EU-US TRADE DEAL WILL BENEFIT LINKED ECONOMIES BUT HARM DISTANT ONES

The Transatlantic Trade and Investment Partnership (TTIP) will generate income growth for participating countries as well as closely connected economies such as Canada, Mexico and European states not in the European Union. But it will harm more distant countries such as China, Japan and Korea. These are the findings of research by **Inga Heiland** and colleagues, to be presented at the annual congress of the European Economic Association in Mannheim in August 2015.

Their study looks at existing trade agreements to work out how reducing the cost of trading shapes the world economy. It breaks the economy down into 32 sectors (ranging from agriculture and food to water transport) and finds that GDP per capita in members of TTIP would rise by 2-3% as a result of the agreement, with trade between the EU and United States doubling.

Outsider countries with existing trade links such as Canada and Mexico would also gain, since even though they would become relatively less competitive, the 'spillover effects' from member states would also increase their income by around 0.3%. But more distant countries like China and Korea would see theirs fall by around 0.2%. The authors conclude:

> 'Eliminating tariffs will have almost no effect. But harmonising rules between the United States and the EU might lower the cost for other countries selling to both markets, causing the world as a whole to gain.'

More...

Negotiations between the United States and the European Union about the Transatlantic Trade and Investment Partnership (TTIP) have once more triggered a fierce debate between opponents and proponents of free trade agreements.

This paper proposes a methodology to assess the potential gains and losses of TTIP for the member countries, for outsiders and for the world as a whole. It predicts that TTIP induces substantial income growth for the EU and the United States, and for the world overall. Moreover, non-TTIP countries that are close and well integrated into the TTIP countries' production chains, such as Canada and other non-EU European economies, gain as well. More remote economies, such as China, Japan and Korea will be negatively affected.

The study puts forward a novel approach to estimating the potential welfare consequences of such an agreement for insiders and outsiders at a stage where the actual outcome of the negotiations is unknown. It uses data on existing trade agreements to estimate the extent to which those agreements have reduced trade costs.

The authors then simulate how a similar reduction in trade costs and the elimination of all existing tariffs between the EU and the United States will shape the global pattern of trade, production and real income growth given the current state of the world economy. Figure 1 shows the estimated trade cost reductions across sectors.

The study finds that the TTIP member countries will benefit substantially, GDP per capita increases by 2-3% (Figure 2). Trade between these two regions roughly doubles (Table 1, upper panel). Trade cost reductions not only lower prices for consumers but they also lead to lower prices of imported intermediate inputs. This facilitates trade along the production chain and integrates the European and North American production networks.

Table 1 (lower panel) shows that through the integration of the TTIP partners' markets, more value added from Canada and Mexico reaches the EU and the EU's trading partners in Europe. Conversely, more value added from the members of the European Free Trade Association (EFTA), which are not part of the TTIP, reaches the United States.

TTIP has wide implications for outsiders. Besides conventional negative effects from a relative loss of competitiveness in the TTIP countries' markets, there are also positive spillover effects on third countries. Growth of production and income in TTIP countries spills over to suppliers of important intermediate inputs and consumption goods. Producers and consumers all over the world benefit from a lower average level of trade costs.

In total, positive spillover effects outweigh negative effects for countries close to the TTIP partners. In European non-EU countries real income goes up by .29%; in Canada income grows by .12%. Income losses pertain in countries that are remote or not closely integrated into the TTIP countries' production networks; for example, Japan, Korea, and China lose between .1% and .3% of income.

In line with the official ambition of policy-makers, the study's baseline scenario is based on cost reductions associated with deep trade agreements – that is, agreements which include, for example, mutual recognition or harmonisation of product standards, liberalisation of public procurement markets and services trade, or investment protection clauses.

The researchers also simulate the effects of alternative types of agreements. For example, they find that the elimination of tariffs only, which are currently at an average level of about 5%, will have almost no effect. More optimistic scenarios, which acknowledge the possibility that harmonisation of rules among the United States and the EU might as well lower outsiders' costs of selling to both markets, predict positive income effects in all countries and significantly higher gains for the world as a whole.

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Going Deep: The Trade and Welfare Effects of TTIP
Rahel Aichele, Gabriel Felbermayr and Inga Heiland
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Figure 1: Estimated trade cost reductions for 32 sectors

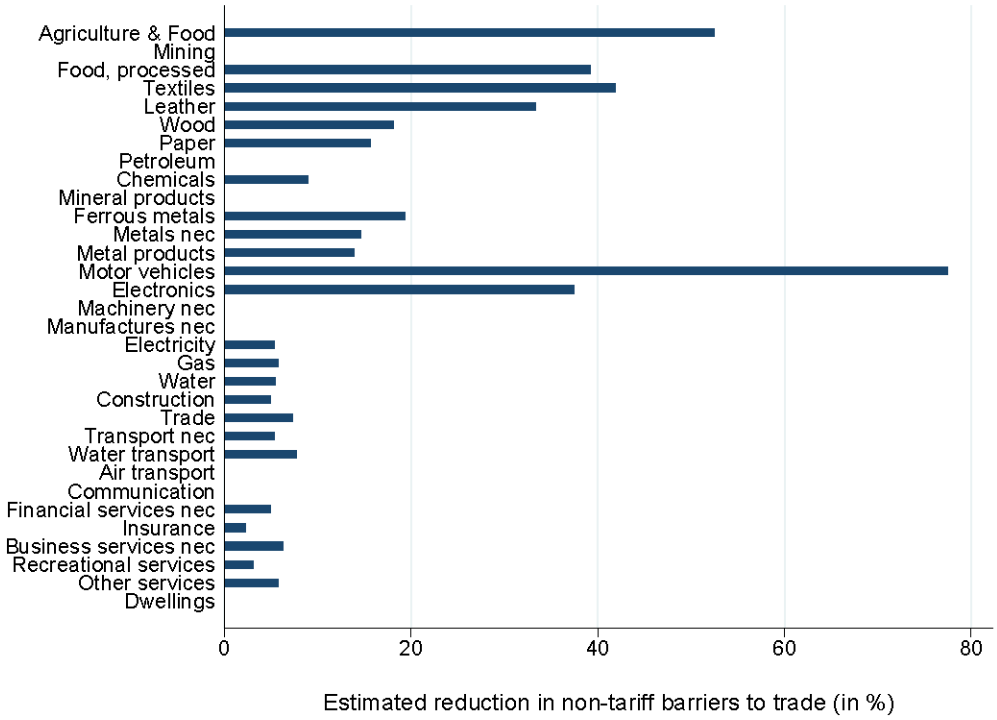
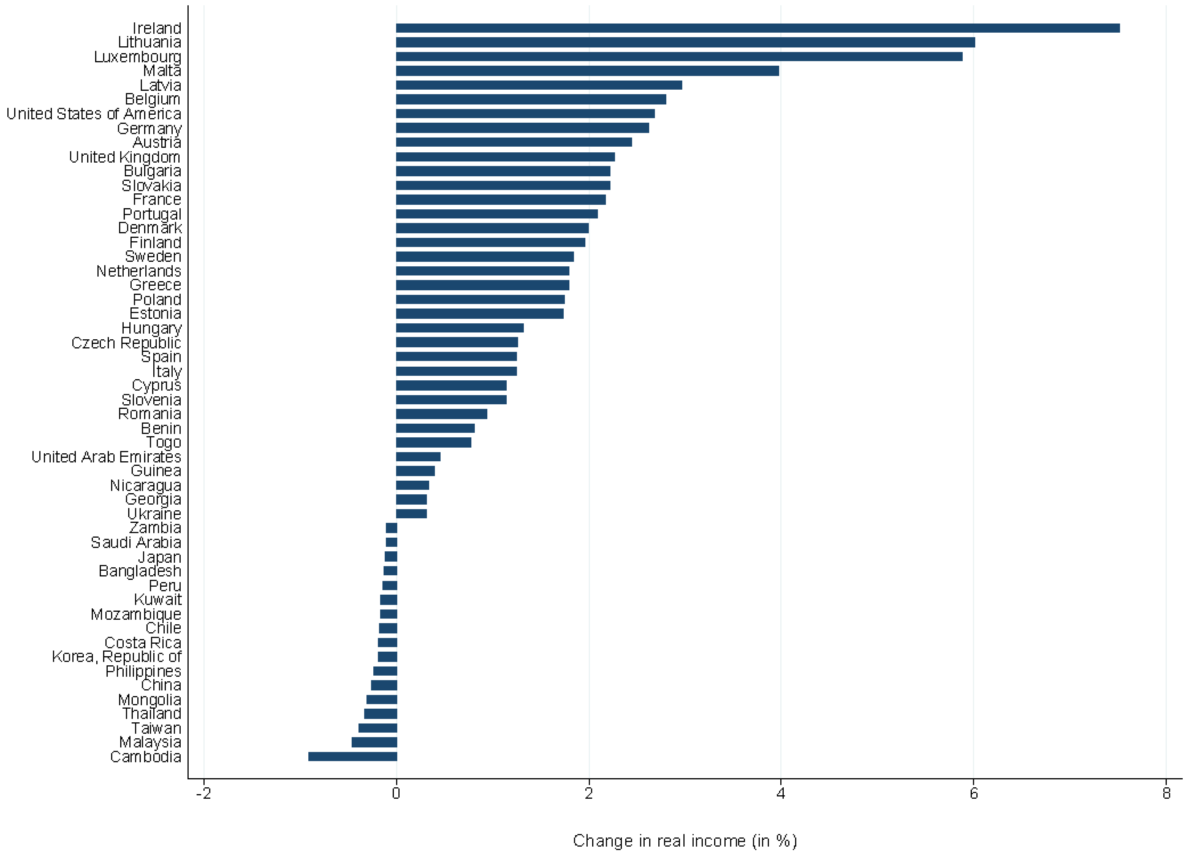


Table 1: Changes in exports and value added exports

Importer / Exporter	Canada	EFTA	EU	East Asia	Mexico	USA
	Growth of exports (in %)					
Canada	-1	-1	-1	-1	-4	-8
EFTA	-9	0	0	-7	-5	-3
EU	-9	-3	-1	-7	-7	182
East Asia	-4	3	-3	-2	-2	-9
Mexico	-5	5	0	0	-1	-6
USA	-6	-1	222	-6	-5	-2
	Growth of value added exports (in %)					
Canada	-1	5	27	-1	-4	-9
EFTA	-5	0	-2	-7	-3	17
EU27	8	-5	-2	-7	6	124
East Asia	-4	1	0	-1	-3	-9
Mexico	-6	11	41	-1	-1	-9
USA	-9	23	153	-5	-8	-2

EFTA: Switzerland, Norway, Iceland. East Asia: Japan, Korea, China, Taiwan. EU excludes Croatia.

Figure 2: Changes in real income due to TTIP



Countries with real income changes between -.1 and .3 % are not shown.