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What Should Development Policy Actors do About the Transatlantic Trade and Investment Partnership (TTIP)?

Summary

The Transatlantic Trade and Investment Partnership (TTIP) is currently the subject of heated debate – but with a narrow focus. The debate is primarily concerned with the impact of TTIP on Germany and Europe. Too little attention is being paid to the implications of this mega-regional for the rest of the world. In light of growing global inequality, the question of how we can shape globalisation fairly and whether TTIP can play a role in this is more pressing than ever.

TTIP is an attempt by the European Union (EU) and the United States to define new rules of play for the world economy with potential global application. From a development policy perspective, this exclusive approach gives cause for concern, as it precludes emerging economies and developing countries from negotiations.

The TTIP negotiation agenda goes far beyond the dismantling of trade barriers, also encompassing, for example, the rules for cross-border investment and a broad spectrum of regulations that are often only loosely related to traditional trade policy. This expansive negotiation agenda is the real innovation of the transatlantic negotiations, with uncertain consequences for all those countries that do not have a seat at the negotiating table. Whether they like it or not, these countries will be affected by the rules agreed upon at this table through their participation in international trade.

As such, TTIP could mark an important turning point in the world trade system. TTIP, along with the Trans-Pacific Partnership (TPP) negotiated by the United States and 11 other nations, threatens to further undermine multilateral negotiations within the World Trade Organization (WTO). Of even greater concern is the fact that emerging economies such as Brazil, India and especially China, none of whom are involved in the TTIP and TPP negotiations, could react to these mega-regionals by joining together to form opposing trade blocs. Instead of taking a largely exclusive approach, it would be better if the transatlantic partners placed the emphasis on cooperation with emerging economies and developing countries, especially given the tremendous economic potential of these nations and the global challenges currently being faced in other policy areas, challenges which can only be overcome by working together with these states.

When it comes to promoting global development and shaping globalisation fairly, the TTIP negotiations offer potential and present challenges at the same time. Nonetheless, there are some specific recommendations as to how TTIP can be made as development-friendly as possible: 1) steps should be taken to avoid discriminating against third countries in the area of regulatory cooperation; 2) rules of origin should be as generous, uniform and open as possible; 3) preference programmes of the EU and the United States should be harmonised; 4) third countries should be afforded credible options for joining the partnership in future.

Development policy stakeholders have the following options for action: 1) the TTIP negotiations should underscore the importance of measures for integrating developing countries into global value chains; 2) efforts need to be made at European level to promote greater consistency between TTIP and development policy goals, particularly those of the post-2015 agenda; 3) steps should be taken to reach out to emerging economies and developing countries with greater transparency and to offer them the opportunity to engage in dialogue; 4) the WTO process needs to be reinvigorated and reformed at multilateral level.

Effects on emerging economies and developing countries

By cutting tariffs and removing non-tariff trade barriers, TTIP would have a direct impact on emerging economies and developing countries, and an indirect impact on the world trade system, with both of these impacts being highly significant to global development.

Direct impact

By reducing trade costs between the United States and the EU, TTIP would lead to an increased level of trading between the two economies, with fewer goods traded with other countries. The scale and geographical spread of these trade diversion effects would depend on the level of individual tariffs and on trade relations with third countries. Given that transatlantic tariffs are already very low in most sectors, further cuts would generally only be likely to have a minimal effect in terms of trade diversion.

These negative trade diversion effects could be countered by positive income effects. The increased income generated by TTIP could lead to higher demand for exports from third countries. Whether negative trade diversion effects or positive income effects win the day will depend more than anything on the business and trade structures of the third country in question. This makes it difficult to reach a unanimous conclusion on the implications of TTIP for emerging economies and developing countries.

Nonetheless, existing studies suggest that TTIP will have a negative impact on a number of countries, while also predicting that the partnership's overall average impact at the country level will be limited. However, there are losers as well as winners, both at country level and within individual nations.

According to the latest research findings of the ifo Institute, many countries, especially those that are closely integrated in North American and European production networks, would see their incomes increase slightly in real terms as a result of growing demand generated by TTIP. By contrast, for example, the incomes of East Asian economic powerhouses such as China, Japan and South Korea, as well as some members of the Association of Southeast Asian Nations (ASEAN), would be negatively affected by TTIP in real terms. These outcomes are highly significant at political level, as China especially views TTIP primarily as a geopolitical project of the West.

While the aggregated effects are expected to be relatively minor at country level, the tariff cuts and potential preference erosion could hit a number of sectors in emerging economies and developing countries particularly hard. This is especially true of product areas in which relatively high tariffs still exist between the United States and the EU and which are highly significant to the economies of the respective emerging economies and developing countries. This is the case, for instance, in the clothing sector of low-income countries such as Bangladesh, Cambodia and Pakistan. Should the EU and the United States also make progress on the dismantling of tariff barriers for trading in agricultural products, then this could affect low-income African countries, for example, who trade in fisheries products, bananas and sugar.

Regardless of these model predictions, the precise extent of TTIP's impact on emerging economies and developing countries will depend on the way in which regulatory cooperation is structured. The implications for companies in third countries hinge upon whether or not the EU and the United States recognise each other's standards or even harmonise them. It also remains to be seen whether harmonisation will be based on the higher or lower standard (or a compromise between the two) in each case. The expansion of sales markets as a result of harmonised standards offers opportunities to those third countries able to meet these standards. However, poorer countries in particular are unable to meet standards acceptable to the EU and the United States without additional support.

Consequences for the global trade system

There are also immense indirect consequences of TTIP which will definitively shape the future of international trade. The indirect effects of TTIP are often difficult to model and calculate, yet, from a development policy perspective, they are at least as important as the aforementioned direct effects.

Firstly, the economic and geopolitical significance of TTIP means that it will influence the geometry of the world trade system. TTIP and other ongoing negotiations on mega-regionals are undermining the multilateral trade system on an unprecedented level. Precisely at the time when the Bali trade deal has provided a glimmer of hope for the Doha Development Agenda, the United States and the EU are devoting significant political capital and administrative capacity to negotiating mega-regionals. Such a trend should be viewed critically from a development policy perspective. Despite the criticism levelled at it by many non-governmental organisations and developing countries over the last two decades, the WTO is and remains the institutional framework best placed to take account of the trade interests of poor and small countries. The multilateral system should remain the chief cornerstone of the global trade order, not least because multilateral trade agreements deliver economic benefits for all countries.

Secondly, the new transatlantic free trade zone would not simply be one more agreement on the list of existing agreements; rather, it would constitute the setting of a new course for the world trade system. TTIP establishes a benchmark for the development of global trade rules and would be used by the EU and the United States as a blueprint for future agreements with emerging economies and developing countries. This is especially relevant given that TTIP represents a new type of agreement that covers issues not as yet negotiated at the WTO or in other free trade agreements. Regulatory cooperation is the most prominent example of such an issue, with the parties that are set to be affected by the regulations having been left out of the TTIP negotiations. If the interests of these countries are not taken into account in setting this new course, then they will be put at high risk. This raises issues of legitimacy which could undermine the fairness of the world trade order and destabilise it.

Making TTIP development-friendly

In view of the direct and indirect impact that TTIP is expected to have, it is necessary to monitor and influence the ongoing negotiations from a development policy perspective. Here are four ways of doing so:

Extend mutual recognition to third countries

TTIP is focused on standardising the US and European regulatory systems. In a global economy closely inter-linked through value chains, this area in particular can offer enormous potential and present a substantial long-term obstacle to developing countries all at once. The effect on third countries will depend on how transatlantic co-operation is structured from a regulatory perspective.

Emerging economies and developing countries should also be able to benefit from mutual recognition of EU and US standards. This would require the benefits of mutual recognition to be extended to these nations as well, particularly with regard to products that emerging economies and developing countries export in increasing quantities to the TTIP market. Where the EU and the United States recognise their standards as equivalent for certain products, they should avoid discriminating against third countries, as this would rule these countries out from preferential treatment. Avoiding such discrimination would allow manufacturers from third countries who already meet the standards of the one region to sell their products in the other region, thereby expanding their sales markets.

As poorer countries would most likely experience difficulties in meeting new standards in the short term, development cooperation actors should support them in implementing these standards to enable them to benefit from TTIP.

Simplify rules of origin

The specific design of rules of origin has a major impact on the effects of a transatlantic agreement on third countries. Rules of origin are a necessary evil associated with free trade agreements such as TTIP. It is envisaged that TTIP will only give preferential treatment to products or input materials whose origin can be proven (depending, for example, on the amount of value added in the EU or the United States). Goods and input materials from other countries for which this is not possible would not benefit from the low trade barriers. In this way, restrictive TTIP rules of origin could create a wall of sorts around the EU and the United States, protecting producers in the two signatory countries and leading among other things to a situation where fewer input materials from third countries are used and processed.

The rules of origin in the EU and the United States are currently highly complex and should be abolished to make way for a simplified and liberal joint approach. If the standardised rules of origin are made as generous as possible towards third countries, then these countries could benefit. It would be even better for third countries if the EU and the United States agreed to avoid using rules of origin (proof of the origin of goods) wherever possible, not least when trading with countries that have concluded trade agreements with both the EU and the United States. Both approaches would allow a win-win situation to be created for the transatlantic partners and third countries, and the transatlantic partners would also benefit from simplifying or abandoning the system, which is highly complicated at present.

Harmonise preference systems

The EU and the United States should standardise their preference systems for developing countries (including the Generalized System of Preferences, Everything but Arms, and the African Growth and Opportunity Act). The benefits that would result from dismantling transatlantic trade barriers could then be extended to those developing countries that currently profit from these preferences. Rules of origin should be discarded in this case.

Enable third countries to join TTIP in future

The EU and the United States should offer third countries a specific opportunity to join the partnership in future. In the best case scenario, TTIP should include a membership clause for third countries to open it up to developing countries and emerging economies.

Other options for action with regard to TTIP

Development policy actors have a significant window of opportunity for filling the gap in the public discussion referred to at the beginning of this paper and pointing out the effects of TTIP on development policy. As well as highlighting the risks associated with TTIP, they should also stress that the partnership provides opportunities for shaping the future trade policy rules to make them more development-friendly. Development policy actors have the following options for action, which also apply to other agreements currently being negotiated by the EU:

Promote integration in value chains

In light of the TTIP negotiations, development policy actors should place a greater focus on integrating developing countries in global value chains, for example, as part of Aid for Trade and beyond that initiative. It is necessary to support the regional integration of emerging economies and developing countries and the South-South agreements. The negotiating expertise and capacity of developing countries should also be strengthened, as they will face the challenge of negotiating increasingly comprehensive and in-depth trade agreements in future. It is important in this context to realise that these agreements give developing countries access to global value chains and also to ensure that the political leeway of these nations is not excessively restricted. Development policy actors should also consult together on ways to promote adjustments to industrial structures in developing countries in response to TTIP and on options for using technical and financial cooperation to help these countries meet the relevant standards.

Call for consistency with development goals at EU level

If TTIP made it more difficult for third countries to access markets in the United States and the EU, then this would undermine development cooperation efforts. From a development policy perspective, it is crucial that TTIP does not stand in opposition to the goals of the post-2015 sustainable development agenda. In order to ensure that TTIP is consistent with development goals, each point in the TTIP negotiations needs to be examined in terms of its compatibility with these goals, with a particular focus on the poorest countries. TTIP is being negotiated by the Directorate General for Trade of the European Commission, with the involvement of national economics and trade ministries. By using their influence on the Foreign Affairs Council, development policy actors have the opportunity to help make TTIP development-friendly.

Create transparency

Civil-society actors in Europe and the United States are rightfully calling for greater transparency on the part of the negotiating parties. Given the sheer size of TTIP and its global significance, efforts to increase transparency should also be extended to third countries. Developing countries should be entitled to access information about the work being done on future standards in the regulatory councils. The transatlantic partners should use existing regional and multilateral forums (particularly the G20 and the WTO) to provide information about the content and progress of negotiations. This is the only way to allay any fears that emerging economies and developing countries may have of a supposed 'economic NATO' and to avoid the risk of backlash.

Strengthen multilateralism, discuss options for reforming the WTO

The trade barriers that are especially relevant to developing countries need to be dismantled on a multilateral basis. Development policy actors should also engage in dialogue with emerging economies and developing countries on how the multilateral negotiation process can be structured more effectively. It is particularly important to discuss the advantages and disadvantages of so-called plurilateral WTO agreements that are only negotiated by some of the WTO's members. Additionally, the EU and the United States should talk with their partners about ways to strengthen the complementarity of the different processes for negotiating mega-regionals in order to facilitate multilateralism further down the line. This dialogue could be undergirded by research partnerships with emerging economies and developing countries.

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