Should we trust the giant “EUSA”? A reflection on Transatlantic Trade and Investment Partnership (TTIP) and its impact on European economy

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SHOULD WE TRUST THE GIANT ‘EUSA’?

A REFLECTION ON TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP (TTIP) AND ITS IMPACT ON EUROPEAN ECONOMY *

1. Introduction

In June of 2013, the European Commission has started bilateral trade negotiations with the United States in order to launch the Transatlantic Trade and Investment Partnership (TTIP). The ambitious goal of the talks is the creation of the largest single market in the world by eliminating tariffs and reducing non-tariff barriers (NTB) to bilateral trade between the EU and the US and by encouraging a favourable FDI environment for investors of both sides of the Atlantic.

The idea of enhancing transatlantic economic relations is not new and during the last two decades both the Clinton administration (in 1995) and the Bush Jr. administration (in 2007) pursued a similar project but with poor results 1.

(*) I am very grateful to Mario Biagioli for useful comments and suggestions.

1 In 1995, the US Government and the European Union established the Trans-Atlantic Business Dialogue (TABD) in order to organize a working group in which the business sector played an official advisory role for US and EU officials on trade and investment issues. The aim of
Particularly, the attempt of Bush Jr. administration and Germany to create the Transatlantic Economic Council (TEC) in 2007 ran aground on the issue of chlorine-washed chickens exported by the US to the EU. Paradoxically, this controversy is still used as iconic argument against the successful implementation of TTIP by those that remark the insurmountable cultural divide between the United States and Europe in approaching regulation policies concerning health and environment: the European attitude to conform to the “precautionary principle” versus the American pragmatism based on the *ex post* verification of the eventual harmfulness of certain products already entered the market.

If the transatlantic fracture in the way of regulating safety and health standards — as symbolized by “chlorine-washed chickens” and other controversial issues like genetically modified organisms (GMO) — still persists, why this time should be different and TTIP should be successful?

Differently from the past, the current situation of the world economy reveals a numbers of factors supporting a
more resolute commitment to carry out transatlantic economic cooperation and to reach an agreement on TTIP.

First, the sluggish growth of American economy and the profound recession involving the eurozone countries, still bogged down in austerity policies, represent two good reasons for both sides of the Atlantic to rely on the economic stimulus provided by TTIP. Although the right dimension of the (estimated) impact of TTIP on transatlantic trade and on European and American GDP is not conclusive and is still debated, even not particularly exciting additional increments of income and employment are highly desired by both sides, after the prolonged depressing effects of the great recession 2008–13.

Second, in 2014 China has surpassed the United States in terms of GDP at purchasing power parity (PPP), becoming the largest economy in the world. This recent economic overtaking is not only symbolic, but testifies the fast-growing capacity of China to expand its future role in reshaping the global economic order. However, so far, there are disturbing signs that the emerging China’s key role in the world economy and global governance doesn’t conform to the game rules of the liberal international economic order: restrictions imposed by China on exports of its abundant rare earth "EUsA".

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2 With regard to the different reasons supporting the transatlantic economic initiative today with respect to the past, see, *inter alia*, Barker (2013).

3 In effect, the reason hinging on economic stimulus provide by TTIP would be stronger for the EU than for the US. Actually, the most recent estimates on US GDP growth by the US Bureau of Economic Analysis signal an increase of 3.9% in the third quarter of 2014 forecasting a US GDP growth of more than 2%, on yearly basis, in 2014.

4 According to the latest IMF data, in 2014 the GDP (PPP) of China has reached $17.61 trillion, while the US GDP (PPP) is worth $17.4 trillion. The recent China’s overtaking is commented by Fray (2014).
als — basic material used in new technologies — or the systematic China’s violation of international norms governing intellectual property rights are well-known examples of a substantial misalignment between China and international institutional arrangements. In the face of the growing importance of China in the global economic arena and the implicit risks that this upsurge implies for the stability of international economic relations, TTIP is also conceived as a necessary initiative taken by the EU and the US to take up the reins of global economic governance and relaunch the liberal international economic order. In effect, jointly considered, the European and American economies encompass 50 percent of world GDP, a weight that confers the power to fix the guidelines of global governance. In other words, the full implementation of TTIP would allow the EU and the US to set together the rules of global trade, counterbalancing the current repositioning of world economic barycentre to China (and Asia-Pacific area). In this way, the joint EU-US definition of common regulatory standards would encourage third countries to conform to transatlantic conditions.

A third aspect of the world economy situation calls for a more stringent effort to reach a deal on TTIP: the pervasive tendency of global value chains to affect a larger share of world trade.\footnote{On this aspect, see Bollyky and Bradford (2013) and Kom-merzcollegium (2013).}

As remarked by Baldwin (2006, 2011), the flourishing of global value chains over the last two decades epitomizes the turning point from the “old paradigm” to the “new paradigm” of globalization. This crucial crossroads in the dynamics of international economic integration is profoundly changing the structure of world trade and poses new chal-
Challenges for global governance. Actually, with international fragmentation of production, parts and components cross national borders many times over and this circumstance suggests that the well-functioning of global value chains requires, amongst other things, certainty, compatibility and good organization of regulatory controls in the economies involved. In other words, the spreading out of global value chains makes the coordinated regulation of international trade absolutely necessary and more relevant than in the past.

In the era of the “Second Big Unbundling”, as Richard Baldwin names the recent development of global value chains, if the EU and the US want to continue pursuing the double goal of freer trade and high quality standard of their products, they need to cooperate in trade regulation and TTIP is envisaged, by both sides, as the right answer to achieve this aim. The joint EU-US arrangement for setting common norms and regulatory standards — especially in sectors characterized by complex value chains and in which the goals of freer trade and regulation converge, such as agriculture, pharmaceuticals, automotive industry, etc. — would reduce the onerous duplication of tests, certifications and controls. In the end, a common regulatory regime covering a market of 800 million consumers would facilitate the activity of exporters and investors by allowing them to better deal with multiple markets and to enjoy the benefits of scale economies. At the same time, the implementation of TTIP could contrast the current and future tendency of the US and the EU to shrink their hegemony in fixing high global standards in trade due to the creation of new markets for exporters in emerging economies, where the purchasing power of consumers is growing. As mentioned above, the creation of a single transatlantic market via TTIP, thanks to its size, would induce producers and exporters worldwide to conform to the joint EU-US regulatory regime.
The previous general considerations about the reasons underpinning the strong commitment to achieve a deal on TTIP reflect essentially the strategic positions of the official negotiators, but since the beginning of the talks, that are still ongoing and are surrounded by an air of mystery, the debate on TTIP has progressively gathered momentum both among economists and among simple citizens, or political groups, that are particularly interested in sensitive themes like health, environment, labour rights.

On the one hand, the findings on the economic impact of TTIP reported in studies commissioned by the European Commission ⁶ and the (former) German Federal Ministry of Economic and Technology ⁷ were echoed by enthusiastic comments from business press and European employer associations in terms of big opportunities of growth for European firms and, in general, for the welfare of European citizens ⁸.

On the other hand, the NTB reduction projected by TTIP, implying alignment, changes or even elimination of national regulations, were perceived — especially by political commentators and economists eager to remark social costs of economic policies ⁹ — as a serious threat to the welfare and health of European citizens, especially in sensitive sectors like agriculture, chemicals, pharmaceuticals and automotives.

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⁶ See CEPR (2013)
⁷ See Felbermayr et al. (2013). Since 17 December 2013, in Germany the “Federal Ministry of Economy and Technology” became the “Federal Ministry for Economic Affairs and Energy” (BMWi).
⁸ See, for example, the article of Barba Navaretti (2014) published on Sole 24 ore, the newspaper owned by Confindustria, the Italian employers’ federation, or the enthusiastic statements of Bundesverband der Deutschen Industrie, the German employers’ federation, as reported in Bucher, Pinzler and Uchatius (2014).
⁹ See, inter alia, Stiglitz (2014).
However, the apparent polarization and the incommu-
cability that emerge between those who support enthusiasti-
cally TTIP following a pure “economicist” approach and those
who reject TTIP for its possible negative impact on health,
welfare and rights of citizens don’t help to achieve an objec-
tive assessment of the project.

In order to overcome this divide, three directions should
be followed: i) a deeper insight of the economic effects
of TTIP by evaluating the validity of methodological and
theoretical options adopted by models that simulate the eco-
nomic impact; ii) the inclusion of social costs in the overall
estimates of the economic impact of TTIP; iii) the relaxation
of the a priori assumption that all national regulatory standards
should be preserved for the safety of citizens and the adoption
of a case-by-case approach.

Following this line of reasoning, this article provides a
critical reflection on the economic impact of TTIP, with
particular regard to the European economy. Why the focus
on Europe? The choice of concentrating specifically on
European economy needs to be justified shortly. In effect,
the general message expressed by official negotiators, of both
sides, emphasizes the mutual gains that both the UE and
the US should derive from TTIP. However, not only could
an uneven distribution of costs and benefits of TTIP materia-
lize between the EU and the US — as many authors have
already remarked — but also different degrees of desirabil-
ity of TTIP could emerge inside the EU itself among its
member countries. As we know, the current situation of
the EU economy is characterized by a substantial differentia-
tion among member states with regard to their economic

10 See, inter alia, Politi (2013) and Laidi (2013).
performances. With just a touch of oversimplification, the description of recent economic trends in Europe is a “tale of two Europes”. On the one hand, in the last decade Germany has grown at rates above the EU average, has accumulated a huge trade surplus, has kept unit labour costs under control and has maintained a low rate of unemployment. On the other hand, Southern European countries like Italy, Spain, Portugal and Greece have shown a specular trend, namely a tremendous weakness in terms of a stagnating growth, prolonged deficits in current account, rising labour costs and a dramatic decline in employment. If this picture is a tale of two (or “more”) Europes, it seems inevitable to assess the economic impact of TTIP by taking into account the North-South divide existing in the EU. Tellingly, this differentiated evaluation would allow to ascertain if the relaunch of transatlantic economic dialogue will serve essentially to reinforce the neo-mercantilist logic underpinning the export-led growth model followed by Germany so far in Europe with its detrimental deflationary effects throughout the eurozone, or will represent an opportunity for peripheral EU countries to rebalance their asymmetric position in economic relations with Germany.

The paper is structured in 4 sections. Section 2 provides a discussion about the results emerging in recent studies that have estimated the economic impact of TTIP. As mentioned above, particular attention is given at the economic effects on European economy and its internal articulations. Section 3

12 For an analysis of the neomercantilist strategy followed by Germany in Europe, see Lucarelli (2011).
13 For a discussion on the asymmetric relations between Germany and Southern European countries, see Simonazzi, Ginzburg and Nocella (2013).
focuses on social costs associated with trade liberalization agreement, with particular regard to the implications deriving from the investor-state dispute settlement (ISDS) foreseen by TTIP. The final section contains some concluding remarks.

2. Assessing the economic impact of TTIP: mutual or asymmetric gains?

The most cited analyses on economic impact of TTIP are essentially the following studies: the report prepared by Cepr (2013) built on Ecorys (2009), both commissioned by the European Commission; the study by the French Cepii (2013); the research from Bertelsmann–Ifo (2013) carried out on behalf of the Bertelsmann Foundation. The first three studies (Cepr, Ecorys and Cepii) adopt a methodology based on computable general equilibrium (CGE) model, whereas the study by Bertelsmann–Ifo is based on a gravity model. Beyond the different methodologies used and the different figures provided, all four studies mentioned above converge in forecasting positive economic impact of TTIP, for both the EU and the US. Especially figures given by Cepr (2013) have been emphasized within public debate to endorse, sometimes without reserve, the initiative of TTIP. Are these estimates of the economic impact of TTIP really convincing?

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16 Bertelsmann Foundation and Ifo Institute are both German think-tanks and centres for economic research.
17 Bertelsmann–Ifo report is based on simulations carried out by Felbermayr et al. (2013), a study commissioned by the former German Federal Ministry of Economics and Technology (that now is called Federal Ministry for Economic Affairs and Energy, BMWi).
2.1. Main results

Table 1 reports a summary of the essential findings of Cepr (2013), Cepii (2013) and Bertelsmann-Ifo (2013).

Table 1 — Simulated impact of TTIP in different scenarios (range of values)

(Percentage changes) \(^a\)

<table>
<thead>
<tr>
<th>Impact on:</th>
<th>CEPR (^b)</th>
<th>Cepii (^c)</th>
<th>Bertelsmann-Ifo (^d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU bilateral export</td>
<td>0.69 – 28.03</td>
<td>49.0 (^e)</td>
<td>5.7 – 68.8</td>
</tr>
<tr>
<td>US bilateral export</td>
<td>0.66 – 36.57</td>
<td>52.0 (^e)</td>
<td>90.0 (^f)</td>
</tr>
<tr>
<td>EU total export</td>
<td>0.16 – 5.91</td>
<td>0.4 – 3.4</td>
<td>NA</td>
</tr>
<tr>
<td>US total export</td>
<td>0.19 – 8.02</td>
<td>2.1 – 14.5</td>
<td>NA</td>
</tr>
<tr>
<td>EU GDP</td>
<td>0.02 – 0.48</td>
<td>0.0 – 0.5</td>
<td>0.52 – 1.31</td>
</tr>
<tr>
<td>US GDP</td>
<td>0.01 – 0.39</td>
<td>0.0 – 0.5</td>
<td>0.35 – 4.82</td>
</tr>
</tbody>
</table>

\(^a\) Percentage changes relative to baseline scenario (without TTIP) within the forecast period.
\(^b\) Forecast period: 2017-2027. Results from simulation of CGE-GTAP model on GTAP 8 data.
\(^c\) Forecast period: 2015-2025. Results from simulation of CGE-Mirage model on GTAP data.
\(^d\) Forecast period: 10-20 years. Results from simulation of gravity model. Data non specified.
\(^e\) “Reference scenario” according to Cepii
\(^f\) “Comprehensive liberalization scenario” according to Bertelsmann-Ifo


The range of values in Table 1 refers to the extension of the impact depending on the scenario forecasted. For example, the study by Cepr foresees five scenarios: i) “tar-
iff only”; ii) “services only”; iii) “procurement only”; iv) “comprehensive agreement/less ambitious”; v) “comprehensive agreement/ambitious”. The first three scenarios concern limited agreement, whereas the last two scenarios foresee all-embracing liberalization (covering simultaneously tariffs, NTB for goods and services, procurement). Particularly, the comprehensive agreement includes two options: a “less ambitions” deal that arranges 10 percent reduction of NTB on goods and services + 25 percent elimination of procurement NTB + 98 percent tariff removal and an “ambitious” deal that fixes 25 percent reduction of NTB on goods and services + 50 percent elimination of procurement NTB + full tariff removal (100%). Similarly, also the studies by Cepii and Bertelsmann-Ifo foresee various scenarios. However, beyond the differences in the definition of the various scenarios envisaged, all studies put forward an agreement limited to tariff removal and a more comprehensive deal including NTB reduction. In all three studies, in the case of the scenario characterized by comprehensive agreement with the highest degree of liberalization, a 25 percent reduction in NTB is foreseen. So in Table 1 the figures on the right of the value range are comparable across the three studies and can be interpreted

18 Cepii designs five scenarios as well: i) a “reference” scenario, including a 25% cut in NTB for both the product and service sectors with the exclusion of public and audiovisual services; ii) “tariff only”; iii) “targeted NTB cuts”, assuming a progressive liberalization which is more stringent for NTB that initially are more restrictive; iv) “harmonize spillovers”, assuming a 5% cut of NTB towards third country exporters; v) “Ecorys NTB”, assuming an alternative assessment of the trade restrictiveness of NTB. See Cepii (2013), pp. 8-9.

as the estimates concerning a comprehensive agreement in which the costs associated with NTB on goods and services are reduced by 25%.

Given that the existing level of tariffs in transatlantic trade is quite low (the average tariff rate is nearly 3.0%)\(^{19}\), it is evident that the major impact of TTIP would derive essentially from NTB reduction.

The estimated impact of TTIP, as reported in table 1, is measured as the outcome that would materialize at the end of the period starting from the initial year of operation of TTIP and then lasting for a certain time (forecast period). For example, in the case of simulations by CEPR, the forecast period starts from 2017 (the expected initial year of operation of TTIP) and lasts until 2027.

The figures reported in Table 1 represent percentage changes relative to a baseline scenario. In other words, the figures indicate the additional increase of bilateral exports (or total exports, or GDP) due to TTIP with respect to the normally expected increase in the period.

Table 1 shows that the implementation of a comprehensive agreement (complete tariff removal and 25% cut in NTB) would have a positive impact on EU exports to the US; this impact ranges from 28\% (CEPR) to 68.8\% increase (Bertelsmann–Ifo).

However, again in terms of boost to bilateral exports, the gains accruing to the US would be even larger: the increase

\(^{19}\) However, tariff protection between the EU and the US is not uniformly low. For example, in the motor vehicle sector, the EU applies an average tariff (8\%) that is about eight times higher than the US. In the case of processed food sector, the tariff applied by the EU is even higher: 14.6\%. See CEPR (2013), Figure 9, p. 14. For a recent overview of tariffs applied worldwide, see the joint publication of WTO–ITC–UNCTAD (2014).
of US bilateral exports varies from 36% (CEPR) to 90% (Bertelsmann-Ifo). This apparent asymmetry between the EU and the US in the distribution of the gains from TTIP emerges also when we look at the impact on total export: US total exports increase more than EU total exports (both in CEPR and CEPII forecasts).

When we look at the impact of TTIP on GDP, the evidence is mixed. In CEPR results, the EU benefits from TTIP slightly more than the US: 0.48% against 0.39%. But in Bertelsmann-Ifo estimates, the distribution of the gains from TTIP is reversed: the increment of GDP in the US is nearly five time larger than in the EU. In the end, apart from the asymmetry between the EU and the US in the distribution of the gains from TTIP, the general message emerging from Table 1 is that the impact of TTIP is quite small in terms of additional GDP, especially if the growth premium is considered in terms of average annual growth rate.

We could say, not without a touch of malice, that with so tiny numbers (a 0.48% GDP growth spread over a period of 10 years is almost insignificant!), it is not surprising that the results produced by CEPR have been presented within public debate in the form of absolute values in order to better promote the transatlantic initiative.

According to CEPR, with TTIP the EU would benefit a GDP change amounting to €119 billion, corresponding to €545 extra disposable income for a family of four persons in the EU. The US would enjoy a €95 billion GDP change, corresponding to €655 per family in the US. CEPR reports that such GDP increments are average annual variations that should materialize since the end of forecast period (10 years) onward, but it seems dubious that, after the forecast period, TTIP-driven growth premium would remain stable year by year.
2.2. Asymmetric gains

However, behind the main aggregate results reported in Table 1, all three studies provide interesting findings in terms of sector-country breakdown.

Table 2, for example, shows that, according to CEPII simulation, the US would get more benefits from TTIP in agriculture than in other sectors, whereas the EU would gain more in industry and services.

In addition, the advantages from TTIP in terms of boost to GDP growth would be unevenly distributed among the main EU countries: The UK and Germany would benefit a growth premium that is twice as large as that one captured by France (0.4 against 0.2 percent).

Table 2 shows also that the more pronounced advantages accruing to Germany and the UK in industry and services respectively would imply, on the other hand, a more intensive reallocation of value added among sectors with a substantial decline in agriculture.

In terms of increase in exports, the UK displays the largest impact associated with TTIP due to its traditionally more consolidated transatlantic relationships with the US.

Table 2 — Simulated impact of TTIP according to CEPII. Reference scenario

(Percentage changes) a

<table>
<thead>
<tr>
<th>Impact on:</th>
<th>USA</th>
<th>EU27</th>
<th>Germany</th>
<th>UK</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Externally Including Intra-EU</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export</td>
<td></td>
<td>Trade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10.1</td>
<td>7.6</td>
<td>2.3</td>
<td>2.1</td>
<td>4.2</td>
</tr>
<tr>
<td>Agriculture</td>
<td>12.6</td>
<td>7.0</td>
<td>0.6</td>
<td>-2.6</td>
<td>0.5</td>
</tr>
</tbody>
</table>

*BOLETIM DE CIÊNCIAS ECONÔMICAS LVII / I (2014) 1071-1114*
Table 3 describes the TTIP impact simulated by Cepr across 20 sectors (covering agriculture, industry and services).

In Table 3, if we concentrate on EU bilateral exports, we can observe that the strongest impact triggered by TTIP is located in a narrow group of industrial sectors: motor vehicles, metals/metal products, processed food, chemicals, electrical machinery. In these sectors, the increase in EU bilateral exports ranges from 35% (electrical machinery) to 148.7% (motor vehicles). Also in the case of the US, these sectors are...
those more boosted by TTIP (even more than the EU). Significantly, these sectors account for more than half of German exports. In a certain sense, these sectors have been the drivers of Germany’s export led growth model over the last few decades 21.

**Table 3 — CEPR simulation of TTIP impact in terms of bilateral exports and trade diverted from intra-EU trade by sectors.**

*Ambitious scenario*

(Percentage changes and million euros)  

<table>
<thead>
<tr>
<th>Sectors</th>
<th>EU bilateral exports $^b$</th>
<th>US bilateral exports $^b$</th>
<th>Diversion from intra-EU trade $^c$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agr./Forestry/Fisheries</td>
<td>15.10</td>
<td>21.80</td>
<td>269</td>
</tr>
<tr>
<td>Other primary</td>
<td>0.60</td>
<td>0.40</td>
<td>345</td>
</tr>
<tr>
<td>Processed foods</td>
<td>45.50</td>
<td>74.80</td>
<td>-425</td>
</tr>
<tr>
<td>Chemicals</td>
<td>36.20</td>
<td>34.20</td>
<td>-13,208</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>35.00</td>
<td>44.10</td>
<td>-12,829</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>148.70</td>
<td>346.80</td>
<td>-36,517</td>
</tr>
<tr>
<td>Other transport eq.</td>
<td>25.50</td>
<td>27.80</td>
<td>-2,468</td>
</tr>
<tr>
<td>Other machinery</td>
<td>6.60</td>
<td>16.70</td>
<td>492</td>
</tr>
</tbody>
</table>

21 For a general illustration of the virtues rooted in Germany’s economic model and its rigidities to be exported in other countries, see The Economist (2012). A different perspective that remarks the recent problems experienced by Germany’s economic model is provided by Legrain (2014).
Although Table 3 doesn’t include evidence for Germany, it is reasonable to assume (on the base of Cepr simulations) that the more robust stimulus stemming from TTIP should be concentrated in sectors in which Germany is specialized and more competitive internationally. However, Table 3 also shows that the TTIP-led expansion of EU bilateral exports would be counterbalanced by a substantial trade diversion from intra-EU trade in the same booming sectors (see third column in Table 3).
2.3. Trade diversion

Again, assuming that the most of trade diversion effect involves Germany because trade flows displaced mainly concern German comparative advantage sectors, it is not so far-fetched to image a future TTIP-driven scenario dominated by a growing economic integration between Germany and the US together with a progressive economic disintegration between Germany and other EU countries. A support to this scenario comes from the simulations carried out by Bertelsmann-Ifo that, unlike CEPR and CEP II, foresees robust generalized trade diversion effects originated by TTIP. Table 4 shows the Bertelsmann-Ifo evaluation of the TTIP impact on Germany’s trade flows with its main trading partners.

Table 4 — Bertelsmann-Ifo estimates of TTIP impact on German foreign trade with traditional partner countries. Comprehensive liberalization scenario

(Percentage changes and million dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>German a exports to</th>
<th>German a imports from</th>
<th>2010 German export volumes to b</th>
<th>2010 German import volumes from b</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>93.54</td>
<td>93.56</td>
<td>83,553</td>
<td>51,645</td>
</tr>
<tr>
<td>UK</td>
<td>−40.91</td>
<td>−40.93</td>
<td>72,052</td>
<td>43,583</td>
</tr>
<tr>
<td>France</td>
<td>−23.34</td>
<td>−23.34</td>
<td>109,223</td>
<td>76,518</td>
</tr>
<tr>
<td>Italy</td>
<td>−29.45</td>
<td>−29.45</td>
<td>74,245</td>
<td>52,687</td>
</tr>
<tr>
<td>Japan</td>
<td>4.81</td>
<td>4.76</td>
<td>17,487</td>
<td>24,891</td>
</tr>
<tr>
<td>China</td>
<td>−12.68</td>
<td>−12.71</td>
<td>67,728</td>
<td>92,536</td>
</tr>
</tbody>
</table>

a Percentage change.
b In million dollars.

Source: Bertelsmann-Ifo (2013). Table 1
In Table 4, the first two columns include percentage changes in German exports and imports due to TTIP, whereas the last two columns report 2010 German export and import volumes as rough indicators of the order of magnitude associated with expected percentage variations.

The figures reported in Table 4 signal strong positive impact of TTIP on Germany-US trade (more than 93% increase on average) but, at the same time, a substantial trade diversion from Germany’s trade with the UK, Italy and France (−40%, −29%, −23% respectively, on average). According to Bertelsmann-Ifo estimates, the comprehensive liberalization agreement with the US should lead to a displacement effect on intra-EU flows as they cease to enjoy the trade diversion guaranteed by preferential treatment of trade flows within the EU. The trade creation and diversion effects are particularly intense in the case of the UK, given the cultural affinity with the US (same language, for instance).

Bertelsmann-Ifo report also allows to evaluate the effect of TTIP on trade of other country groups with the US and Germany. Particularly, Table 5 and Table 6 show the estimates of TTIP impact on trade of Southern European countries (SEC) with the US and Germany respectively. Before looking at the estimates reported in these tables, let me give some considerations concerning the actual relationship between Germany and SEC.

As mentioned in the introductory section, Southern European economies have suffered profoundly the destructive impact of the great recession 2008-13. The economic relations of these countries with German economy in recent years have not helped them to exit the crisis but, rather, have inhibited any possibility of recovery. On the one hand, the attitude of Germany to rely on export-led growth through the domestic demand compression (magnified by austerity measures) has contributed to generate deficits in current accounts of EU
peripheral countries; on the other hand, the reorganization of German economic system starting at the beginning of 2000s has deeply changed the structural linkages among European economies, with detrimental effects on Southern European countries.

As suggested by Simonazzi, Ginzburg, and Nocella (2013), the relocation of German production to Central Eastern European countries and the new role played by Germany as headquarter economy in global value chains (with extensions in Asia) have displaced, directly and indirectly, the SEC provision of final and intermediate goods. In one sense, even the labour market flexibilization (Hartz reform) that has accompanied the process of industrial restructuring in Germany has contributed to harm Southern European economies. To put in a nutshell, the progressive diffusion in Germany of low paid workers, working poor, poor has affected the composition of domestic demand and stimulated imports of low quality goods: this circumstance has functioned as another element of displacement of traditional goods exported by SEC.

In the end, for the reasons illustrated above, the difficulties emerging in the relations between Germany and Southern European countries are essentially structural: also in case of expansion of German domestic demand, static and non-matching productive structures of European peripheral countries would be unable to sustain, in the long run, the economic stimulus stemming from Germany.

\[22\] See Simonazzi, Ginzburg and Nocella (2013).

\[23\] For this reason, Simonazzi, Ginzburg and Nocella (2013) suggest the recourse to industrial policies together with the promotion of more intense trade relations among EU peripheral countries.
In this critical situation for European peripheral countries, it is interesting to ask if TTIP could represent an opportunity for SEC to rebalance their asymmetric position in economic relations with Germany.

On this regard, Table 5 suggests that the push given by TTIP to SEC trade with the US would be significant in terms of percentage changes: both SEC exports and imports would increase nearly 90% on average, ranging from +80% (Spanish trade flows) to almost +92% (Italian trade flows).

However, TTIP would also trigger a substantial trade diversion effect in terms of decline of SEC trade with Germany: Table 6 shows that German trade with Southern European countries would decrease by 30% on average, with the highest decline represented by Spanish trade flows (nearly –34%).

Percentage changes referred to SEC trade with Germany (in Table 6) are much lower that those referred to SEC trade with the US (in Table 5) and this circumstance could lead to conclude that, overall, the gains accruing from TTIP would be largely positive (being trade diverted from Germany more than counterbalanced by transatlantic trade). However, given that the actual SEC trade with Germany is nearly three times larger than SEC trade with the US (according to 2010 trade volumes, as reported in Table 5 and Table 6), it is evident that the positive effect of TTIP on SEC trade has to be debunked, being the estimated trade diversion effect significantly large. In some way, if we believe in the estimates reported in Table 5 and Table 6, a future scenario with TTIP could even exacerbate the already critical situation that the Southern European countries have to address. In other words, a shrinkage of the trade relations between SEC and Germany could lead to a further depletion of productive structures of Southern European countries with the result that, in the end, SEC would be obliged to emulate German deflationary export-led strategies.
Table 5 — BERTELSMANN-Ifo estimates of TTIP impact on Southern Europe foreign trade with the US. Comprehensive liberalization scenario

(Percentage changes and million dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports to US</th>
<th>Imports from US</th>
<th>2010 export volumes to US</th>
<th>2010 import volumes from US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>90.45</td>
<td>90.43</td>
<td>917</td>
<td>1,559</td>
</tr>
<tr>
<td>Italy</td>
<td>91.75</td>
<td>91.77</td>
<td>28,151</td>
<td>13,254</td>
</tr>
<tr>
<td>Portugal</td>
<td>90.59</td>
<td>90.56</td>
<td>2,053</td>
<td>1,068</td>
</tr>
<tr>
<td>Spain</td>
<td>80.16</td>
<td>80.18</td>
<td>8,724</td>
<td>11,575</td>
</tr>
</tbody>
</table>

\(^a\) Percentage change.
\(^b\) In million dollars.

Source: BERTELSMANN-Ifo (2013). Table 5.

Table 6 — BERTELSMANN-Ifo estimates of TTIP impact on German foreign trade with Southern European countries. Comprehensive liberalization scenario

(Percentage changes and million dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>German (^a) exports to</th>
<th>German (^a) imports from</th>
<th>2010 German export volumes to (^b)</th>
<th>2010 German import volumes from (^b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>–29.94</td>
<td>–29.93</td>
<td>6,655</td>
<td>2,322</td>
</tr>
<tr>
<td>Italy</td>
<td>–29.45</td>
<td>–29.45</td>
<td>74,245</td>
<td>52,687</td>
</tr>
<tr>
<td>Portugal</td>
<td>–29.90</td>
<td>–29.88</td>
<td>10,306</td>
<td>5,385</td>
</tr>
<tr>
<td>Spain</td>
<td>–33.71</td>
<td>–33.71</td>
<td>39,590</td>
<td>26,142</td>
</tr>
</tbody>
</table>

\(^a\) Percentage change.
\(^b\) In million dollars.

Source: BERTELSMANN-Ifo (2013). Table 2.
A support to this intuition is given by a simple arithmetic experiment built on the data taken by Table 5 and Table 6. The experiment aims to evaluate, in a very crude way, the TTIP impact on SEC trade balances vis-à-vis Germany, the US and “Germany + US”. Table 7 shows calculation results obtained by comparing “effective” SEC trade balances in 2010 with “virtual” SEC trade balances in 2010 after the implementation of TTIP. In initial situation (2010), Italy and Portugal present similar conditions: trade deficit vis-à-vis Germany, trade surplus vis-à-vis the US and deficit vis-à-vis “Germany + US”. Instead, initially Greece and Spain have trade unbalances both vis-à-vis Germany and the US.

**Table 7 — Estimates of TTIP impact on Southern European countries’ trade balances vis-à-vis Germany and the US**

(Million dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade balance vis-à-vis Germany 2010</th>
<th>Trade balance vis-à-vis the US 2010</th>
<th>Trade balance GER+US 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>after TTIP</td>
<td>after TTIP</td>
<td>after TTIP</td>
</tr>
<tr>
<td>Greece</td>
<td>–4,333</td>
<td>–3,035</td>
<td>–642</td>
</tr>
<tr>
<td>Italy</td>
<td>–21,558</td>
<td>–15,209</td>
<td>+14,897</td>
</tr>
<tr>
<td>Portugal</td>
<td>–4,921</td>
<td>–3,448</td>
<td>+985</td>
</tr>
<tr>
<td>Spain</td>
<td>–13,448</td>
<td>–8,914</td>
<td>–2,851</td>
</tr>
</tbody>
</table>

Source: our calculations on estimates and data extrapolated from Bertelsmann-Ifo (2013).
In the counterfactual situation, after the implementation of TTIP, Italy would become a “virtuous” country by reaching a surplus in consolidated trade balances (vis-à-vis GER+US), whereas the other countries (with the exception of Greece) would reduce significantly their trade deficits. Should these trade balance improvements be interpreted as a positive result for SEC when such improvements derive essentially from a diversion from trade with Germany?

For the reasons repeatedly remarked here, a future TTIP-driven economic scenario in which the linkages among EU countries were dissipated would not help the EU weak countries to re-launch their development, also in case they were able to improve their external positions.

However, beyond the possible economic effects of TTIP on peripheral European countries, the strong trade diversion effects included in the estimates carried out by Bertelsmann-Ifo give support to a future TTIP-driven scenario characterized by an increasing economic integration between Germany and the US together with a progressive economic disintegration between Germany and other EU countries.

The irony is that this is not a far-fetched scenario but is a trend that is manifesting into reality. Figure 1 shows Germany’s net trade by geographical area.

Since 2007-08 onward, the German net trade vis-à-vis the EU-28 has been declining (particularly, the net trade vis-à-vis the Euro area halved), whereas the net trade with the rest of the world has been increasing dramatically (more than fourfold). In addition, Figure 2 shows that a large part of German net trade has been redirecting itself towards the US.24

24 A recent report by Deutsche Bundesbank (2014) shows that the US is the most important destination of German exports in terms of value added.
Figure 1 — Germany’s net trade by regions

Source: BMWi (2014). BMWi is the German Federal Ministry for Economic Affairs and Energy.

Figure 2 — Germany Trade Balance with the US

This evidence confirms the strong commitment of Germany to carry out a project like TTIP that would reinforce the recent thickening of economic relations between Germany and the US.

2.4. TTIP and the euro

In the perspective of TTIP implementation, could the growing economic integration between Germany and the US coupled with a simultaneous economic disintegration between Germany and other EU countries menace the sustainability of the euro? Without embarking in a discussion that would go beyond the purpose of this paper, let me sketch a few considerations about the link between TTIP and the euro.

Since the start of the financial crisis in 2007-08, not only real linkages between Germany and eurozone partners have been falling apart, but also financial relations have recorded a similar tendency. Very recently, data provided by BIS, as those reported in Figure 3 that illustrates the cross-border lending by German banks in selected EU countries, have been echoed in business press in alarming tones and commented as the signal that the great German bankers don’t believe in the euro sustainability anymore.

In effect, Figure 3 shows that the exposure of German banks in Italy and Spain has collapsed: in Italy, from 269 billion dollars in 2008-Q2 to 125 billion dollars in 2014-2Q; in Spain from 310 billion dollars in 2008-Q2 to 111 billion dollars in 2014-2Q.

Indeed, recurrent warnings about the risk of euro collapse have not been a surprise during the recent years into the financial crisis and, despite these alarms, the end of the euro has not materialized. But this time is different, according to many authors. As suggested by Münchau (2014), in the
current situation of eurozone, the stability of monetary union is not threatened by international speculators, as in the recent past, but by the incapacity of policy makers to find adequate tools to overcome an economic depression that is compromising, definitively, future economic development of European countries. A second element of instability, strictly connected with the gloomy economic situation that is dogging European societies, is the emerging of influential political movements supporting the exit from the euro (and, in some cases, regional independence).

Let me venture that TTIP could represent a third element that, if not the true cause of euro collapse, could encourage an “European Union without the eurozone” (or, at least, without the “same” eurozone existing today)\(^{25}\). This eventual outcome follows from the evidence discussed above: if the future prosperity of Germany will depend on more (TTIP-driven) economic integration with the US and less integration with the EU, the German commitment to safeguard monetary union could be abandoned. Curiously, in an hypothetical scenario with TTIP-without euro, probable devaluations of resuscitated SEC national currencies could partially restore the trade linkages between Germany and Southern European countries. The eventual devaluation of Italian lira, for example, could favour German imports of cheaper Italian intermediates and components in sectors like automotives and machinery in order to make German firms exporting to the US more competitive in the same industries\(^{26}\).

\(^{25}\) This outcome also follows from the arguments developed in Hübner (2014).

\(^{26}\) This eventuality, in case of euro collapse, is suggested by Fubini (2014).
Figure 3 — Cross-border lending by German banks in France, Italy and Spain

<table>
<thead>
<tr>
<th>Q2 2008</th>
<th>Q2 2009</th>
<th>Q2 2010</th>
<th>Q2 2011</th>
<th>Q2 2012</th>
<th>Q2 2013</th>
<th>Q2 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>Spain</td>
<td>France</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billion dollars</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


2.5. Misleading theoretical options

The main simulation results obtained by the most influential studies on the economic impact of TTIP have given support, within public debate, to a virtuous image of transatlantic cooperation in which both the EU and the US would draw substantial benefits from reciprocal trade liberalization. However, reviewing these studies and their findings in more detail, we have observed that the gains from TTIP would turn out to be: i) small, ii) asymmetric and iii) might be associated with an alarming economic disintegration among EU countries. This uncomfortable outcome would be even strengthened if theoretical options
underlying simulation models that evaluate trade liberalisation measures were relaxed or changed.

Actually, as reported above, simulations about the economic effects of TTIP are carried out by adopting Computable General Equilibrium (CGE) models. This tool is typically used in order to evaluate the “macroeconomic” impact of trade liberalization policies according to the following “microeconomic” logic: a cut in tariffs or trade costs (NTB, for example) boosts international competition and trade flows, inducing an expansion of comparative advantage sectors that absorb production factors displaced from declining sectors, guaranteeing, in this way, full employment of

27 Cepr uses a GCE model developed by Purdue University and called Global Trade Analysis Project (GTAP). GCE model used by Cepii is called Mirage. Both Cepii and Cepr exploit the same database from GTAP. Differently, Bertelsmann–Ifo adopts a gravity model as a base for simulations on TTIP impact.

28 Cepr and Cepii use the Ecorys (2009) approach in order to estimate NTB and put these estimates in CGE model to simulate TTIP impact. The methodology used by Ecorys to estimate sectoral NTB is a multifaceted one, consisting in a combination of literature reviews, econometric analysis, business surveys and interviews with sector experts. The results emerging from these different methods are averaged and translated in a index of NTB by sector. Although the Ecorys–Cepr–Cepii method for measuring NTB is interesting in terms of its multidimensional character, the disproportional importance given to the subjective “perceptions” of firms about the degree of NTB restrictiveness could be misleading. In effect, the NTB estimated by Ecorys are much higher with respect to standard values found in previous studies. A complete different method of quantification of NTB is utilised by Bertelsmann–Ifo, that estimates the trade creation due to existing trade liberalization agreements and then uses a gravity model to calculate NTB fall necessary to determine the formerly estimated trade creation. The problem with this method is whether it is plausible to assume past free trade agreements (like EU or NAFTA) as a realistic benchmark for current economic relations between the US and the EU.
resources. In other words, the adjustment mechanism is the usual market clearing process postulated by the standard theory of international trade in which price changes are the crucial element leading to a new welfare-improving resource reallocation under the hypothesis of full employment. Of course, this description of the adjustment mechanism envisaged by CGE trade models is an oversimplification of a complex multisectorial structure of consumption and production relations that aims to simulate real world also by adopting opportune parameterizations extrapolated by empirical evidence. Nevertheless, even if the authors of Cepr and Cepii reports emphasize that their simulations concern the long run, the point is that the hypothesis of full employment remains an unrealistic assumption when it excludes the possibility that the workers displaced from declining sectors could have difficulty to be absorbed in expanding sectors and, consequently, they could stay unemployed (even for long periods, as testified by long-term unemployment in Europe). Permanent unemployment effects generated by trade liberalization measures embody wide macroeconomic consequences, if we consider the fall in domestic demand due to lost jobs. But in the full employment universe envisaged by CGE models, macroeconomic costs associated with unemployment (in terms of GDP loss, public budget deficits, etc.) are ignored. The curious paradox is that CGE models try to evaluate the macroeconomic impact of trade liberalization agreements by

29 For a defence of CGE model used to simulate TTIP impact, see Pelkmans et al. (2014).

A different view, that questions the methodological assumptions underpinning the CGE-based studies assessing TTIP effects, is provided by Raza et al. (2014).

30 Especially low skilled workers or workers whose skills are subjected to rapid obsolescence could have difficulty to be reemployed.
using a logic that is intrinsically microeconomic and, at the same time, they disregard genuine macroeconomic linkages (like the impact of unemployment on aggregate demand).

In the end, if we include adjustment costs in the estimates on TTIP impact, gains from transatlantic trade agreement should be further debunked.

We have considered unemployment as the main macroeconomic cost that could be associated with the adjustment occurring after the TTIP implementation. But unemployment is a multidimensional phenomenon including relevant social costs too. The next section provides a short general discussion about the social costs that could be associated with TTIP. Like those deriving from unemployment, also other social costs (linked to health, environment, public goods, labour rights, etc.) have been overlooked by the studies surveyed above.

3. Social costs of TTIP

Past experiences of trade liberalization agreements have revealed that adjustment and social costs deriving from economic processes activated by the removal of tariff and non-tariff barriers to trade could be relevant, albeit such costs were not foreseen initially, when trade deals were launched. On this regard, the case of NAFTA is suggestive of a substantial divergence between enthusiastic ex ante estimates on wage and unemployment changes generated by the free trade agreement \(^{31}\) and meager ex post evaluations that, in the case of the US, have signalled stagnating real wages \(^{32}\) and a displacement of 845,000 US employees due to rising imports from

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\(^{31}\) In 1993, President Bill Clinton promoted NAFTA declaring that one million jobs would be created in its first five years.

\(^{32}\) See Polaski (2006).
Mexico and Canada since 1994\textsuperscript{33}. Hence, lessons emerging from free trade agreements (FTA) suggest that ex ante simulations on trade impact tend to inflate gains from FTA and to overlook adjustment and social costs. The risk of underestimating social costs associated with trade liberalization process is particularly evident in the case of TTIP, a global trade reform that covers a wide range of areas and issues: agriculture, industrial products, services, public procurement, finance, intellectual property rights, energy, etc\textsuperscript{34}.

In the case of the EU, regulatory policy in agriculture and food safety is a particularly sensitive issue. As indicated in previous section, in Table 2, the US would get gains from TTIP especially in agriculture sector. With regard to agricultural products, US negotiators not only would like to eliminate tariff barriers, but they also would like to reduce NTB through a revision of European norms and regulations concerning food safety that are much more stringent than those existing in the United States. For this reason, the eventual implementation of a comprehensive agreement reducing tariff and non-tariff barriers to EU-US agricultural trade would turn out to be particularly detrimental for European farmers and consumers. Actually, the structure of US agriculture is very different from the European one: the US average farm is 12 times larger than the European average farm; in Europe there are 12 million farmers against 2 millions in the US\textsuperscript{35}. In other words, US agriculture is dominated by large agribusinesses, whereas EU agriculture is structured in smaller-scale units whose activities are deeply rooted in local and regional

\textsuperscript{33} See Public Citizen (2014).
\textsuperscript{34} See the negotiation mandate of the Council of the European Union (2014).
\textsuperscript{35} See European Commission (2013).
food systems, in which short commercial circuits between producers and consumers are promoted. In recent years, many European countries (like Italy) have implemented measures aiming to develop a sustainable agriculture in harmony with natural environment, health of citizens, territory traditions, etc. This positive evolution could be compromised, if TTIP implementation allowed to sell in Europe US agriculture products and food that are currently banned in the EU (in order to preserve the health of European citizens). In this disturbing scenario, European farmers would have serious problems to compete with large American food multinationals that would flood European markets with their low price (and low quality) products. As result, agricultural unemployment would increase in the EU countries and the welfare of European citizens would decline, in terms of health safety and maintenance of all positive effects associated with a sustainable agriculture (preservation of territorial identity, rural landscape, cultural traditions, employment opportunities, etc.) 36.

Another controversial area of concern for the EU is represented by intellectual property rights (IPR), an issue that has several implications for the welfare of European citizens. Apparently, a more rigorous regulation of IPR is invocated by big ICT companies in order to defend themselves from piracy and to promote innovation and growth; but serious

36 In many European (especially Italian) regions, Geographical Indications guarantee legal protections for products strictly associated with their place of origin. In this way, Geographical Indications preserve genuine production methods, product quality and reputation. TTIP talks could represent an opportunity for American negotiators to question the plausibility of some GI protections existing in Europe. DONNAN (2014b) mentions the emblematic case of Parmigiano Reggiano to discuss tensions existing between the US and the EU over IG issue in the context of TTIP talks.
contraindications lie behind more rigid IPR norms. For example, big corporations could have legal authorization to control citizens’ data, undermining, in this way, civil right to privacy and, indirectly, freedom of expression. The paradox of protecting IPR of big companies and undermining, at the same time, civil rights of citizens was already proposed in the Anti-Counterfeiting Trade Agreement (ACTA) launched by the US in 2006, but the European Parliament rejected the agreement in 2012. Now, notwithstanding the past opposition to ACTA by the EU, TTIP could represent the opportunity for rehabilitating ACTA, thanks to the lobbying activities of the big companies interested in IPR enforcement.

Furthermore, with more rigid norms on IPR, the negative impact on welfare of European citizens would not be limited to restrictions on civil right to privacy but it would be extended to civil right (and dignity) to healthcare. In fact, stronger IPR aiming to protect patents of big pharmaceutical companies could inhibit the penetration of generic drugs in the markets impeding, in this way, the access to cheaper and affordable medicines. Given the situation of fiscal crisis in

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37 For a discussion including potential conflicts between the US and the EU over the IPR issue in TTIP talks, see Pauly and Schult (2013).

38 Pigeon (2014) reports that, out of 130 meetings organized by the Directorate General for Trade of the European Commissions to prepare the talks, 119 were devoted to big companies, or their representatives, in order to collect their preferences. According to Pigeon, the European Commission makes sensitive TTIP information available to firms but it hides them to simple citizens. Furthermore, De Gucht, the European Trade Commissioner, has proposed that TTIP establishes a new Regulatory Cooperation Council in order to facilitate harmonization and convergence of national regulations and standards. This new organism should take account of proposals from stakeholders (firms, evidently). See European Commission (2013b).
Europe, the access to generic medicines is crucial to guarantee healthcare services to patients, lowering pharmaceutical burden 39.

The risk of hurting European citizens’ right to healthcare also comes from opening up of public procurement to foreign competition, as envisaged by TTIP 40.

In effect, liberalization of public procurement would compel public authorities to put local and foreign companies on an equal footing, also with respect to the access to public funds at disposal of national service providers. This situation would lead to the paradox that the national taxpayers could finance, for example, the acquisition of their own national health system by foreign transnational companies (usually more competitive than local firms). Again, the likely progressive privatization of public services as a result of the opening up of public procurement to foreign competition would undermine European citizens’ welfare.

TTIP also foresees the Investor-State Dispute Settlement (ISDS) 41, that is probably the most deadly mechanism, in terms of attack to rights and welfare of citizens. ISDS is emblematic of the loss of sovereignty (and democracy) that globalization imposes to national communities. In fact, ISDS would enable a multinational (for example, a US company investing in Europe) to prosecute the government of the

39 The difficulty of guaranteeing public health services in European countries hit by recession is epitomized by the case of Spain, where 150,000 immigrants have been excluded from the health system for government cuts (see Tremlett, 2012). Similarly, in Greece unemployed risk to lack health insurance after Greek Government has signed in July 2011 a supplemental loan agreement with international lenders (see Alderman, 2012).


country hosting its investment when national laws are perceived as a damage to its corporate profits. The multinational's claim against the foreign government is heard by a restricted arbitration panel of trade layers, not by ordinary national court. This implies that the proceedings are confidential and not submitted to public surveillance 42.

In recent years, several ISDS legal actions have been recorded 43. They range from issues concerning public health to disputes regarding environmental protection: all sensitive areas of concern for public interest and social welfare 44.

Also labour rights could be involved in investor-state disputes, like in the case of Veolia, a French multinational company that in 2012 has sued Egypt over some labour market measures, including an increase in the minimum wage 45. Particularly, the rise of the minimum wage from 400 to 700 liras per month (corresponding to an increase from 41 to 72 euro per month) was considered unacceptable by the company, because the improvement of working conditions would have infringed the private-public partnership signed by Veolia and Egyptian Government for waste disposal.

If a ISDS mechanism was really included in TTIP, countries signing the deal could be exposed to the same unpleasant situation in which Egypt has been involved. Actually, the amount of bilateral investment between the US and the EU is very large and this implies that, if provisions for ISDS were

42 For a critical discussion about the ISDS mechanism envisaged by TTIP, see Bréville and Bulard (2014).
43 Between 1959 and 2012, nearly 500 ISDS claims occurred worldwide. However, between 2003 and 2012 more than 400 cases have been recorded. See Donnan (2014a).
44 For a list of examples of current investor-state disputes, see Eberhardt (2014), box 1.
45 The Veolia-Egypt dispute is discussed by Karadelis (2012).
included in TTIP, multinationals of both side of the Atlantic would resort to this instrument abundantly, in order to discipline states involved in the agreement. As a result, to avoid heavy compensations that would deteriorate public budgets, governments would be forced to refrain from active public regulation or, alternatively, would be induced to implement laws in favour of investor interests.

In both cases, public interest and social welfare would be compromised.

4. Concluding remarks

This paper has provided a reflection on Transatlantic Trade and Investment Partnership, with particular regard to its economic impact on Europe.

Introductory section has elucidated the strategic and geo-economic reasons underpinning TTIP. Particularly, the ambitious goal of the project is to overcome the stalemate of multilateral trading system occurring after the Doha round by relaunching the liberal international economic order through a transatlantic trade liberalization agreement envisaged as a model for the rest of the world.

Section 2 has surveyed recent studies that have tried to assess the economic impact of TTIP on the EU and the US. Although TTIP has been promoted as producing substantial economic benefits for both sides of the Atlantic, gains in terms of growth premium appear quite limited. In addition, looking at simulation results in more detail, gains from TTIP would not seem uniformly distributes but would turn out to be asymmetric, with higher benefits accruing to the US, especially in agriculture sector. Furthermore, the increase in bilateral trade flows between the EU and the US would be accompanied by a substantial diversion from intra-EU trade. Diversion effects driven by TTIP would reinforce a tendency really
materialized since the beginning of financial crisis (2007-08), especially in the case of Germany, that has thickened trade linkages with the US and has reduced economic relations inside the EU (especially with Southern European countries). This evidence suggests that TTIP would serve mainly Germany interests among European countries, and it would be detrimental for Southern European countries. Furthermore, if the TTIP-driven future scenario envisages more integration between Germany and the US and less integration between Germany and other EU countries, the sustainability of euro could be compromised. In the end, a thoroughly examination of the simulation results extrapolated from GCE-based studies assessing TTIP impact reveals that gains from TTIP are limited and could be more than counterbalanced by losses associated with adjustment costs, if some unrealistic assumption, like full employment, was removed.

Finally, section 3 has illustrated social costs that could manifest themselves if TTIP was fully implemented. Quantifying social costs is inherently difficult, but the short discussion presented above has remarked, albeit intuitively, that social costs deriving from TTIP could be dramatic.

TTIP covers a wide range of areas and issues. We have focussed on particularly sensitive aspects for European countries. First of all, agriculture sector appears particularly exposed to risks of social losses. The opening up of European markets to products that are currently banned in the EU (GMO, hormone-treated beef and pork, chlorine-sterilised chicken) would have heavy repercussions in terms of health safety and preservation of a sustainable agriculture model that several European countries are promoting in recent years. The losses in terms of lost jobs in agriculture would be higher in EU peripheral countries, where agricultural employment as share of total employment is higher. This would contribute to enlarge North-South divide in the EU.
Second, the intellectual property rights issue has several implications for the welfare of European citizens. In fact, with more rigid norms on IPR, the negative impact on welfare of European citizens would not be limited to restrictions on civil right to privacy (via control over citizens’ data) but it would be extended to civil right to healthcare because stronger IPR would reduce the access to generic medicines.

Third, the opening up of public procurement to foreign competition is another source of welfare losses for European citizens, because the equal treatment of local and transnational firms would provoke the demise of public services leading to generalized privatizations.

Finally, the ISDS mechanism is the most disturbing provision included in TTIP because it symbolizes the omnipotence of globalization in limiting the sovereignty of national communities and their capacity to preserve health safety, environment and labour rights.

In the end, should we trust in the giant “EUSA”?

References


Should we trust the giant “EUSA”? A reflection on Transatlantic Trade and Investment Partnership (TTIP) and its impact on European economy

Abstract: This paper provides a reflection on Transatlantic Trade and Investment Partnership (TTIP) and its impact on Europe’s economy. Although TTIP has been promoted as producing substantial economic benefits for both sides of the Atlantic, gains in terms of growth premium appear quite limited and unevenly distributed between the EU and the US and inside the EU. In addition, the increase in bilateral trade flows between the EU and the US would be accompanied by a substantial
diversion from intra-EU trade that could undermine the sustainability of the eurozone and would be detrimental for Southern European countries. Furthermore, adjustment and social costs, that have been overlooked by CGE-based studies on TTIP impact, could be dramatically high.

*Keywords:* free trade agreements (F13); non-tariff barriers (F15); EU-US trade, intra-EU trade (F16); globalization and labour markets (F17).

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