

TTIP Economics

Transatlantic Trade and Investment
Pact: US-EU

2019

An Academic View

Hylke Vandenbussche

University of Leuven, Belgium

TTIP

- TTIP is a potential Free Trade Agreement (FTA) between US-EU
- FTA= a reduction in tariffs and non-tariff barriers (NTBs)
- an US-EU TTIP agreement was in the making under Obama administration but very broad agreement with lots of EU opposition
- Under Trump, TTIP was first put on hold.
- **Currently** a mini-TTIP agreement is being negotiated, more limited in scope.

Current situation

- Objective of ongoing EU-US free trade talks:
 - Reduce tariffs in some sectors
 - Reduce NTBs= Regulatory convergence

Current average tariff barriers EU-US : 3%

- But average hides heterogeneity across sectors
- EU Artichoke growers however pay 15% import duties to US
- Volvo cars pays 50 million dollars tariff duties to export to US

TTIP: Reducing Non-tariff barriers

Examples of current NTBs:

- **US** tests car safety **without** safety belt on their dummy
- **EU** tests car safety **with** safety belt
- Uniform test?
- **US**: electric wires in **yellow-green**
- **EU**: electric wires in **black-white** compulsory
- Can this be uniformized?

TTIP: Non-tariff barriers

- **US**: cosmetics and sun tan oil are tested like medical drugs and subject to same tests
- **EU**: this is not the case
- This is not likely to change
- **US**: requests a different position for car bumpers than rest of the world
- Toyota has to put special bumpers on car exports to US which costs a lot

TTIP: problematic issues

- **Environmental** issues
 - **US** washes chickens in chlorine before consumption
 - **EU** does not
- **Health** issues
 - **US** put hormones in their beef
 - In the FTA with Canada (concluded 2013), Canadians now grow special beef for EU customers
- **Cultural** sector
 - There is no EU permission to discuss TTIP issues involving the cultural sector, so that is left out of the talks
- **Legal** issues (ISDS: investor-state dispute settlement)
 - Can firms bring governments to court for “inconsistent policy”? (see the Canadian FTA with EU, which generates precedent)

Academic view on TTIP

- Are there academic models that give predictions about effects of TTIP (=free trade agreement, FTA) ?
- What do these models predict for firms? for consumers? For workers? For exports? For market structure?
- Is there empirical data? What can we learn from that?

Academic models on TTIP

- **Simulation Models** (CEPR, 2013)
 - They provide estimates of TTIP outcomes for the EU and US and also for other countries
 - These models generate predictions for sectors, not firms
 - Their estimates have been subject to critique due to the underlying assumptions of the simulation models
- Analytical **Firm-level** models (Melitz, 2003; Melitz-Ottaviano, 2008)
 - These models provide predictions for direct firm level trade
 - They provide closed-form solutions
 - They discuss implications for the bilateral trade partners
 - Underlying assumptions are better accepted
 - These models give predictions for firms and industry dynamics
 - These models describe trends without numerical numbers
 - They only consider the effect of tariffs
- **Global Value Chain models** (for example: [Vandenbussche, Connell, Simons, 2019](#))
 - a relatively new approach based on input-output level data
 - It includes all input-output linkages between all country-sectors involved
 - Both tariffs and non-tariff barriers can be analyzed
 - Potentially a more accurate assessment of the cost and benefit of a TTIP agreement in terms of value added and employment

Predictions of TTIP

Simulation Models : (CEPR, 2013)

- They provide numbers based on simulated models
 - 0.2- 0.5% growth in GDP of EU as a result of FTA with US
 - → €545 of extra disposable income for a family of 4 in the EU
 - Bilateral EU exports rise by 28-48%
 - Net total EU exports rise by 5%
- The estimates of these models are subject to strong critique (Tufts study, 2014)

Predictions

Analytical **Firm-level models on FTAs** (New Trade Theory)

- These models are analytically **solvable**
- They describe trends but do not give numbers
- They only deal with **direct exporters**, not indirect exporters (no network dimension)
- They only consider the effect of **tariffs**
- They only consider trade in **final** goods (no network Input-output dimension)

Firm-Level models

Key predictions of FTA formation :

- 1) FTA results in **re-allocation effects**
- 1) FTA results in **selection effects**

Firm-level Models

- ▶ **Selection Effects** : some firms will go out of business after the FTA
- ▶ **Re-allocation effects**: the surviving firms get **bigger** since they take over the market shares of the exiters
- ▶ Gains from Trade:
 - ▶ Surviving firms gain from TTIP because they will get bigger
 - ▶ Consumers gain because they have access to more products at lower prices
 - ▶ Losers? What firms will die? What about workers?
- ▶ Who will die?
 - ▶ The theory predicts that smallest and least the least productive firms (**non-exporters**) will die
 - ▶ Domestic firms (non-exporters) tend to be **smaller** than exporters

Firm-Level Models

- **Consumers** win because of more access to products and lower prices
- Surviving **firms** win because of larger market shares
- **Workers** in highly productive firms win through higher wages
- Workers in small firms may be displaced
- Adjustment costs!

Firm-level models

- FTA also generates **losers**
- The losers are likely to be **small** (SMEs) and unproductive firms
- Not just firms but also the workers they employ will be affected
- Market power of firms will go up, due to the larger scale at which they operate
- Market concentration will go up

Global Value Chain Model

Vandenbussche, Connell and Simons, 2019, "The cost of non-TTIP: a GVC-approach, *CEPR paper* n° 12705,

- ❑ What are the benefits of a TTIP for the European Union and the United States?
- ❑ To address this question, this paper develops a network trade model with international **sector-level input-output** linkages.
- ❑ The model provides **closed-form solutions** and uses World Input Output Data (WIOD)
- ❑ This paper considers two scenarios:
 - 1) a **Shallow** TTIP : Reduction of tariffs but not NTB
 - 2) a **Deep** TTIP: Reduction of tariffs and some part of NTB

GVC model (Vandenbussche et al. (2019): main results

- ❑ This model considers effects of **tariffs** and **non-tariff barriers**
- ❑ This model considers effect on **final** goods and **intermediate** goods (network dimension)
- ❑ This model focusses on the **short-run** value added and **employment** effects of a TTIP agreement
- ❑ This model obtains **short-run** predictions for TTIP effects in terms of value added and **employment** for both the US and every EU country.
- ❑ it finds that a *deep TTIP*, like negotiated under Obama, would raise European GDP by 1.3%, and US GDP by 0.7%.
- ❑ The largest share of these TTIP gains result from the **reduction in Non-Tariff Barriers** (NTBs) rather than from the removal of tariffs.
- ❑ It finds that a *shallow TTIP*, currently under negotiation with Trump, would raise EU GDP by 0,26% and US GDP by 0.11%
- ❑ The potential gains from TTIP in every case seem higher for the EU than for the US.
- ❑ Summary of results is given in Vox column
- ❑ <https://voxeu.org/article/free-trade-between-eu-and-us-match-made-heaven>

Global Network Model: Job creation per country of TTIP

Table 3: Total gain in Employment from TTIP

Country	Shallow TTIP		Deep TTIP	
	(Jobs) (1)	(% of total EMP) (2)	(Jobs) (3)	(% of total EMP) (4)
AUT	5 039	0.12%	23 598	0.55%
BEL	4 057	0.09%	25 682	0.57%
BGR	3 139	0.09%	12 895	0.38%
CYP	74	0.02%	362	0.11%
CZE	6 822	0.13%	30 333	0.59%
DEU	64 349	0.15%	289 791	0.69%
DNK	1 877	0.07%	9 831	0.26%
ESP	10 303	0.06%	46 588	0.27%
EST	288	0.06%	1 917	0.32%
FIN	1 927	0.08%	11 267	0.46%
FRA	19 460	0.07%	99 035	0.26%
GBR	22 647	0.07%	132 951	0.43%
GRC	714	0.02%	3 849	0.10%
HRV	1 379	0.09%	6 176	0.29%
HUN	5 594	0.13%	22 870	0.57%
IRL	3 524	0.18%	20 431	1.06%
ITA	44 478	0.20%	174 114	0.77%
LTU	808	0.06%	4 043	0.31%
LUX	125	0.04%	607	0.17%
LVA	34	0.01%	209	0.05%
MLT	27	0.02%	178	0.12%
NLD	6 230	0.07%	47 547	0.55%
POL	12 041	0.08%	55 978	0.36%
PRT	4 992	0.11%	16 660	0.28%
ROU	6 673	0.08%	26 169	0.30%
SVK	2 340	0.11%	9 712	0.44%
SVN	888	0.10%	3 877	0.42%
SWE	3 702	0.08%	19 677	0.44%
EU-28	233 638	0.11%	1 097 446	0.49%
USA	48 905	0.04%	347 164	0.30%

Note: See the Appendix for a list of the country name abbreviations.

Note: Employment data in Eurostat is missing for some sectors in the following countries: Estonia, Latvia, Lithuania, Luxembourg, Malta and Sweden. Therefore, the presented employment results for these countries will likely underestimate the true impact.

GVC analysis of TTIP

Main conclusion:

□ Main conclusion :

- TTIP has gains for all countries involved
- Potential gains from tariff reductions are small
- The largest share of the TTIP gains result from the reduction in **Non-Tariff Barriers** (NTBs) rather than from the removal of tariffs.