TRANSATLANTIC TRADE DEAL WOULD DELIVER BIG BOOST TO PARTICIPATING COUNTRIES – and possibly to outsiders too

The Transatlantic Trade and Investment Partnership (TTIP) would create huge gains in exports for parties to the agreements – with the United States, Germany and Britain (assuming it remained in the EU) the biggest winners. Initially, the TTIP would reduce exports in the rest of the world by more than 5%, although for some countries outside TTIP, the longer-term ‘dynamic’ effects of increased trade would create a net benefit.

These are among the findings of analysis by James Anderson, Mario Larch and Yoto Yotov, to be presented at the annual congress of the European Economic Association in Geneva in August 2016. Their study notes that the two sides in TTIP – the United States and the EU – represent more than 50% of world GDP and more than 30% of goods trade.

Using models that relate trade to growth, the authors calculate static gains for TTIP members in total exports of about 57%, with additional dynamic gains afterwards. They also estimate an average negative effect on exports in the rest of the world of about minus 5.7% in the static analysis, but which reduces once the dynamic effects of TTIP are taken into account. In South Korea and Singapore, for example, the dynamic gains created by TTIP will more than offset the negative effects.

The authors say: ‘The explanation for such reversals from trade diversion to trade creation is that the dynamic forces magnify the favourable size effects of TTIP on member countries, which in turn become strong enough to offset the negative general equilibrium trade diversion effects on outsiders.’

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The Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union (EU) is by far the largest integration effort ever to be carried out in the world. Together, the two potential partners represent more than 50% of global GDP and more than 30% of global goods trade.

In addition, the two regions are very well integrated in the world trading system and, therefore, TTIP will not only influence the negotiating countries, but it will have significant economic impact on many non-member countries. The authors explain their work:

Despite the great political interest in TTIP and the expectations for large potential payoffs in terms of economic growth, most quantitative analyses of TTIP are static. The goal of our study is to fill this gap by evaluating the relationship between TTIP, trade and growth via capital accumulation in the world.

We rely on the theory from Anderson, Larch and Yotov (2015) to characterise the causal relationships between growth and trade and extend their empirical strategy to model and estimate bilateral trade costs. Specifically, we obtain estimates of differential trade costs across different groups of EU members depending on when these countries joined the economic union, which also is an indicator of their economic development.
Our estimates reveal that the new (and less developed) EU members are subject to systematically higher bilateral trade costs compared with the countries that joined the EU earlier.

Based on estimates of bilateral trade costs, and assuming that the effect of TTIP on trade costs among member countries would be equal to the average impact of the free trade agreements that entered into force between 1990 and 2011, we calculate static gains for TTIP members in terms of percentage change in total exports of about 57%.

The biggest winners, in terms of trade creation, are the United States, Germany and Great Britain. The countries that will gain the least are the new and less developed EU members.

We also estimate an average negative effect on exports in the rest of the world of about minus 5.7%. The three biggest losers from trade diversion are Australia, Japan and Mexico. Finally, we estimate that, in terms of trade, TTIP will generate a net efficiency gain of 4.2% for the world as a whole.

More importantly, we obtain large and significant additional dynamic effects of TTIP. Comparison of the average static and dynamic effects of members’ trade reveals an additional increase in total trade of 25 percentage points, a dynamic path multiplier for trade of around 1.4.

Once again, we find that the United States will be the biggest winner with total gains in exports of 33.9%, followed by Great Britain with trade gains of 29.9%. The negative effect on the rest of the world falls from -5.7% in the static scenario to -3.9% in the dynamic scenario.

The dynamic effects on outsiders are non-monotonic. For example, the negative trade effects on Canada and Mexico become smaller over time. Interestingly, for some countries, such as Korea and Singapore, the dynamic TTIP effects are even strong enough to offset the initial static losses.

The explanation for such reversals from trade diversion to trade creation is that the dynamic forces magnify the favourable size effects of TTIP on member countries, which in turn become strong enough to offset the negative general equilibrium trade diversion effects on outsiders. Finally, we find that the dynamic effects of TTIP will lead to an overall additional net efficiency gain of more than five percentage points.

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Contact information:
Mario Larch
Department of Law and Economics, University of Bayreuth, CESifo, GEP, and ifo Institute. Universitätsstrasse 30, 95447 Bayreuth, Germany.
Yoto V. Yotov
School of Economics, LeBow College of Business, Drexel University, Economic Research Institute, Bulgarian Academy of Sciences.
503-C Matheson Hall, 3141 Chestnut Street, Philadelphia, PA 19104, USA.