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TTIP from the perspective of developing and emerging countries

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The negotiations between the EU and the USA on a Transatlantic Trade and Investment Partnership (TTIP) are being accompanied by a very controversial public debate. In Germany the debate focuses on investor arbitration tribunals and consumer protection. Opinions are also divided in regard to the impacts of TTIP on developing and emerging countries (DCs/ECs). Depending on the perspective, based on model calculations and basic impact hypotheses the deal can be seen to have both advantages and disadvantages for DCs/ECs.

Model calculations: CEPR vs. Ifo

In the EU and, in particular, in Germany, the debate is dominated by studies of the Centre for Economic Policy Research (CEPR) and the Ifo Institute.[i] The expectation of the EU Commission that TTIP will bring economic benefits not only to the EU and the USA but also to the rest of the world is based on the CEPR study. According to this study, DCs/ECs can expect real income growth of up to EUR 60 billion per annum, and all developing/emerging regions will benefit (if to varying degrees, wit Asian ECs benefiting more than the poorest DCs). The CEPR sees benefits for DCs/ECs on two levels. First, increases in real income in the EU and the USA as a result of TTIP will also boost their demand for imports from DCs/ECs. Second, the deal is expected to have positive spillover effects. That means:

(i) DCs/ECs will benefit from the reduction of administrative trade barriers in the TTIP region because their exporters will not be required to go through their local double authorisation procedures anymore either, which so far have been costly (direct spillover); and

(ii) The market power of the TTIP region will give DCs/ECs an incentive to adopt the region's new standards, which will also simplify and stimulate trade among the DCs/ECs (indirect spillover).

In a 'classic' trade liberalisation (specifically, a tariff reduction), potential disadvantages for third countries in the form of trade diversion effects are an important issue. Under TTIP, however, according to the CEPR, this is hardly relevant because the EU-USA import duties (which are to be abolished) are already very low.

In stark contrast to the CEPR, the Ifo Institute in 2013 performed a model calculation that arrived at some very negative welfare effects in DCs/ECs (e.g. in Mexico -7% in relation to GDP). Unlike the CEPR, the Ifo Institute did expect significant trade diversion effects to the detriment of DCs/ECs. This Ifo study did not take into account any opposing spillover effects, which was criticised as unrealistic. In a further study in early 2015, the Ifo Institute then arrived at different results which determined that while some DCs/ECs stood to lose from TTIP, others stood to gain. And the countries that stood to lose could eventually reap some benefits after all if there were positive spillovers (which would be conceivable for Brazil, for example).

Criticism from non-governmental organisations (NGOs)

German NGOs such as Foodwatch and Bread for the World interpret these studies in a different way. They reinforce their impression that individual, poorer DCs stand to lose from TTIP, that positive spillovers into DCs/ECs are anything but certain and that damage to the DCs/ECs is likely to be substantial if they fail to materialise. NGOs also warn that while tariff reductions under TTIP are indeed secondary overall, they do have quite an impact specifically on agricultural products. That is why they fear disadvantages for the poorest DCs, whose agricultural exports today reach the EU market duty-free but will in future be squeezed out by US competitors (preference erosion). Finally, NGOs criticise that the EU and the USA will restrict the regulatory scope of the DCs/ECs via TTIP (see below).

WTO context – developing and emerging countries are not treated as equals

Trade liberalisation should rather take place on a global scale through the World Trade Organisation (WTO). However, the WTO process is at an impasse. Many bilateral treaties have been and are being concluded instead. Bilateral regulations established by the heavyweights EU and USA under TTIP are likely to effectively be of high global relevance as well. The criticism that DCs/ECs are not being treated as equal members of a community adopting rules but merely recipients of rules is comprehensible. In effect, this may not make a big difference to the poorer DCs. But it does appear doubtful whether the fast-growing ECs are ready to accept this role as well. Impacts on other areas of negotiation where cooperation by ECs is indispensable (e.g. in climate protection) cannot be ruled out. ■

[i] Francois, J. et al.: Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment, Centre for Economic Policy Research, London 2013; Felbermayr, G. et al.: Dimensionen und Auswirkungen eines Freihandelsabkommens zwischen der EU und den USA, Ifo Institute, Munich 2013 (in German); ibid. et al.: Mögliche Auswirkungen der Transatlantischen Handels- und Investitionspartnerschaft (TTIP) auf Entwicklungs- und Schwellenländer, Ifo Institute, Munich 2015 (in German).