

Challenges and Possible Consequences of Transatlantic Trade and Investment Partnership

Hande Kurtul, Erkut Akkartal
(Yeditepe University, Turkey)

Abstract: In recent years, European Union (EU) and the United States (US) change their trade policy and also they began negotiations for signing the most comprehensive free trade agreement. Its negotiations began in the second half of 2013 and called Transatlantic Trade and Investment Partnership (TTIP), whose key points are transparency, coherence and non-discriminatory. With these type of qualifications, EU's and US's administratives believe that this partnership will boost economic power and not only for EU and US, but also all countries in the world benefit from the outputs of the agreement. On the other hand, although their intensions are widely same direction, sometimes controversial platforms occur, because both parties do not want to change their implementations at some topics such as conformity assessments, genetically modified products and hormone treated meat. Accordingly, the objective of this paper is to identify mainly the key challenges of the TTIP with qualitative and quantitative data. Descriptive analysis of the data will be displayed. The agreement has two main body as horizontal side which means regulatory cooperation and sectoral side. In this paper, regulatory cooperation and its context are pointed to be essential subjects for why sectoral side has more details and it is hard to explain all circumstances in sectors. After focusing on the reasons of the existence of the TTIP, the need will be explained. Then the main elements, such as market access, regulatory coherence and improved cooperations, are mentioned. As a conclusion, mostly recommendations and expectations take part because of the fact that negotiations are going on.

Key words: transatlantic trade and investment partnership; transparency; coherence

JEL codes: F13, F15, F42

1. Introduction

In the globalizing world, change is inevitable because of altering conditions, provisions and actors in due course. Many of situations such as wars, financial or political crises, free trade agreements, declaring independences or economic developments affect who the actors who is main power and can convert balance of power on some era. In recent years, free trade agreements (FTAs) are mainly effective to change global balance because the world biggest and economically strongest countries make agreements with transition economies and so developing countries rise and balances alter.

Hande Kurtul, MA Student, Yeditepe University; research areas/interests: international trade. E-mail: hande_kurtul@hotmail.com.
Erkut Akkartal, Dr., Associate Professor, Yeditepe University; research areas/interests: international trade. E-mail: erkut.akkartal@yeditepe.edu.tr.

The roots of the trade comes from the ancient times. At the beginning, trade made with ships, especially steam ships, and it was taking too much time but over time, with the improving of technology and internet, trade started to make in virtual environments and also in short times.

Since 2013, a situation like this is in the news all over the world. Two main actors of scene European Union (EU) and United States (US) intend to sign most comprehensive and transparent free trade agreement which is called Transatlantic Trade and Investment Partnership (TTIP). This is exactly a huge initiative cause parties of agreement are world leader because of having the half of world GDP, 30% of global trade and also more than \$3.7 billion investments in each other area. With these datas, we can be sure that if the TTIP comes into force, international area begins a new era. For example, boosting to 120 billion (Business Europe, 2014, p. 2) euro for EU is expected with the TTIP.

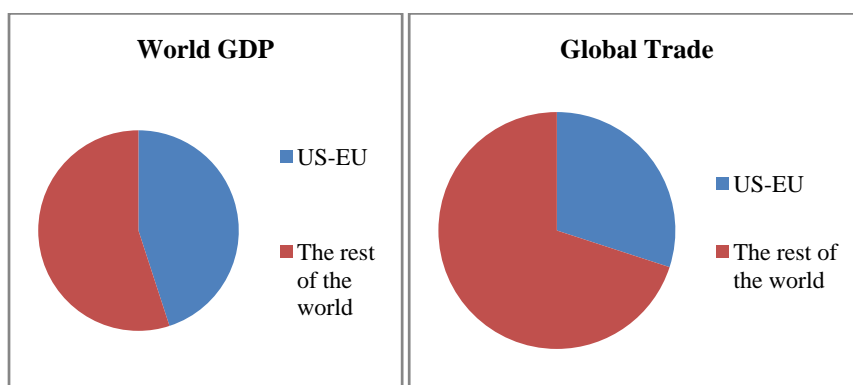


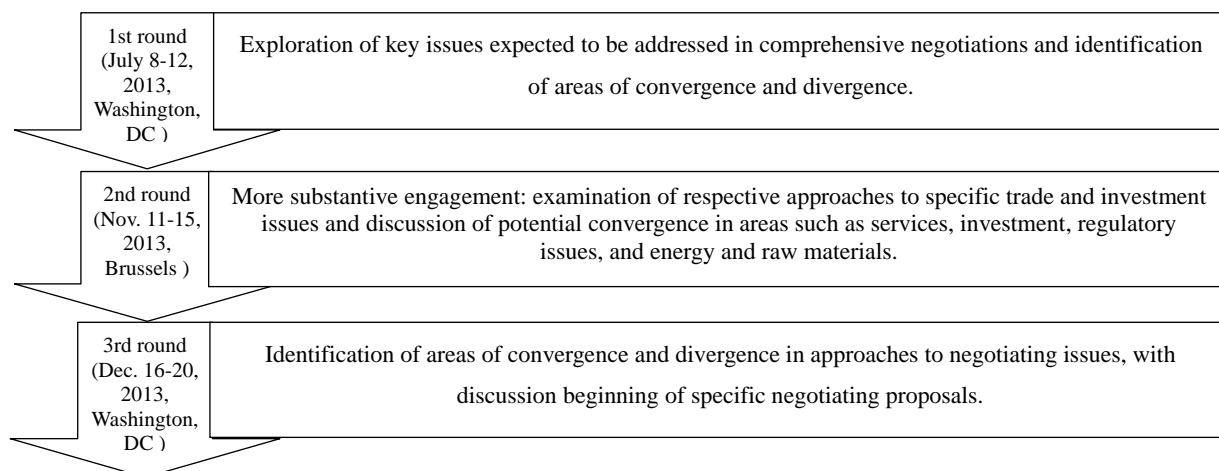
Figure 1 World GDP and Trade Rates (Akhtar, Shayerah Illias, Jones Vivian C., 2014, p. 2)

There are many reasons for needing an agreement on global platform. First of all, financial crisis and rising of emerging markets are most effective reasons for TTIP. Then, diminishing of the US's international trade rates trigger to begin a quest for strengthen the economy. For the EU's side, EU's enterprises cannot reach to US market easily and they face with redundant procedure. Because of significance of US market for EU, EU demand to be part of such an agreement, too. Additionally US is exactly important trade partner for EU and they do not settle with this position, they want to extend it. Lastly, with this type of agreement, benefits are not only for the parties, but also all countries can utilize from the advantages.

As an opinion and a suggesting, TTIP is mentioned in the final report of High Level Working Group on Jobs and Investment (HLWG) (Akhtar, Shayerah Illias, Jones Vivian C., 2014, p. 3). In this report, it is said that it is necessity to consider an agreement such as TTIP and with such an agreement, many benefits can be gained in various options. After the accepting of HLWG's findings, US and EU's leaders announced to begin negotiations for TTIP on February, 2013. In July, 2013 negotiations begin and the first three meeting's dates are determined. The administratives propose to conclude it at latest in 2016, because negotiations which started in the second half of 2013 are expected to break in two years.

Before giving informations about context of TTIP, we want mention a little bit studies about this topic in the literature. First of all, there are not many different materials and only some thesis related to TTIP because of the fact that this is a new subject and also negotiations are continuing. The papers that we have reached are mainly about a distinctive information and mostly recommendations and expectations. Surveys are a part of some studies. The most beneficial articles are report from European Commissions for why they include what are discussed in

the negotiations.



The authors of the “The Transatlantic Trade and Investment Partnership: Ambitious but Achievable” (Barker & Workmann, 2013) talk about why is needed to sign an agreement like TTIP and its possibilities with a survey. They believe that TTIP will raise EU’s economy and also strengthen US economy. “Crafting a Transatlantic Trade and Investment Partnership: What Can Be Done (Schott & Cimino, 2013) mentions possible arrangements and conclusions. Authors say that it is a necessity that regulatory issues should be part in TTIP for creating a comprehensive agreement. In the “The Challenge of Cooperation: Regulatory Trade Barriers in the Transatlantic Trade and Investment Partnership” (Lester & Barbee, 2013) is evaluated that negotiators have to focus on benefits of the TTIP than conflicts and also they should be sensitive about demands of investors and consumer for getting a successful cooperation. In the “Transatlantic Trade and Investment Partnership (TTIP) Negotiations” (Akhtar & Jones, 2014), the authors mention general information about TTIP and also its qualifications and they think that if the agreement concludes as planned, the policy goal of US substantially will be put into practice. Akhtar and Jones mention in the “Proposed Transatlantic Trade and Investment Partnership (T-TIP): In Brief” about also general informations and quantitative datas. Vastine, Jensen and Makiyama state in their article “The Transatlantic Trade and Investment Partnership: An Accident Report” (Vastine, Jensen & Makiyama, 2015) that debating about negative points than positives, political engagement and strategic purposes should be main part of TTIP negotiations for achieving success. From the European Commission, “TTIP and Regulation: An Overview” (The European Commission, 2015) is mainly about how should be progressed in the regulatory side of TTIP. All rounds’ final reports from the European Commission (2013-2015) include what is negotiated in meetings and what are the parties’ offers.

2. Former Situation

EU will has more advantages about accessing US market, achieving more consumers, facilitating to invest in US market and also US will get more benefits such as achieving his policy goals, reaching more consumers and accessing almost all over the world, if the TTIP concludes as planned. Parties want to achieve these type of aims because of the fact that before the TTIP especially EU face with some obstacle to connect with the US consumers or markets. For example:

Before the TTIP, in the US, there is any conservation and guarantee for the investors, although US is a member of OECD and also legal system is well. In addition, firms from EU have to struggle with some difficulties when they try to invest in the US. So, EU's investors cannot connect with the US's market.

On the other hand, under current situations products which are completely same are sold in the US and in EU with different brands or names. This triggers some problem such as changing sales.

With the TTIP, changes will be almost the quantity of trades. Certain topics are mostly constant for parties which mean both of them do not want to alter their positions. But with successfully concluding of the TTIP, trade volume and amounts will boost not only for parties but also for all over the world.

3. Challenging Provisions

TTIP has mainly three purposes. These are (1) Market Access, (2) Regulatory Coherence and Cooperation and (3) Improved Cooperation (Akhtar, Shayerah Illias, Jones Vivian C., 2014, p. 1). The fundamental objective of TTIP, facilitating trade and investments and enlarging implementation field of procedure and standards. Briefly, they want to provide rules which are available all over the world and also common standards. EU and US have mostly same provisions or standards but at the some points they coincide. For solving these small controversials, TTIP is configured mostly about regulations. Related to this, TTIP occurs two main part, (1) Regulatory side and (2) Sectoral side. We will focus on regulatory side in this paper cause regulatory matter are more important for us and also sectoral side has more detail.

Related to sectoral side, we can say that some sectors may come forward and also they will cause more discussions. In example, textile is an important one for why China is a rising power all over the world and with TTIP, US and EU try to generate a solution for breaking the competitiveness of China.

Besides we can say that US and EU have same aims whatever they do. So, both of sides regardless try to protect people health, health conditions and investor's and worker's benefits. All discussions go in a way in which they try to increase their position and save their purposes.

We can show the challenging points and its importance and difficulties on a table which is drawn with datas from a survey, 2013 (Barker, Tyson, Workmann, Garrett, Atlantic Council, 2013, p. 5).

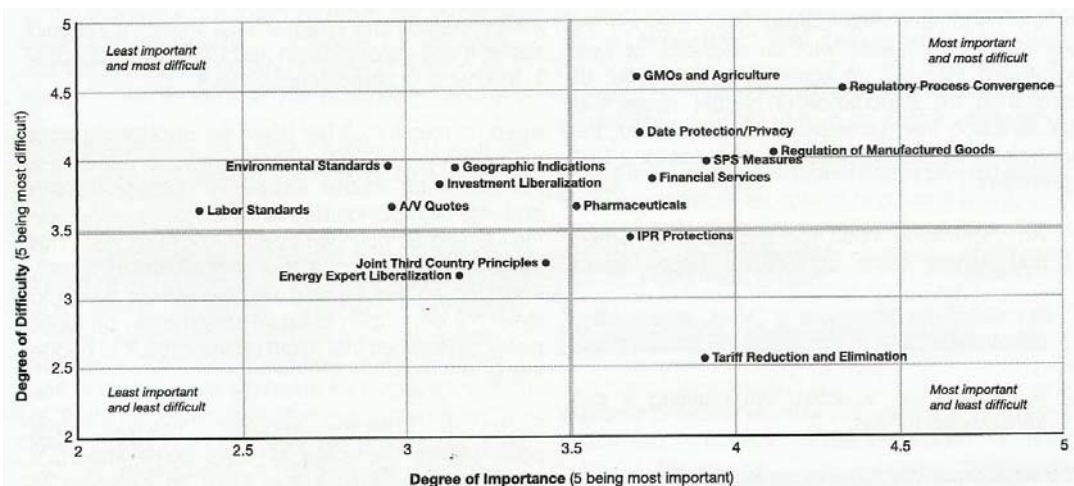


Figure 2 Importance and Difficulties of Challenging Topics

US and EU have mostly procedures and rules on the same direction. In other words, they do not separate

from each other related to implementations on trade. But although they generally progress in the same directions, at some topics they conflict and this cause deep discussions. In this part, challenging provisions of TTIP negotiations can be tried to explain.

First of all, extent of reducing trade barriers, tariffs have less impressions and significance in TTIP negotiations, cause generally tariffs are really low between US–EU trade. But also some products such as imported sensitive products like textile, fish and fish products, dairy products, sugar, confectionery etc. trigger discussions. But still, both of parties do not face with redundant and heighest tariffs in trade with each other and thus this situation is a simple problem.

The most controversial side of negotiations is genetically modified organisms (GMO). GMO's are used in US and also they are exported to some part of world. For the US administratives, this should not be a problem because this is an acceptable condition in the current situations and they have exact rules about it. But EU side are exactly against them for why GMOs are indisputably unacceptable. EU's administratives defend that GMOs are not allowed to be sold or produced in the EU's countries and also their position about it will not change. According to GMOs, there is a circumstance which is hard to be solved.

The brands or names of products cause also a controversial platform. Some products such as cheese, are selling in both parts but with various names. Maybe this may seem not a problem but for competition it precipitates unfair competition and reducing sales. In addition, one product should be sold at the same price everywhere. It should provide to sell products same prices for obtaining equality.

The other one is related to investments. EU firms face with some obstacles when they try to connect with the US market. These are mainly about some procedures or unnecessary arrangements which are implanted for EU investors or producers. The most demanded regulatory of EU's side is making new settings about this topic.

About technical barriers to trade (TBT), most controversial part is assessments and certifications. This means that, US and EU have provisions to get some products on the same directions, but their implementations are different. Because of this reason, sellers have to test their products two times, as EU provisions for producing and as US provisions for selling. Thus, these testing systems increase prices and also competitiveness of EU's producers in the US market decline. For solving the problem, parties working on the testing and assessments system which is available and acceptable for both sides. Negotiations are progressing in a way that it can generate positive results.

In comparison with regulatory issues, data sharing is another significant topic. Related to this, both of parties are indecisive but they are in the same direction. At that point, privacy and governments policies step in.

4. Transparency, Comprehensiveness and Regulatory Cooperation

Transparency, comprehensiveness and regulatory cooperation are really important matters in TTIP negotiations. In the regulatory side we can see four reasons for regulatory cooperation. (1) More jobs opportunity and growth, (2) More choices for consumers, (3) Stronger regulations and better enforcement, (4) Greater influence on the international stage. All of these can be achieved with facilitating trade and investments. So, reducing trade barriers, removing technical trade barriers, constituting and agreeing on the same standards and also certifications system should be made.

Regulatory cooperation is much more significant than other qualifications, because regulatory cooperation includes all of the aims and also without a cooperation any problem can be solved. Regulatory cooperation builds

bridge between two sides related to similar levels of protection and development. Some of the levels that this structure compensates are improved transparency, greater predictability, internationally compatible regulations, evolving capacity, increasing consumer Access and enhance small-medium enterprises to connect with new markets.

On the other hand, regulatory cooperation includes some rules refers to World Trade Organization (WTO). It means that, in TTIP all the arrangements are not new or not used in other trade agreements. Generally, they utilize from WTO's rules and with this they purpose to address all over the world.

Other parts of regulatory issues is sanitary and phytosanitary (SPS). SPS should arrange so as to not damage people health and also no compromise health conditions (Business Europe, 2014, p. 1).

The other important part of regulatory cooperation is transparency. For blocking redundant procedures and unnecessary differences, great transparency and collaboration are encouraged. In this context, general platform is tried to create. But here, there are some differences sector by sector. This distinction is the fundamental benefit of this cooperation. On the other hand, transparency means that all rules, implementations and procedures are known for both sides and this blocks deceptions.

Comprehensiveness is the main aim of TTIP. At the first sight, it can be seen as an agreement between only two parties, but basically TTIP is made for including a global concept. In negotiations, discussions progress as parties' profits and demands. If the agreement sign as planned, not only EU and US benefit from it but also all countries can have advantages from the TTIP.

5. Expected Consequences of the Partnership

This is a little bit hard to assess possible effects of this type of agreements, for why they are complex and challenging because of lacking datas, theoretical and practical information. TTIP is an ongoing process, thus we make only expectations about consequences. Related to expected consequences of TTIP, the first line belongs to exactly trade volume and quantities. When we see US and EU export quantities for last ten years, and also TTIP negotiations help us to make some inferences about trade volume in the future. If TTIP concludes as planned, it is estimated that EU's export would boost \$28 billion or approximately 7% and also US exports would boost \$23 billion or 8% within a few years. In the below table, it is shown that last five years export's datas and possible increasing in the near future. Additionally, datas which is written on the table in million \$, but we expect exports will boost billion \$ (<http://dataweb.usitc.gov>).

Table 1 US and EU's Export Quantities and Their Trade Balance

Years	US' export	EU's export	Balance
2005	185,165.9	309,628.0	-124,462.1
2006	211,886.9	330,481.7	-118,594.8
2007	244,165.9	354,409.3	-110,243.4
2008	271,810.1	367,617.4	-95,807.4
2009	220,599.3	281,800.8	-61,201.5
2010	239,591.0	319,263.8	-79,672.9
2011	269,068.7	368,463.9	-99,395.2
2012	265,375.6	381,753.2	-116,377.7
2013	262,150.6	387,591.3	-125,440.7
2014	276,698.4	417,836.7	-141,138.3
2015 - January	22,265.7	31,588.8	-9,323.1
2016	284,698.4	424,836.7	
2020	23 billion	28 billion	

Additionally, according to some scenarios, if the restrictiveness of actionable nontariff measures reduce 50%, it is assessed that annual exports of EU would boost by 2% and US's 6% in 2018.

If the TTIP concludes as planned, small and medium enterprises from EU can easily enter into the US' markets because obstacles will disappear.

As committed surveys in 2013, 88% of people who attend this survey, believe that US and EU will be able to come to an agreement. Only 12% of them do not believe to achieve an agreement (Barker Tyson, Workmann Garrett, 2013, pp. 6-7). And this survey presents us three possible scenarios about TTIP conclusions. Related to these scenarios, the first one which is called the ambitious but achievable scenario states that even if they cannot agree on all topics, they can compromise at a comprehensive point as putting away redundant and unimportant differences. Second one called the Doha scenario and it claims that TTIP cannot be concluded because parties surmount on trivial details. And the last one the transatlantic market place scenario is a reasonable one because it states that for the global and comprehensive agreement, TTIP should sign.

6. Conclusion

In this connection, it is assessed that trade balance or trade volume will be in favour of European Union because of the fact that estimation about trade quantities in the near future show us that EU's export volume will increase. Additionally, obstacles of the EU's producers and investors would disappear and thus EU side has got more benefits than US side. But on the other hand, some debates cannot be solved such as GMO. In current situations, some topics as GMO are so controversial because parties do not want to swerve their positions and thus they cannot achieve a common solution.

Far East is a significant region for global trade and also this region has an important affect related to TTIP for EU and US. One of the Far East country, China, is more influential one because of being powerful and competitive country. For the US side, TTIP constitutes a safety area for US for why US wants to guarantee against competition to China. TTIP augments US's power to compete and keep up. According to EU's side, the situation is the same as the US's view. Like the US, EU is aware of the China's position on the global trade and also EU wants to strengthen about competitive capacity with China and other Far East countries. If TTIP concludes as planned, EU and US can achieve their aims which includes outpacing China and sharing and administering world trade.

On the other side, coalition of two main powers or actors as US and EU triggers changing parity between US dollar-euro and other currencies. According to process of the TTIP, dollar and euro would strengthen against other currencies because of the fact that world trade mainly is kept control of EU and US if partnership ends up as planned.

To sum up, briefly some possible consequences of this partnership are:

- Boosting EU's economy,
- Strengthening US's economy,
- Creating a global available trade perspective,
- Generating test and certification system which valid worldwide,
- Increasing or removing tariffs and non-tariffs barriers,
- Removing investments obstacles,
- Opening US and EU's markets for each other's investments and trade.

As a result, TTIP is a partnership which is continuing and also not yet concluded. Its consequences are not exact but in this report we mention about just possibilities of agreement's conclusions. Although there are different views and comments related to TTIP's benefits and disadvantages, generally people think that it will be beneficial if it concludes as planned.

References:

- Akhtar Shayerah Illias and Jones Vivian C. (2014). "Proposed transatlantic trade and investment partnership (T-TIP): In brief", *Congressional Research Services*, pp. 1-5.
- Barker Tyson, Workmann Garrett, Atlantic Council and Bertelsmann Foundation (2013). "The transatlantic trade and investment partnership: Ambitious but achievable", *Bertelsmann Foundation*, p. 5.
- Schott Jeffrey J. and Cimino Cathleen (2013). "Crafting a transatlantic trade and investment partnership: What can be done", Peterson Institute for International Economies.
- Lester Simon and Barbee Inu (2013). *The Challenge of Cooperation Regulatory Trade Barriers in the Transatlantic Trade and Investment Partnership*, Oxford University Press.
- Akhtar Shayerah Illias and Jones Vivian C. (2014). "Transatlantic trade and investment partnership (TTIP) negotiations", Congressional Research Services.
- Business Europe (2014). *Transatlantic Trade and Investment Partnership*, Chamber of Commerce, p. 4.
- European Commission (2015). "TTIP and Regulation: An Overview".
- European Commission (2013-2015). "Negotiations Reports".
- Vastine J. Robert, Jensen J. Bradford and Makiyama Hosuk Lee (2015). "The Transatlantic Trade and Investment Partnership: An accident report", European Center For International Political Economy.
- Available online at: <http://dataweb.usitc.gov>.