

Prospects for the EU-US Trade Relations in the Light of the TTIP¹

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Abstract

To success on international markets, individual economies are trying to take measures to increase their efficiency, flexibility and competitiveness. There is a liberalization of tariff and non-tariff barriers mainly due to trade based on regional integration. Among such agreements belong also the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the USA, which represent the largest economies in the world. The paper analyses developed scientific studies that assess the economic impact, advantages and disadvantages of closer economic cooperation. However, it reflects not only the economic but also foreign policy importance of this partnership. In the case of signing the TTIP, it would become the most important bilateral trade agreement ever, both in terms of international trade as well as in terms of the impact on international trade as a whole.

Key words

European Union, USA, regional integration, trade liberalization, Transatlantic Trade and Investment Partnership (TTIP)

JEL Classification: F1, F4, F5, F6

Introduction

Changes of international trade went through various stages of development. Due to the development of capitalism in the 19th century, the centres of trade were gradually interconnected and the international trade emerged into the current economic terms. Developed was a dense network of business, financial, monetary and capital relations as well as economic and political relations. Later, in the 80s of the 20th century, due to the influence of the global economic climate, several governments began to liberalize their mutual economic and trade relations, which contributed to changes in the global economic climate characterized by a removal of barriers preventing the free flow of goods flows. Globalization thus contributed to the growth of production, trade and competitiveness internationally. This established trend persists. To succeed on international markets, individual actors in this process are constantly forced to take measures to increase their efficiency, flexibility and competitiveness. One of the ways to resist this pressure successfully is to form closer and stronger cooperation based on regional integration. New free trade agreements (FTA) are formed in aim to remove

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barriers to mutual exchange of goods and services, capital and people. Such agreements include also the transatlantic free trade agreement and investment partnership between the EU and the USA (Transatlantic Trade and Investment Partnership, further TTIP). The effects of FTA on individual economies are different and depend on multiple variables. The biggest effect possesses from the wide FTA which liberalize not only tariffs, but also trade in services, investments, governmental procurement, environmental and labour standards (Kašťáková & Ružeková, 2014).

They determine growth of GDP, export capability, welfare growth, and new working opportunities. These are the main reasons why those agreements are supported by governments, even despite of multiple obstacles which are to be solved during the treatment process. The aim of the article is to analyse the impact of the TTIP agreement on US-EU and Slovak economy, as well.

1 Methodology

In the research was used the GTAP Computable General Equilibrium (CGE model), by which authors assess the potential impacts of the agreement, represents the 'state-of-the-art' in economics. The authors consider that there is not any better tool by which to estimate the long-term impacts of such a complicated trade agreement. This approach also has several advantages. First, CGE allows modelling the behaviour of different subjects in several markets in the entire economy, including many sectors. Second, the GTAP-8 database (which has been used) provides a powerful and reliable set of data. This matters a lot because the data requirements for many countries (in this case, 40), many sectors (20), for several types of markets and for the baseline scenario are extremely demanding.

2 Literature review

2.1 Liberalization of international trade and regional integration

Due to intensifying globalization, the current world economy is characterized by a rapidly increasing volume of cross-border transactions of goods, services, capital and rapid dissemination of technology. These facts give rise to an objective need for liberalization of international flows of goods and services. There is a rationalization of import and export through the elimination of tariff and non-tariff barriers to trade. In parallel with the process of globalization, which leads to a kind of "universalization" of the world economy, active is a process of fragmentation leading to degradation of a larger whole into smaller economic units. Its territorial manifestation is of the regionalism with specific economic, social, cultural and political elements of association and cooperation (Baláž et al., 2010).

In international trade, the common feature is liberalization and forming closer ties between two or more countries within which there is a barrier removal to mutual exchange of goods, services, capital and people.

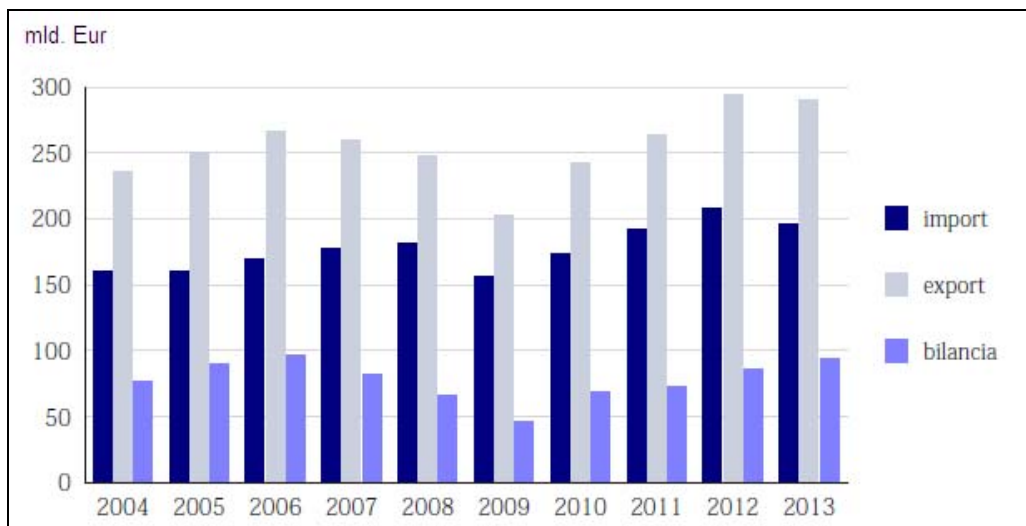
The EU considers regionalism as a tool to promote growth of investment, competitiveness and to strengthen a multipolar world system (Lamy, 2002). The present process of regional integration is associated with several changes in the world economy which started at the turn of the 80s and 90s of the last century and is related to the disappearance of the bipolar world. This opened the way for implementation of liberalization processes in a wider, indeed global scale and is characterized by a boom in international trade and foreign investment, recovery of defunct regional arrangements and establishing new ones. A distinguished American economist, professor J. Bhagwati named this wave of integration as "new regionalism" while a Swedish economist B. Hettne concisely summed up the difference between the old and the new regionalism saying that "while the old regionalism was promoting trade supported by a regional agreement, the new regionalism is a comprehensive multidimensional program including economic, safety, environmental and other issues".

Many current liberalization processes in the global economy are associated with the concept of new regionalism. In terms of quality, they are intended beyond the original regional integration (Cihelková, 2010). Except for free movement of goods, liberalized is also the intellectual property, trade with services, investment, government procurement, intellectual property protection as well as basic environmental and labour standards and several non-tariff barriers. Created are new-generation agreements called "comprehensive free trade agreements". Such agreements might include for example The Free Trade Agreement between the EU and the Republic of Korea (effective from 1 July 2011), the Comprehensive Economic and Trade Agreement between the EU and Canada (signed in 2014) as well as the Transatlantic Partnership Agreement on trade and investment between the EU and the USA (Transatlantic Trade and Investment Partnership, TTIP).

2.2 Negotiations on the Transatlantic partnership in trade and investment between the EU and the USA

The EU market is the largest market in the world with the United States as the largest trading partner. The USA is the main destination of exports of the EU and the third largest source of EU imports. As for the US, the EU represents the second most important export market as well as the second most important source of imports. The intensity of mutual exchange of goods for the last ten years is increasing and its development is clearly presented in Figure 1, supplemented with the following chart (figure 2) illustrating the commodity structure of exports and imports between the EU and the USA.

Figure 1 Development of commodity exchange between the EU and the USA in the years 2004-2014 (in bill. €, the EU perspective)



Source: Adapted from European Commission (2015). Retrieved from http://ec.europa.eu/index_sk.htm

Figure 2 Commodity structure between the EU and the USA in 2013 (export/import/share)

SITC classification	Import 2014 (mil. EUR)	Share on import (%)	Export 2014 (mil. EUR)	Share on export (%)
Machinery and transport equipment	74 406	37,96	122 750	42,59
Chemicals	43 467	22,18	62 107	21,55
Manufactured goods	25 031	12,77	35 745	12,40
Mineral fuels	18 933	9,66	17 331	6,01
Miscellaneous manufactured articles	12 736	6,50	27 428	9,52
Crude materials	8 845	4,51	2 561	0,89
Food and live animals	5 909	3,01	5 874	2,04
Commodities and transactions not classified	3 578	1,83	2 426	0,84
Beverages and tobacco	1 533	0,78	7 934	2,75
Others	1 271	0,65	3 330	1,16
Animal oils and fats	280	0,14	754	0,26
Total	195 989	100,00	288 239	100,00

Source: European Commission, 2015, retrieved from http://ec.europa.eu/index_sk.htm

As the above reports suggest, it is obvious that the intensity of economic and trade relations is high and therefore it is logical that the idea of closer linking between American and European markets is not new. The European Union and the United States have been preparing to create a free trade area for almost two decades. In the

past, there were at least two serious attempts to their mutual trade liberalization. In 1998, the European Commission proposed an agreement entitled "The New Transatlantic Market". However, this agreement was vetoed by France because of concerns about their audio-visual industry. Shortly afterwards the European Commission prepared so called "Action Plan for the Transatlantic Partnership", known as TEP, which was less ambitious and did not bring the desired improvement of bilateral trade. All subsequent initiatives were mostly aimed at eliminating the negative impact of administrative and regulatory barriers through partial agreements on mutual recognition and harmonization. However, these attempts did not produce any significant positive impact.

Under the influence of several factors in recent years, there has been a reinvigoration of the idea of linking the EU and the USA, based on liberalization. Although, there were several economic reasons, the main accelerators launched negotiations concerning the global economic crisis and dissatisfaction with the progress of negotiations in the WTO. Another important incentive to start negotiations was the reform of the Common agricultural policy of the EU and high commodity prices. These reasons led the EU and the USA to creation of "High Level Working Group" (led by the EU Commissioner for Trade and the US Trade Representative), which was to analyse the economic benefits of liberalization for both parties. In the conclusions of the study, both parties were clearly recommended to start the negotiations on a Transatlantic Partnership Agreement on trade and investment between the EU and the USA (TTIP) (Kičina, 2014). It happened at the 39th G8 summit, where the EU and USA leaders announced that formal negotiations on TTIP would start in aim to eliminate tariff and non-tariff barriers to trade.

Steps leading to the Agreement are therefore a logical result of many years of efforts to deepen cooperation between the European Union and the United States. Trade relations between these countries are among the most important in the world. Together they contribute by 33% in the world trade with goods and 42% in the world trade with services, almost 60% of global GDP and support more than 13 million jobs on both sides of the Atlantic. They represent the largest and richest market in the world, constituting more than three-quarters of the world financial market. Up to 91.3% of global financial transactions are made in dollars (61.7%), euro (25.7%) or pounds (3.9%). (Eurostat. 2014). Despite these figures, many observers argue that the existing cooperation has not yet reached its full potential, mainly because of the range of regulatory, technical and other obstacles. Therefore, the main emphasis in the negotiations on TTIP will focus on solving these issues.

3 Key results and discussion

3.1 A brief analysis of conducted studies

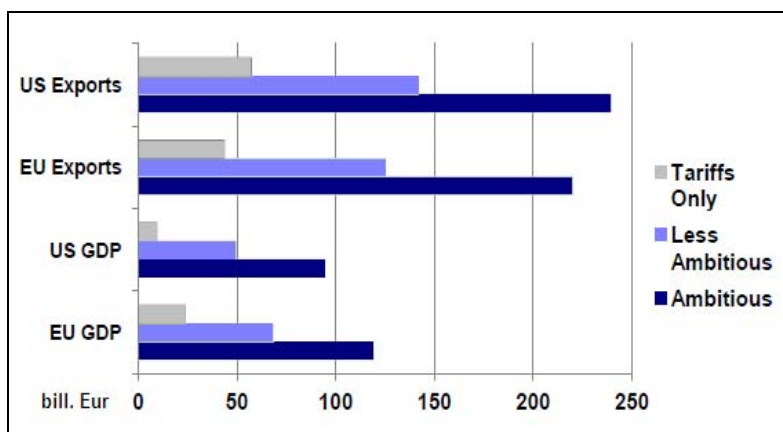
A number of studies, aimed to use scientific methods to quantify, analyse and evaluate the advantages and disadvantages of liberalization in the framework of a transatlantic free trade zone and investment for both parties had been elaborated before the negotiations. They were subsequently subjected to public debate. Among the

largest studies of TTIP may be included the study by ECORYS (from 2009), CEPR (2013), CEPII (2013) and Bertelsmann / IFO (2013). Results and prognosis in individual studies slightly vary due to the use of different analytical approaches and models. (OFSE, 2013) However, a common feature of all the studies is that they expect positive effects for both, the EU economy as well as the USA. However, real benefits for both parties will crucially depend on the extent of the removal of non-tariff barriers.

Bertelsmann analysis in Germany was prepared for the purposes of the EU, quantifying and analysing the potential effects of the agreement based on two possible scenarios. The first is a reduction of non-tariff barriers to trade by 10% and almost a complete elimination of tariff rates (about 98%), the second is based on a reduction of non-tariff barriers of 25% and full liberalization of tariff barriers. After their application, the TTIP should bring to both economic powers a new development momentum. There should be a growth in the EU GDP in the range from 68 to 119 billion EUR and in the USA from 50 to 95 billion EUR. These figures represent an increase in the average annual disposable income of households in the EU by 545 EUR and 655 EUR in the case of American households (European Commission. 2013).

Other studies have worked with several scenarios of liberalization, subsequently from which unrolled analyses of potential real GDP growth as well as exports. For example, a study of London's Centre for Economic Policy Research (CEPR) worked with three scenarios of liberalization (see figure 3). The first scenario assesses the impact of the elimination of tariff barriers only on GDP growth and exports in the EU and USA. Such liberalization would, given the relatively low level of existing customs burden, have only a minimal impact on the growth of exports and GDP. The second, so called "less ambitious" scenario, which in addition to a complete reduction of tariffs also counts with a partial reduction of non-tariff barriers to trade, represents a higher increase of export and GDP. The third, the most ambitious scenario, considers a significant reduction of tariff and non-tariff barriers to trade and by 2027 assumes already more significant contributions of GDP growth. However, the highest effect is reflected in the growth of exports.

Figure 3 Results of the CEPR study on export growth and GDP for the EU and the USA (under various scenarios)



Source: Adapted from Austrian Foundation for Development Research (2014). Assessing the Claimed Benefits of the TTIP

The authors of the study point out that by the introduction of only tariff liberalization, the GDP growth would not be so high with the level at about 25 billion EUR for the EU and 9 billion EUR in the USA. A key factor of economic growth (and growth of demand and supply) within the context of TTIP would come particularly in the case of the removal of non-tariff barriers to trade. For example, the cost of dealing with unnecessary administrative formalities may add to the price of goods an equivalent of duties in amount between 10-20% while these costs are born by the consumer. According to the calculations of the London Centre for Economic Policy Research (CEPR) and their analysis published under the title "Reducing barriers to transatlantic trade", almost 80% of the economic benefits of the transatlantic partnership would come from reducing costs unnecessarily spent due to bureaucracy and regulations, including the liberalization of trade with services and procurement procedures in government. There would be a reduction in the prices of imported goods, the growth of commodity exchange consequently leading to investment growth. These would be profitable for both, consumers in the USA and the EU member states. The elimination of tariff barriers as well as other trade barriers should ensure economic growth of about 0.5% per annum for the EU and 0.4% per annum for the United States. New jobs could be stimulated in the EU at the level of about 1.3 million and in the case of the USA 1.1 million. This agreement could contribute to enhancing global growth of 1.5% - 2% without further stimulus spending from the state budget.

However, as expected, TTIP will not only mean the expansion of trade between the EU and the USA. It is important to note that the US and the EU are important trading partners of other regions so further liberalization of transatlantic relations could also have a positive impact on the rest of the world. Due to the increased demand for raw materials, components and other inputs to production, the volume of exports from the EU to the third countries would increase too.

Despite the countless advantages of conclusion of the transatlantic partnership in trade and investment between the EU and the USA, there are observations predicting negative impacts. Studies indicate that by the conclusion of the agreement there will be a growth in GDP in all countries, but this increase will not be equitable. The largest profit of the agreement should have the United Kingdom, Sweden or Spain, while France and the Czech Republic might not reach even the European average. Economy of Slovakia is moving in the zone above the European average. It is assumed, for example, that the volume of trade between Germany and the countries of southern Europe would be reduced by up to 30% and between Germany and France by 23%. TTIP will also affect the change in the commodity structure of mutual trade among member states of the European Union. Within the EU, there will be in particular producers so far being protected by import duties, who will lose.

Signing TTIP may have a negative impact on the economy, located outside the region of liberalization. Confirmed will be a well-known fact that protectionist measures between integrative states automatically discriminate participants in international trade trading outside the integration group. Their imports are not subject to liberalized trade conditions and so they slowly will be displaced from the international trade. In the theory two known effects of such integration will reflect - after removal of trade barriers among integrative entities a growth of intraregional trade occurs and, in contrary occurs also the decline of trade with the third countries. This Transatlantic agreement on trade should have a negative impact on trade with countries such as Mexico, Cana-

da, Norway and several developing countries. Expected is also a possible disadvantage of African States and the Central Asian states where the trade with the USA might be reduced by 3.3% (Lipková, 2013). It is assumed that the mentioned countries will report a decline of competitiveness in the EU and US markets, reduced will be the volume of their production, income and more jobs will be cancelled.

In addition to these "obvious disadvantages" arising from studies, there are some objections that the negotiation of the Agreement contains several outstanding issues, with possible negative effects. For example, a British organization Corporate Europe Observatory warns that the decision-making mechanism of the European legislation (which includes besides others also food safety standards, environmental standards, bank regulation or the consumers' rights) and the dispute settlement mechanism between states and investors, known by under the abbreviation ISDS (investor-state dispute settlement) will give extraordinary powers to multinational companies, which can, in trials, defeat states trying to protect their citizens against business practices which might be harmful to them. *"They could, for example, sue the governments preventing the extraction of mineral resources in protected areas; banks could defend against attempts to financial regulation. ISDS would give transnational corporations unprecedented privileges and rights in formulating and commenting European legislation concerning, for example, food safety, environmental standards, consumer rights and the like. They could sue virtually everything they would assume as threatening the "free trade"'*, states the British organization. ISDS would give transnational corporations unprecedented privileges and rights in formulating and commenting European legislation.

3.2 Process of negotiations on TTIP

Negotiations began in July 2013 in Washington. At the negotiations were identified the priorities, agreed technical procedures and subsequently were identified priority areas of liberalization while the greatest attention should be paid to the following topics:

- Elimination of tariffs on all products (average tariffs in the USA are 3.5 % and in the EU even 5.3 %);
- Harmonization of standards and regulations for manufactured products;
- Harmonization of the regulatory process at products approval and compliance with health and safety standards;
- Harmonization of sanitary standards, which are too often used to cover the artificial barriers to market access;
- Opening the public procurement for transatlantic trade;
- Others³.

The process of negotiation of TAFTA has three parts (Lipková, 2013). The first part contains negotiations on the elimination of import duties which at present achieve a low level due to MFN clause, with the exception of import duties on agricultural

³ The other identified areas of liberalization within TTIP belong the following topics: - market access for agricultural and industrial goods - investments - energy and raw materials - regulatory issues - sanitary and phyto-sanitary measures - services - intellectual property - sustainable development - SMEs - dispute resolution - simplification of customs procedures, - state enterprises.

products in the European Union. The second part of the negotiations should lead to the elimination of non-tariff barriers that restrict cooperation not only in trade cooperation, but also in other areas (such as construction, personal, recreational, cultural services, biotechnology and others). The third part of the negotiation includes the harmonization of laws and regulations on markets of the USA and the EU which varies in many ways. The result should be a mutual recognition of certificates and simplifying the licensing procedures (PAS, 2014).

Initial expectations were that the agreement could be signed in term of two years. It is already clear, however, that the original plan was too optimistic. The main reason of postponing the negotiations is a huge amount of potential problems and pitfalls stemming from efforts to harmonize the two quite different regulatory systems. At first glance, it seems that every round, out of the five conducted so far, has been marked by disputes over whether a particular controversial area should or should not be included in the negotiations on TTIP. More and more voices are heard claiming that the trade agreement will hardly manage to take the form originally proposed. On the other hand, there are several factors that increase the chances of acceptance TTIP even in its current form. The first is a positive experience with South Korea, where a comprehensive free trade agreement (signed as the first of a new generation of agreements) produced positive results. During the first two years of the entry into force of the Agreement, the European exports increased significantly. In 2012, for the first time in 15 years, the EU had a trade surplus with South Korea, where the year to year EU exports to South Korea increased by 16.2% (from 32.5 billion EUR to 37.8 billions) (euPASnewsletter, 2013).

Conclusion

Transatlantic Partnership Agreement on Trade and Investment between the EU and the USA may be in this spirit welcomed and encouraged. In the light of elaborated studies, trade and its liberalization will definitely become a factor of economic growth. This free trade agreement would be unprecedentedly the most important bilateral trade agreement in general, both in terms of the volume of international trade, as well as its impact on international trade as a whole. The EU and USA now represent 900 million-consumer market, which is about 12% of the world population with the economic power of over a half of global GDP and 30% of the world trade. Due to the elimination of tariff and non-tariff barriers, economic growth and new jobs positions will be ensured while lowering the prices of goods and increasing the volume of investments. A new liberalized area will be created in the world economy.

Furthermore, TTIP has the potential to contribute to the development of multilateral negotiations within the World Trade Organization, which for several years has not shown any expected results. Following the example of South Korea and Canada, which have already signed a comprehensive free trade agreement with the EU, the joint trading block among the EU-USA with a unified and mutually recognized standards would have a high chance of becoming a model for global technology standards. For these reasons, the free trade agreement between the EU and the USA would be the most important bilateral trade agreement at all, either in terms of volume of international trade as well as in terms of the impact on international trade as a whole.

In addition to these economic aspects, it is important to emphasize that the agreement is of a fundamental aspect of foreign policy. The economic crisis on both sides of the Atlantic pointed out the importance and interdependence of transatlantic economic ties. Moreover, at the time of escalating economic and political influence of Asian and Latin American countries and also demonstration of political, military and energy forces of Russia, the EU and the USA can show that the establishment of Trans-Atlantic free trade pact is not only possible but in terms of geopolitical situation even necessary. The Transatlantic free trade area could contribute to the strengthening of the EU and USA in the global business world and to create a space for moving the economic centre back towards the Euro-Atlantic area.

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