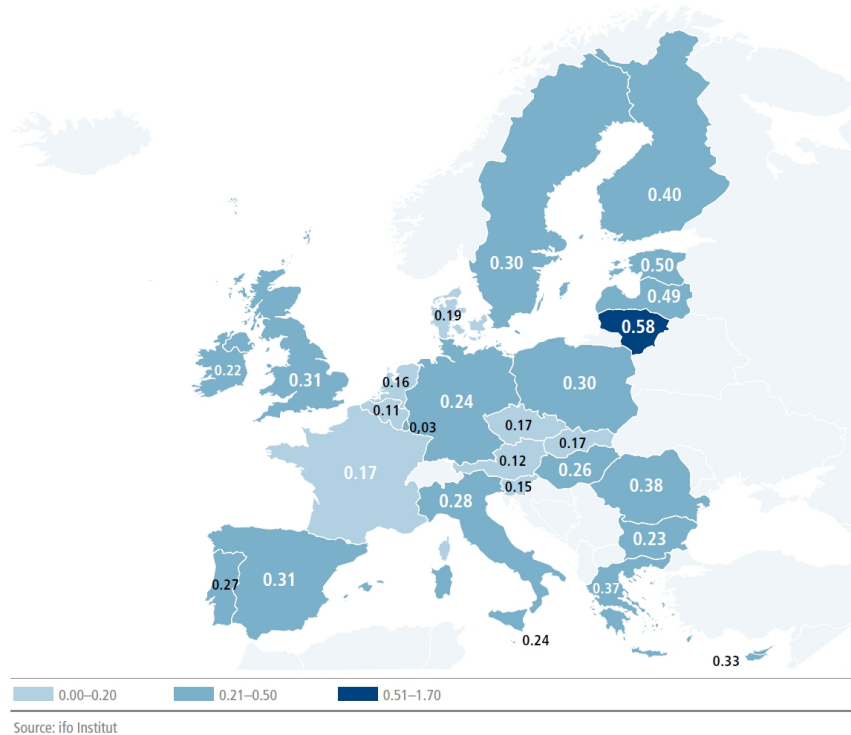
Smaller countries that are more involved in the international division of labour and that gain greater benefits from lower trade costs tend to gain more than larger countries. Those Member States that are more export-oriented or that already benefit from privileged trade relations with the US also obtain relatively higher gains.

In a study published by Bertelsmann, using an alternative method, north and western Europe are projected to benefit greatly from the TTIP.

⁵ Bertelsmann, Transatlantic Trade and Investment Partnership (TTIP), Who benefits from a free trade deal? Part 1: [Macroeconomic Effects](#) (2013)

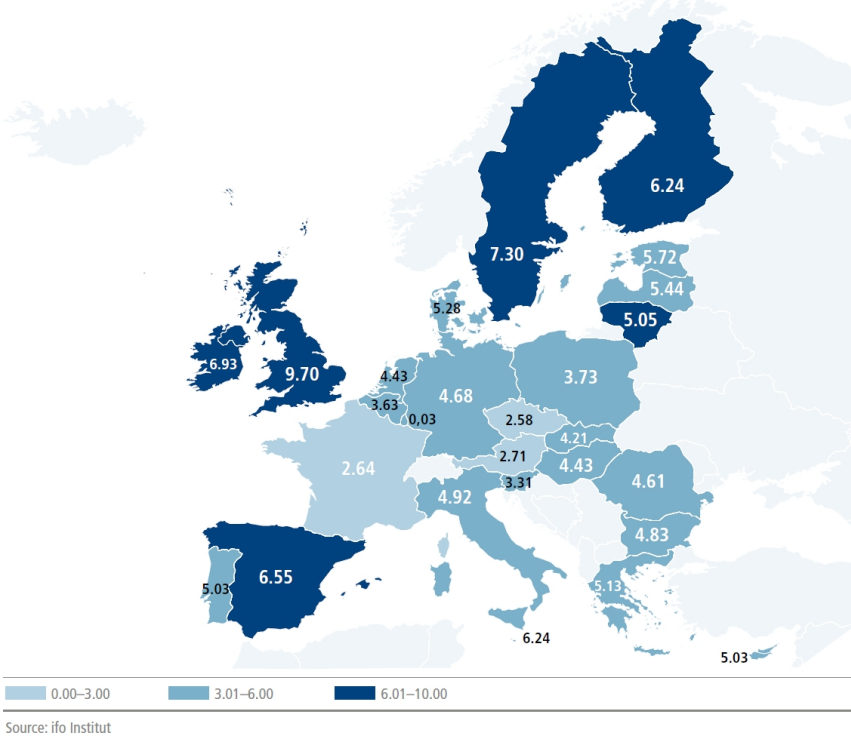
⁶ See inter alia Hosny, [Survey of recent literature on CGE trade models: with special reference to the case of Egypt](#) (2013) and Frank Ackerman and Kevin P. Gallagher, [The Shrinking Gains from Global Trade Liberalization in Computable General Equilibrium Models A Critical Assessment](#) (2006). See also Rudiger Von Armin, [Modelling the Impact of Trade Liberalisation, A Critique of Computable General Equilibrium Models](#) (2006)

Figure 2:
Change in GDP per capita
in the EU 27 - tariff
scenario



When examining the alternative scenario (full liberalisation), on the other hand, the study shows a remarkably different result. On average, the expected gains are more than 20 times higher than in the first (tariff liberalisation) scenario. The United Kingdom, Ireland, Sweden and Spain are among the countries that would profit the more. France, Czech Republic and Austria would gain only a limited advantage as a result of their proportionally smaller exports to the US.

Figure 3:
Change in GDP per capita
in EU 27 – if the TTIP
achieves deep
liberalisation



The study concludes that the TTIP would not greatly magnify the income gap within Europe. In the first, 'modest' scenario related only to tariffs, the agreement is projected to lead to greater convergence – the poorer, often peripheral countries benefit more than the richer, central ones. But the expected gains remain nevertheless very limited for all MS. In a scenario of full liberalisation, the expected welfare gains are more substantial, although less equally distributed across the EU.

1.3 The CEPII Study (2013)

Sectoral analysis undertaken in a study by the French centre for research in international economics CEPII suggests that several industrial sectors will face greater competition following trade liberalisation with the US.

In 2013, another study was produced by Centre d'études prospectives et d'informations internationales CEPII⁷. The study is also based on a CGE model, and the 'reference scenario' foresees the elimination of all custom duties and the nearly complete removal of NTBs.

The authors conclude that trade in goods and services between the two signatories would increase by half as a result of a full-fledged agreement, and that the increase in trade in agricultural goods could be even be more spectacular (+ 150 %).

Country-specific analysis is limited to three western MS (France, Germany and the UK) and to the East European countries (the 2004 and subsequent 'enlargement' countries), which are treated as a single entity.

The authors' findings show that TTIP would boost US export performance more significantly than that of the EU. This is particularly true if intra-EU trade is included in the analysis, as imports from the US essentially 'replace' intra-EU exchanges. For trade in industrial products and agricultural products, intra-EU trade is projected to drop by 2 % and 3 % respectively. The intra-EU trade in services would, however, not suffer from the entry into force of the EU-US deal.

⁷ CEPII, [Transatlantic Trade: Whither Partnership, Which Economic Consequences?](#) (2013)

Figure 4:

Long-term impact of the TTIP on US and EU exports and imports (volume, percentage change in the long run) – if custom duties were eliminated and nearly all NTBs removed

Table 3 – Reference scenario - Long term impact of TTIP on US and EU exports and imports
(volume, percentage change in the long run)

	Imports	Exports			
		Total	Agriculture	Industry	Services
USA	7.5	10.1	12.6	12.2	3.2
EU27 (excluding intra EU)	7.4	7.6	7.0	8.9	4.5
EU27 (including intra EU)	2.2	2.3	0.6	1.9	3.6
Of which:					
Germany	2.5	2.1	-2.6	2.0	2.9
UK	3.0	4.2	0.5	3.9	4.8
France	2.5	2.6	-0.3	2.6	3.1
Enlargement	1.2	1.3	4.2	0.8	3.3

Note: trade in volume, percentage deviation from baseline in 2025.

The impact on GDP and sectoral value added would also be unevenly distributed among MS, with Germany and UK benefitting more from the TTIP than France and Eastern European countries. In terms of value added, the agricultural sector is projected to reduce its contribution to the EU's value added, while services and – even more remarkably – the industrial sector are projected to contribute more than they do today.

Figure 5:

Impact on GDP and sectoral value added (volume, percentage change in the long run) – if all custom duties were eliminated and nearly all NTBs removed

Table 4 – Reference scenario - Impact on GDP and sectoral value added
(volume, percentage change in the long run)

	Total (GDP)	Value added		
		Agriculture	Industry	Services
USA	0.3	1.9	0.5	0.2
EU27	0.3	-0.8	0.6	0.5
Of which:				
Germany	0.4	-1.6	0.9	0.4
UK	0.4	-2.3	0.4	0.5
France	0.2	-0.7	0.5	0.3
Enlargement	0.2	0.0	0.4	0.3

Note: volume, percentage deviation from baseline in 2025.

The study also puts forward alternative scenarios with less ambitious options. The authors' calculations suggest that GDP gains would then be rather limited (if not negligible), and that the export performance of the EU would be generally positive, but dwarfed by that of the US.

Figure 6:
Changes in exports and
real income in alternative
scenarios

Table 5 – Alternative scenarios - Exports and real income
(volume, percentage change in the long run)

	Exports				
	Ref	Alternative scenarios			
		1	2	3	4
	Tariffs only	Targeted NTM cuts	Harmonization spillovers	Alternative NTMs	
USA	10.1	2.1	10.4	14.5	5.4
EU27	2.3	0.4	1.9	3.4	1.3
Of which:					
Germany	2.1	0.3	1.7	3.0	1.2
UK	4.2	0.6	3.6	5.5	2.4
France	2.6	0.5	2.2	3.8	1.5
Enlargement	1.3	0.3	0.8	2.5	0.7
	Real income				
USA	0.3	0.0	0.3	0.5	0.2
EU27	0.3	0.0	0.2	0.5	0.1
Of which:					
Germany	0.3	-0.0	0.3	0.5	0.2
UK	0.3	0.0	0.2	0.4	0.1
France	0.2	0.0	0.2	0.4	0.1
Enlargement	0.2	0.0	0.1	0.5	0.1

Note: volume, percentage deviation from baseline in 2025.

The study acknowledges that the potential divergence of British, German and French interests in negotiating the TTIP is significant and may have some influence on the negotiations led by the European Commission. Nonetheless, the study's conclusions are positive, stating that the TTIP's 'impact would go well beyond what is possible to include in this modelling framework, and the main expected benefits might result from regulatory convergence and from the enhancement of signatories' normative influence'.

The study's general
conclusions are positive

1.4 The Ifo Institute for Economic Research study (2013)

According to a study from
the Ifo Institute for
Economic Research, the
TTIP's benefits for the US
would largely outpace
those for the EU.

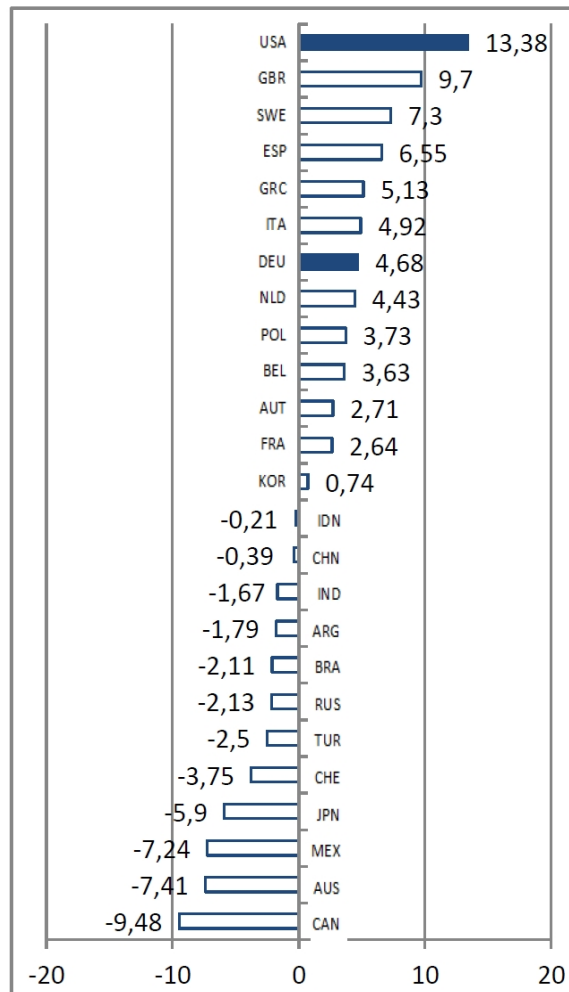
A study produced by the Ifo (Information und Forschung (research)) Institute for Economic Research⁸, commissioned by the German Federal Ministry of Economics and Technology, focuses on Germany. The study also provides interesting findings that apply to all EU MS.

The chart below shows that the EU MS likely to gain the greatest advantage from the TTIP (in a scenario of full liberalisation) are the UK and Sweden. These are followed by three southern European countries (Spain, Greece and Italy) and then by Germany and the Netherlands. As the chart also indicates, the TTIP's impact on third countries would be neither positive nor neutral;

⁸ IFO Institute, [Dimensions and Effects of a Transatlantic Free Trade Agreement Between the EU and US](#) (2013)

losses for countries including Canada would be significant (see Section II).

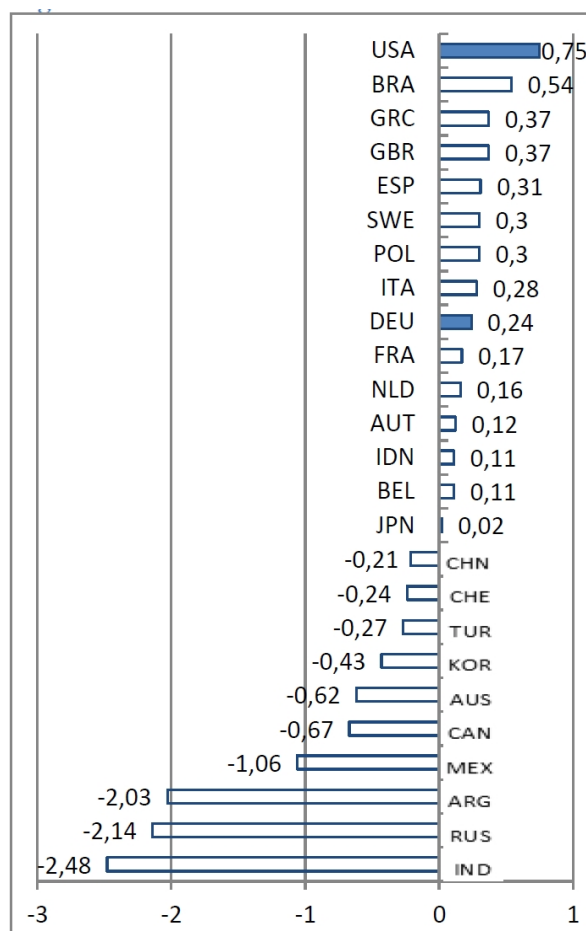
Figure 7:
Welfare effects of a comprehensive free trade agreements



Unsurprisingly, the projected benefits would be much smaller if the treaty only lifted residual customs tariffs.

The chart below shows the welfare effects of the tariff elimination scenario. In the long-run, welfare increases by 0.37% in UK (the EU Member State that is likely to take more profit from TTIP⁹, while US's gains are more substantial (0.75%). The global average long-run increase is 0.09%. As already mentioned, those countries, with which the US and the EU already have FTAs register losses.

Figure 8:
Welfare effects of a tariff elimination



2 Other Country-specific studies

2.1 The ECORYS study (2012)

A study on the TTIP's impact on the Dutch economy forecasts significant gains, especially in the case of full trade liberalisation.

A study commissioned by the Dutch Ministry of Economic Affairs, Agriculture and Innovation from ECORYS⁹ analysed the potential impact of a trade deal with the US from the viewpoint of the Netherlands.

The results of this study – the 'EU-US High Level Working Group' final report – suggest that an EU-US FTA would yield positive results for the welfare of both the EU and the Netherlands. Dutch national income, export value and (partly) wages are projected to increase from an ambitious deal. An examination of the study's methodology reveals that 60% of the total trade liberalisation gains estimated for the Netherlands derive from the reductions of the non-tariff measures (NTMs) modelled. The study projects that Dutch (and EU) wages evolve positively both for unskilled and skilled workers¹⁰.

⁹ ECORYS, EU-US High Level Working Group" [Final report](#) (2012)

¹⁰ Under the current premises, the increased trade flows between the EU and US is expected to have a slight trade diversion effect with respect to the rest of the world, as revealed by small decreases of all indicators for Japan and the BRICs.

2.2 The CEPR study of the TTIP's impact on the UK (2013)

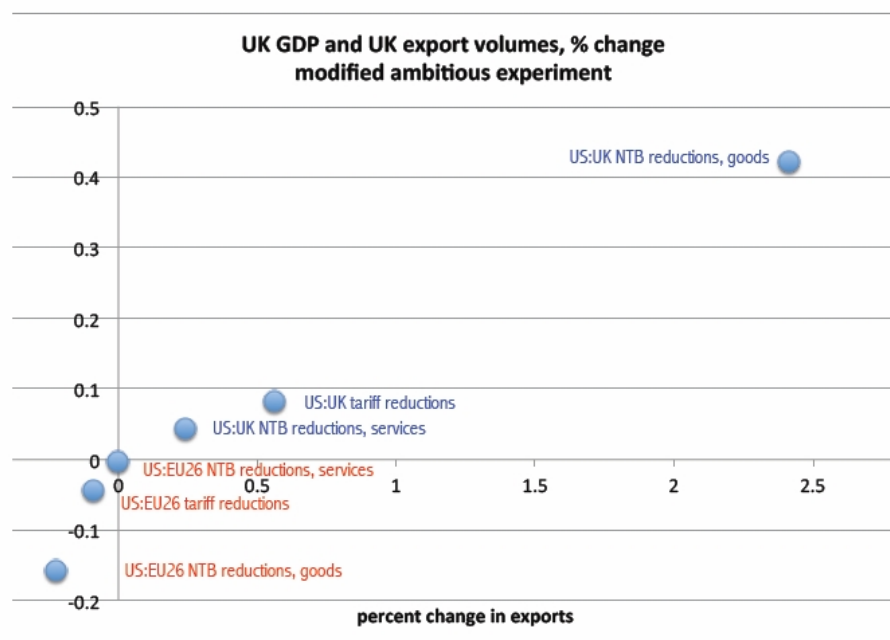
The UK is one of the EU Member States expected to gain significantly from the finalisation of the TTIP.

Another significant study, commissioned by the UK's Department for Business, Innovation and Skills (BIS) from CEPR, was published in March 2013¹¹.

The study shows that the relative impact (i.e. as a share of GDP) of the TTIP is similar for the UK and US economies – between 0.15 and 0.37 % of GDP. For the EU27, the study suggests that the relative gains would be about twice that – between 0.4 and 0.8 % of GDP. The difference in the magnitude of the FTA's potential impact on the UK and the EU is explained by the difference in the two's initial level of openness with the US.

Four main scenarios are envisaged in in the report: fully eliminating customs tariffs, or various reductions in NTBs. All scenarios are projected to yield significant, positive gains for the UK, where national income and GDP are projected to increase by between GBP 4 and 10 billion annually (EUR 5 and EUR 12.5 billion, respectively), depending on the extent to which NTBs are reduced. The gains that the rest of the EU would see as a result of removing tariffs would be much higher than in the UK, due to the UK's lower initial barriers.

Figure 9:
Expected benefits for the UK, EU and US (in different scenarios)



¹¹ CEPR - [Estimating the Economic Impact on the UK of a Transatlantic Trade and Investment Partnership \(TTIP\) Agreement between the European Union and the United States](#) (2013)

2.3 FIW study on the effects on Austria of FTAs with selected countries

A study on Austria commissioned from FIW (the Research Centre International Economics) concludes that the TTIP would be positive for the country's economy.

A 2012 study¹² commissioned from FIW (the Research Centre International Economics) by the Austrian Federal Ministry of Economy, Family and Youth concludes that a deal with the US is likely to benefit the Austrian economy. This would result from both direct trade (improved market access) and from stronger links to other parts of the EU, which would, in turn, benefit from improved market access.

Reducing NTBs, especially for goods, is judged the most important part of the agreement for Austria. Reductions in such trade barriers, with savings in real resources, are projected to translate into gains in Austrian labour productivity and, consequently, a positive investment and exports response.

The study stresses that the primary gains for the Austrian economy are linked to the country's deeper integration with North America as a whole. Yet while Austria would benefit from links with Canada and Mexico (through the US and NAFTA), it is nonetheless the core agreement with the United States that offers the greatest gains in terms of wages, employment and national income.

2.4 Prometeia study on the Italian economy (2013)

While Italy is projected to benefit from the TTIP, some of its key exporting sectors may face more competition.

A study on the TTIP's potential impact on the Italian economy was published by the Prometeia company in June 2013. The study generally confirms the findings of other assessments in two scenarios: tariff removal and full liberalisation¹³.

Italy is projected to reap extensive gains from the deal, particularly in the automotive and air and space industry sectors and in the areas in which Italy holds a comparative advantage (food and drinks, fashion and mechanical industries). While imports are projected to increase by approximately EUR 2 billion, some sectors – particularly agriculture, chemistry, paper and wood – may face losses due to the competitiveness of imported goods.

In the most positive scenario (full liberalisation), the Italian GDP could substantially increase, with some 30 000 jobs created in the three years following the treaty's entry into force.

3 The impact of the TTIP on the job market

The TTIP's potential

Although the various studies provide compelling projections, they cannot, of course, definitely predict the impact of TTIP on employment in Europe or of

¹² FIW, Modeling the Effects of Free Trade Agreements between the EU and Canada, USA and Moldova/Georgia/Armenia on the Austrian Economy: [Model Simulations for Trade Policy Analysis](#) (2012)

¹³ Prometeia, Stima degli impatti sull'economia italiana derivanti dall'accordo di libero scambio USA/UE (2013) (not available on internet).

impact on the EU job market is generally expected to be positive, although several studies suggest the benefits will be less than those projected by the CEPR.

the Treaty's trade diversion effect on the Single Market.

The Bertelsmann study does attempt to calculate the impact of increased foreign trade from the TTIP on labour markets. According to the study, the net impact on the EU's welfare would be positive, with significant differences among Member States. The TTIP is projected to create 2 million jobs, equally divided between the negotiating partners. Job creation in the EU MS would be asymmetric (*see tables below*), with the EU's western countries – particularly those with high unemployment rates (such as Portugal and Spain) – gaining proportionally more from the transatlantic deal. An average increase of 2.34% in real wages across the EU is projected in the deep liberalisation scenario, as is a 0.45% reduction in unemployment.

Figure 10:
Change in employment, unemployment rates and real wages
tariff scenario

Country	Percentage rise in employment	Change in unemployment rate in percentage points	Percentage change in real wages
Australia	-0.12	0.11	-0.56
Austria	0.07	-0.07	0.32
Belgium	0.02	-0.02	0.09
Canada	-0.15	0.15	-0.71
Czech Republic	0.11	-0.10	0.53
Denmark	0.13	-0.12	0.63
Finland	0.21	-0.19	0.97
France	0.12	-0.11	0.54
Germany	0.12	-0.11	0.54
Greece	0.20	-0.17	0.93
Hungary	0.15	-0.13	0.70
Iceland	-0.12	0.11	-0.56
Ireland	0.24	-0.21	1.14
Italy	0.16	-0.15	0.72
Japan	-0.03	0.03	-0.14
Netherlands	0.09	-0.08	0.40
New Zealand	-0.08	0.07	-0.37
Norway	-0.12	0.12	-0.55
Poland	0.15	-0.13	0.69
Portugal	0.22	-0.19	1.02
Slovakia	0.14	-0.12	0.66
South Korea	-0.03	0.03	-0.15
Spain	0.20	-0.16	0.92
Sweden	0.18	-0.16	0.85
Switzerland	-0.11	0.10	-0.50
Turkey	-0.11	0.10	-0.51
United Kingdom	0.37	-0.34	1.72
United States	0.20	-0.18	0.93
Average (GDP-weighted)	0.13	-0.11	0.59

Source: Calculations: ifo Institut

Figure 11:
Change in employment, unemployment rates and real wages
deep liberalization scenario

Country	Percentage rise in employment	Change in unemployment rate in percentage points	Percentage change in real wages
Australia	-0.47	0.44	-2.14
Austria	0.28	-0.27	1.33
Belgium	0.09	-0.08	0.42
Canada	-0.60	0.56	-2.75
Czech Republic	0.46	-0.42	2.14
Denmark	0.54	-0.50	2.54
Finland	0.81	-0.75	3.84
France	0.47	-0.43	2.22
Germany	0.47	-0.43	2.19
Greece	0.78	-0.68	3.68
Hungary	0.60	-0.53	2.81
Iceland	-0.46	0.42	-2.12
Ireland	0.97	-0.84	4.61
Italy	0.62	-0.57	2.90
Japan	-0.11	0.11	-0.53
Netherlands	0.35	-0.34	1.65
New Zealand	-0.30	0.28	-1.40
Norway	-0.46	0.44	-2.12
Poland	0.58	-0.53	2.75
Portugal	0.85	-0.76	4.03
Slovakia	0.56	-0.48	2.63
South Korea	-0.13	0.12	-0.58
Spain	0.78	-0.62	3.65
Sweden	0.72	-0.65	3.37
Switzerland	-0.43	0.41	-1.96
Turkey	-0.42	0.38	-1.94
United Kingdom	1.38	-1.27	6.60
United States	0.78	-0.71	3.68
Average (GDP-weighted)	0.50	-0.45	2.34

Source: Calculations: ifo Institut

4 The TTIP's impact on third countries

4.1 The Bertelsmann study

The TTIP is expected to create a great trade diversion across the globe.

The Bertelsmann study¹⁴ forecast the impact of the TTIP on per capita income for virtually all third countries,

Again, two scenarios – tariff removal and deep liberalisation – are envisaged. In first, a dramatic trade diversion phenomenon is likely to be experienced by all countries with substantial trade flows with the EU or the US – i.e. all

¹⁴ See Bertelsmann (2013)

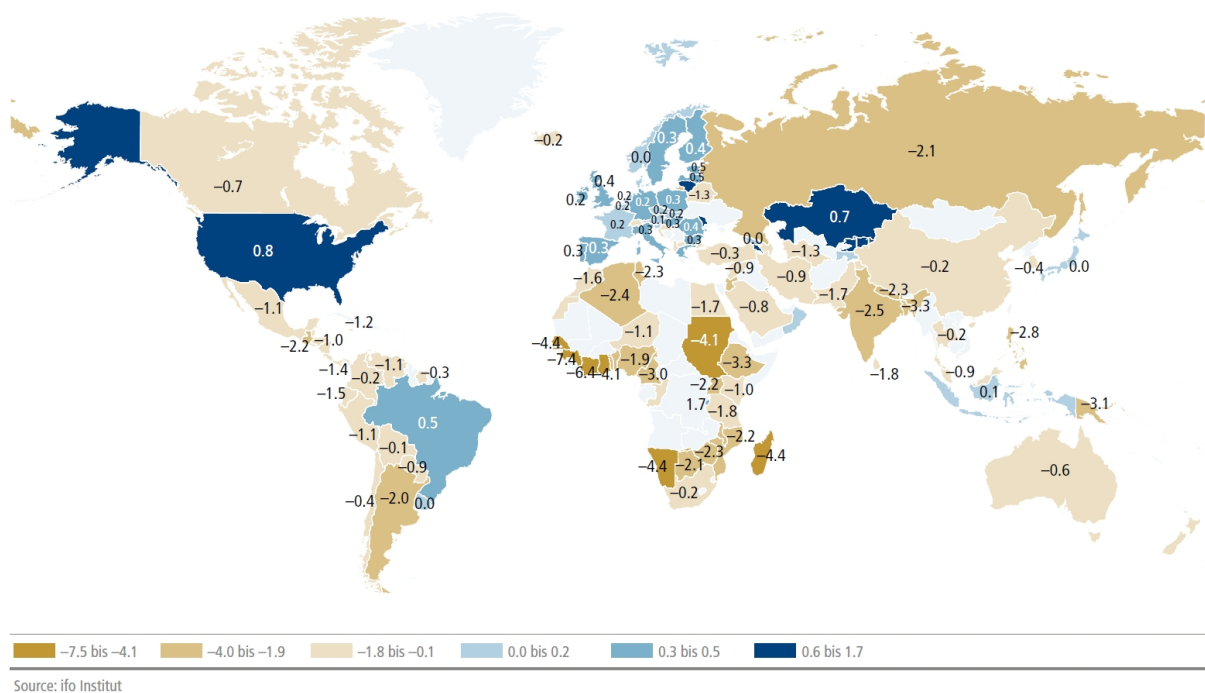
The TTIP will erode preferential agreements in force with developing countries...

...and will also hit trade regulated by the General Agreement on Tariffs and Trade (the GATT).

countries except Brazil, Kazakhstan and Indonesia. Possible explanation for this outcome is threefold: Brazil is developing a robust internal demand in a relatively protected market and stronger financial ties with other BRICS, Kazakhstan exports mainly energy goods with a rigid demand, which will not be affected by TTIP and Indonesia may divert to China and Korea EU and US exports. The extent of trade diversion would depend on preference erosion: the extent to which the country loses its previous trade preferences with the EU or the USA – generally either preferential agreements (economic partnership agreements, the Cotonou agreement or FTAs) or autonomous measures (GSP +). To a lesser extent, 'most-favoured nation' (MFN) countries (i.e. countries such as China, which do not have a preferential agreement) risk facing the same fate, since the tariff advantages that US and EU goods would enjoy in one another's market would likely result in their crowding out exports from third countries. European and US products will become more competitive in one another's markets.

The chart below illustrates the potential global effects of a tariff-only TTIP. Almost all countries outside the TTIP are projected to experience a reduction of per capita income, although the main losers would be developing countries. The TTIP's impact on third countries would vary according to the level of preferential tariffs in force, with those countries currently enjoying lower tariffs facing a greater risk of erosion. (African countries, for example, currently enjoy lower tariffs in preferential trade agreements with both TTIP partners.) The impact will also vary according to the alternative export markets that countries can turn to. East Africa is thus projected to lose less than West Africa thanks to its proximity to the Chinese and Australian markets.

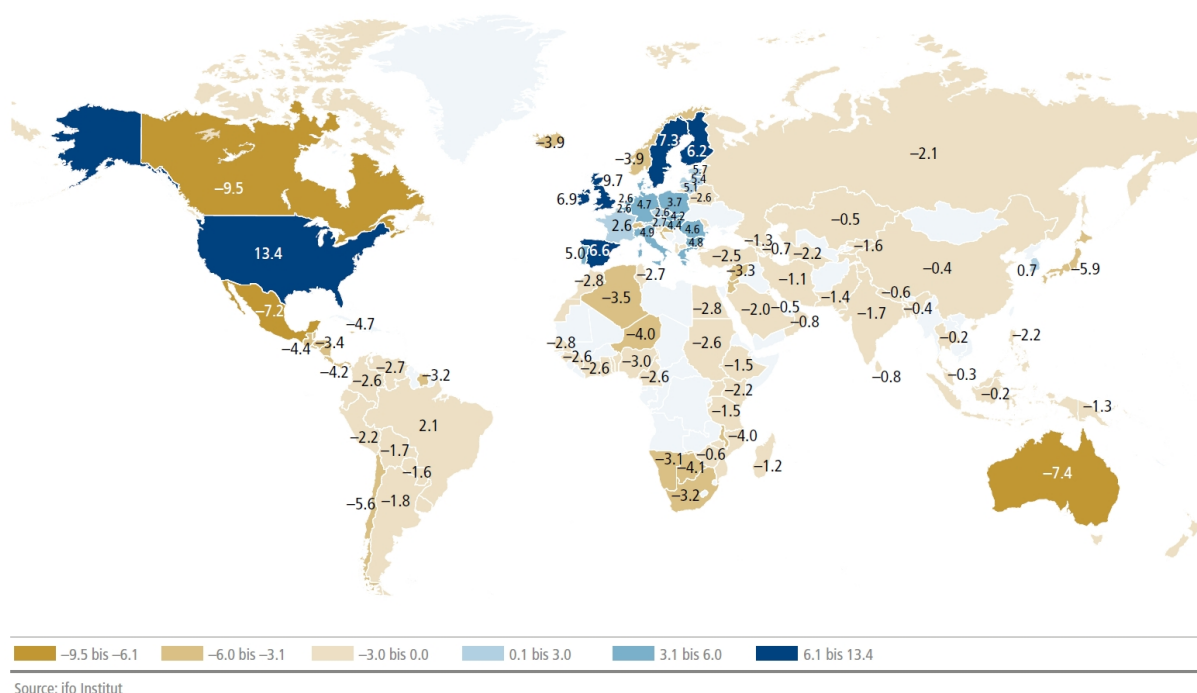
Figure 12:
Change in real per capita income – if the TTIP were only to eliminate tariffs



This said, a TTIP that merely eliminates tariffs would not be a game changer. A more ambitious TTIP will focus on NTBs and standardisation – the 'deep liberalisation' scenario. In this case, the effect on third countries would be more pronounced, commensurate with the powerful effects to be felt by the EU and US. The most affected countries in such a scenario would be the EU's and the US's main industrial partners: Japan, Canada, Mexico, Australia, Norway, Chile and the Central American countries.

Figure 13:

Change in real per capita income– if the TTIP were to achieve deep liberalisation



Source: ifo Institut

New TTIP standards are likely to be followed by other trade partners.

The map above, which envisages the effect of deep liberalisation on third countries, is calculated 'ceteris paribus' ('all things being equal'). In fact, it is very likely that main trade partners of the EU and USA would voluntarily adapt their standards to the new EU/US ones, by improving existing agreements with the EU or the USA or by participating in the TTIP. This push to harmonise technical standards could, in turn, reinvigorate the World Trade Organisation (WTO) fora for discussing non-tariff barriers, the Technical Barriers to Trade (TBT) and the Sanitary and Phytosanitary (SPS) committees. Ultimately, the agreement might even relaunch the WTO's Doha Development Agenda.

In any case, the TTIP is projected to produce a 3.27 % rise in global income, thereby generating resources which may serve to compensate the losers.

4.2 CARIS study

Another study, carried out by the [Centre for the Analysis of Regional Integration](#) of the University of Sussex (CARIS)¹⁵, details the potential effects of the TTIP on 43 low income countries using three different methods¹⁶. The results suggest that Bangladesh, Pakistan and Cambodia are likely to be affected by the elimination of tariffs between US and the EU, which are among the top three destinations for exports from Bangladesh, Pakistan and Cambodia. However, even the greater competitiveness of the EU's and US's products in one another's markets would not likely seriously disrupt their imports from Bangladesh, Pakistan and Cambodia.

Other, small exporters evaluated in this analysis¹⁷ tend to specialise in the export of raw materials and agricultural products governed by SPS regimes. These countries are therefore likely to be affected by the new SPS standards that might be agreed in the TTIP framework. The same would be true for clothing and textile exporters if the TTIP standards modify requirements for textiles' chemicals and labelling.

According to CARIS, the policy options for these developing countries are quite limited. They include ex ante requests for compensation or for preferential treatment if they do not already enjoy it. Bangladesh, Pakistan and Cambodia, for example, do not currently benefit from preferential treatment for most of the products they export to the US. Granting them this status would help them offset the increased competition they would face from the EU.

On the other hand, developing countries may try to comply with any new standards fixed within TTIP and may participate in any mutual recognition agreement concluded between the EU and the US.

Another study, published by three Turkish researchers¹⁸, focusses on China and evaluates the potential consequences of the TTIP on China's GDP in three scenarios. The authors also take into account the Trans-Pacific Partnership (TPP), the other major treaty the US is negotiating, with a number of Pacific countries¹⁹. China's participation in the TPP – about which Beijing expressed an interest in in September 2013 – would mitigate the TTIP's impact on China. According to this study, a TTIP concluded without the TPP

Developing countries are likely to ask for compensation.

China could limit its losses by participating in the Trans Pacific Partnership.

¹⁵ See Potential Effects of the Proposed Transatlantic Trade and Investment Partnership on Selected Developing Countries. CARIS, University of Sussex,

¹⁶ i.e. an analysis of trade performance, a partial equilibrium modelling and a qualitative assessment to evaluate the impact of regulatory integration.

¹⁷ Notably Ghana, Kenya, Nigeria, Burkina Faso, Burundi, DR Congo, Malawi, Nigeria, Occupied Palestine Territories, Rwanda, Sierra Leone, Togo and Uganda.

¹⁸ See MPRA, [The Possible Effects of Transatlantic Trade and Investment Partnership and Trans-Pacific Partnership on Chinese Economy](#). Buhara Aslan, Merve Mavus and Arif Oduncu, February 2014

¹⁹ Negotiations for the TPP are on-going with Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.

would negatively affect China, decreasing the country's GDP by 0.7 %. If the TPP were also concluded, and if China did not participate, the drop in the country's GDP could be as great as 2.3 %. If, on the other hand, China joined the TPP, the negative effects of the TTIP would be offset, and China projected to experience a 2.5 % increase in GDP.

5 Conclusions

Even using different approaches most of the studies mentioned in this overview suggest that the EU as a whole is likely to benefit from the TTIP. To reach their conclusions, the authors have adopted divergent approaches. While the most common methodology is based on CGE, a few studies have adopted alternative methods. Nonetheless, the results are largely convergent: the benefits of the TTIP for GDP growth and export performance would be rather limited in the most unambitious scenario (removing residual customs duties), but would increase proportionately to the level of regulatory harmonisation achieved by the treaty.

It is, however, unclear at this stage of negotiations what the final scope of the TTIP will be. The final form of the treaty will make a significant difference to its impact on individual countries – both EU Member States and third countries.

For EU Member States, all studies converge in forecasting unequal gains for individual countries – as well as greater gains for the US than for the EU. While the EC-commissioned impact analysis projected the average benefits for the EU as a whole, various studies have differentiated among Member States: peripheral northern and western countries (the UK, followed by Sweden, Ireland and Spain) are expected to reap greater gains than others (with Luxembourg, France, Belgium and Poland among those countries benefitting least). The relative advantage of different countries most likely depends either on their location and infrastructure (which provides them 'a foot up' for trade in goods) or on their service orientation (which proves advantageous in case of a service liberalisation with the US).

The TTIP is likely to produce a negative impact on a number of third countries. The WTO was basically created to provide a solid legal framework for trade among the two biggest trade blocks of the time – the EC and the USA. Conflicting interests and different internal regulations have since led to frequent disputes between the two blocks: there have been 51 EU-US disputes (of which 32 were brought by the EU), notably more than the 10 cases between the EU and China (of which 7 were activated by the EU) or the 24 between the US and China (15 of which were activated by the US). The Dispute Settlement Mechanism has so far proved solid enough to address all of these.

But the WTO has not evolved since 1994. Its 20-year-old trade rules have been enriched with interpretations from the Dispute Settlement Body (DSB) and some WTO-based plurilateral treaties (such as the International Telecommunication Union and the Government Procurement Agreement),

The relative benefits of the TTIP for EU Member States are unequal and the outcome depends on their geographic and infrastructure conditions and on their current trade in services.

but new attempts to conclude multilateral talks have been deadlocked, and numerous rules have proved ill-adapted to new economic patterns, such as vertical integration, e-commerce and on-line counterfeiting. Efforts to update existing trade rules – especially in emerging areas of services, investments, non-tariff barriers, procurement, competition and intellectual property – have been led by the EU and the US and have involved building a network of bilateral treaties which 'export' the EU or US vision and rules. The compatibility of 'US-driven FTAs' and 'EU-driven FTAs' is, however, increasingly in question, particularly as developing countries attempt to maintain their market shares in their main markets (the USA for Latin America and the EU for Africa).

If the TTIP is concluded, the increase in trade between the two partners will be mirrored by substantial trade diversion. Many of the EU's and the US's principal trade partners will have their market shares in the EU and the US challenged by greater competition – from European goods and services in the US, and from US goods and services in the EU.

The countries that risk becoming the 'biggest losers' – Mexico, Canada and Australia in the US market, and Turkey, Norway and sub-Saharan countries in the EU market – are aware of the challenge and already requesting compensation. It may be possible to provide this from resources generated by the trade generated by the TTIP, which may also eventually encourage an advanced integration of standards among WTO members.