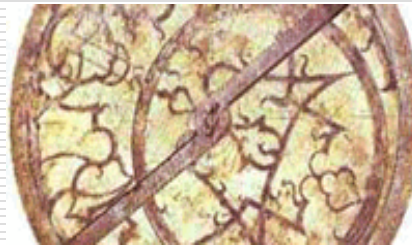


The Transatlantic Trade and Investment Partnership An European Perspective

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Seoul, 13 May 2013

Overview

- **Initial remarks: working in a non-Doha Round world.**
- **The TTIP negotiations**
 - **An overview: the ‘pro-growth and reforms’ conditions.**
 - **Goods: norms.**
 - **Services & investment: regulations.**
 - **Public procurement.**
- **The TTIP and the other ‘mega-PTAs’**
 - **The ‘insurance’ principle.**
 - **The potential discriminatory impact of the TPP on the EU firms**
- **Concluding remarks**
- **More about what to do: ECIPE Transatlantic Task Force**

Initial remarks (1/2)

- Assumption: the Doha Round is inert for a long time for reasons which are **not** related to trade issues.
- Both the US and EU are debt-ridden and need to boost their growth: need for making their markets more competitive (erosion of competition, see the lost decade in Japan) via domestic reforms.
- In such a context, a preferential trade agreement (PTA) for the EU/US (or any country) is 'pro-domestic reforms-and-growth' if it meets three conditions:
 - **Relative size effect**: only a PTA with a large economy can have an impact on terms of trade (via trade) triggering welfare increase and growth.
 - **Regulatory quality effect**: only a PTA with a well or better regulated economy can have a beneficial impact on terms of trade via better domestic regulations.
 - **Hub effect**: a PTA with a country having a wide network of well-designed PTAs offers new market access without the need of new negotiations.

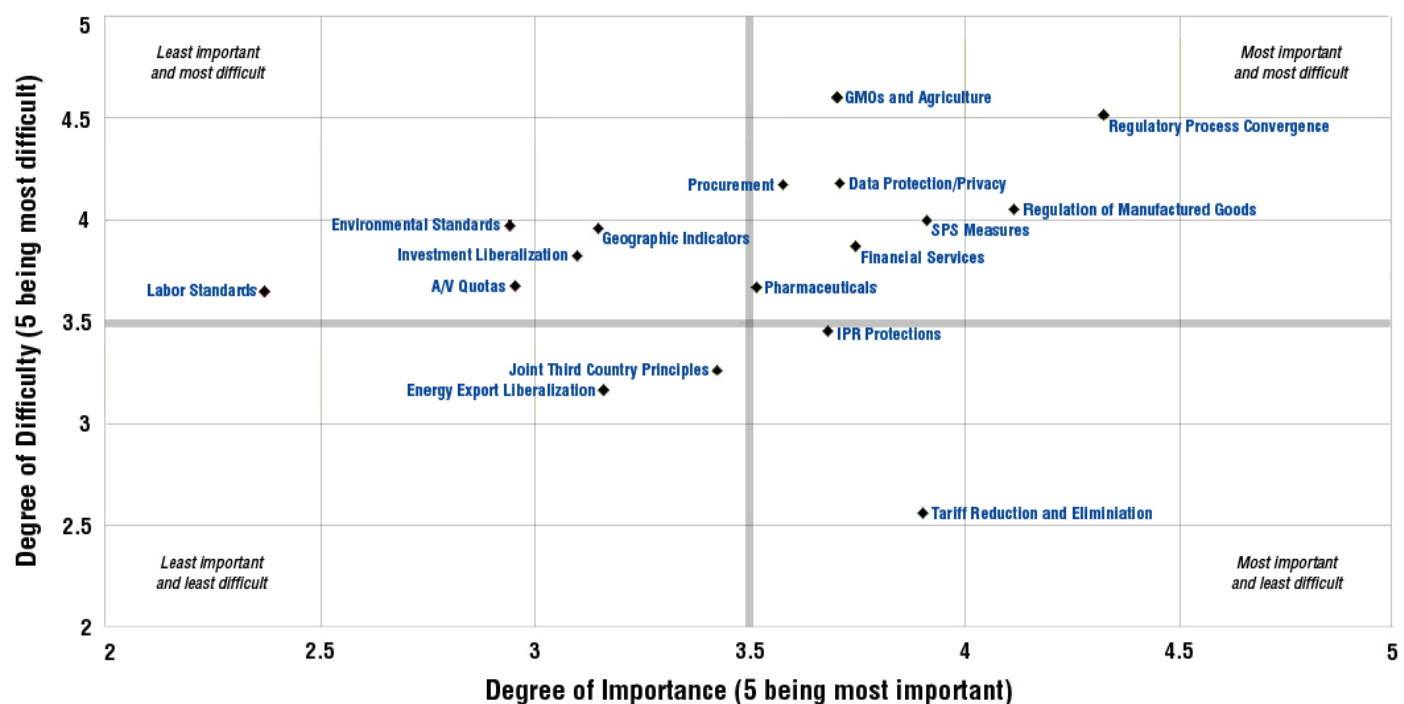
Initial remarks (2/2)

- On these three aspects, TTIP looks an attractive deal for the EU and for the US with some nuances:
 - In the long run, the size effect will shift in favor of the US: that may be due to the current EU protection and inadequate regulations.
 - A strong intra-EU effect (question: what about intra-US effect?)
 - No hub quality so far: see the 'mega-PTAs' below.
- These advantages seem large enough to compensate:
 - the decline of trans-Atlantic relations over the last decade,
 - the decline of the EU and US in the world economy (~15% world GDP by 2030)

	EU market expansion (% EU GDP)		Regulatory quality		"Hub" quality
	2010	2030	[a]	[b]	
	1	2	3	4	5
EU	100,0	100,0	5 to 100	2 to 83	Korea, Mexico (Canada)
United States	94.7	110.9	4	4	Canada, Korea, Mexico

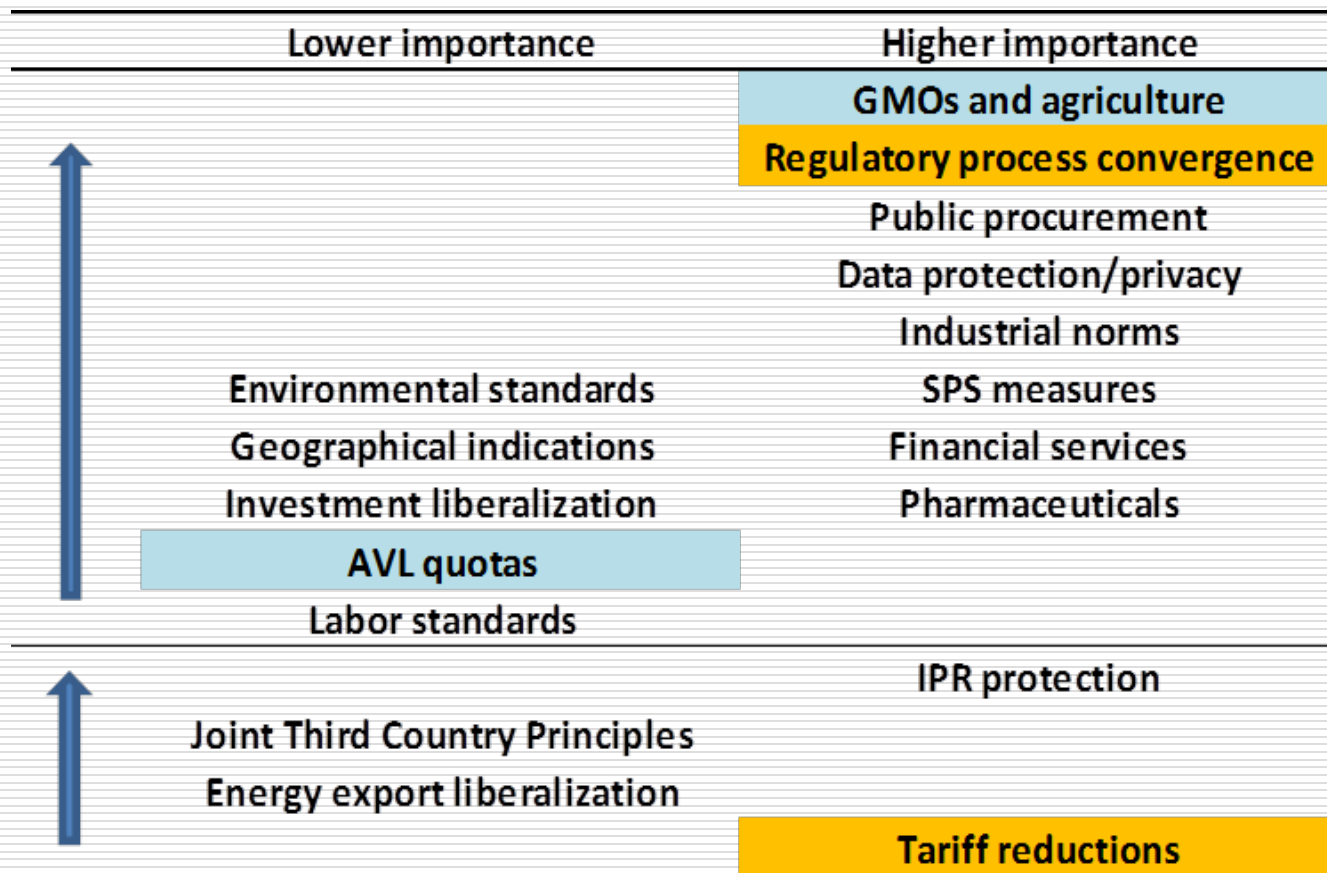
The TTIP negotiations: an overview (1/2)

- NW: least important, most difficult (5); NE: most important and difficult (8)
- SW: least important and difficult (2); SE: most important and least difficult (2).



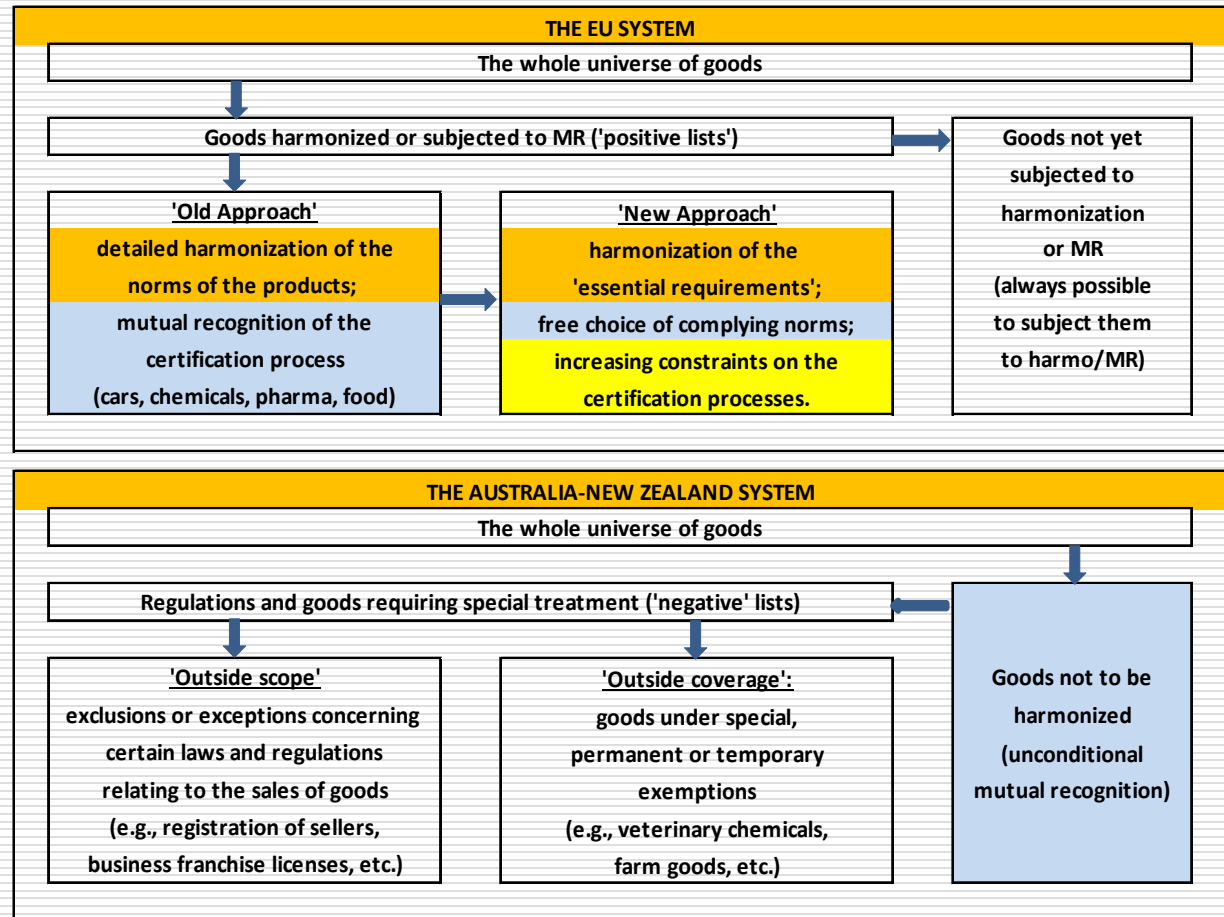
- Source: Atlantic Council and Bertelsmann Foundation, 2013..

The TTIP negotiations: an overview (2/2)



Goods: technical regulations (TBT and SPS)

- ❑ Norms, standardization, conformity assessment, mutual recognition.
- ❑ No result without:
- ❑ all goods are under unconditional MR after mutual evaluation.
- ❑ negative lists of well defined exceptions, some of them to be reviewed (changes the dynamics: exceptions have to be justified).
- ❑ Very flexible: list of exceptions can vary by partner.
- ❑ Increases trust among partners.



Services (1/5)

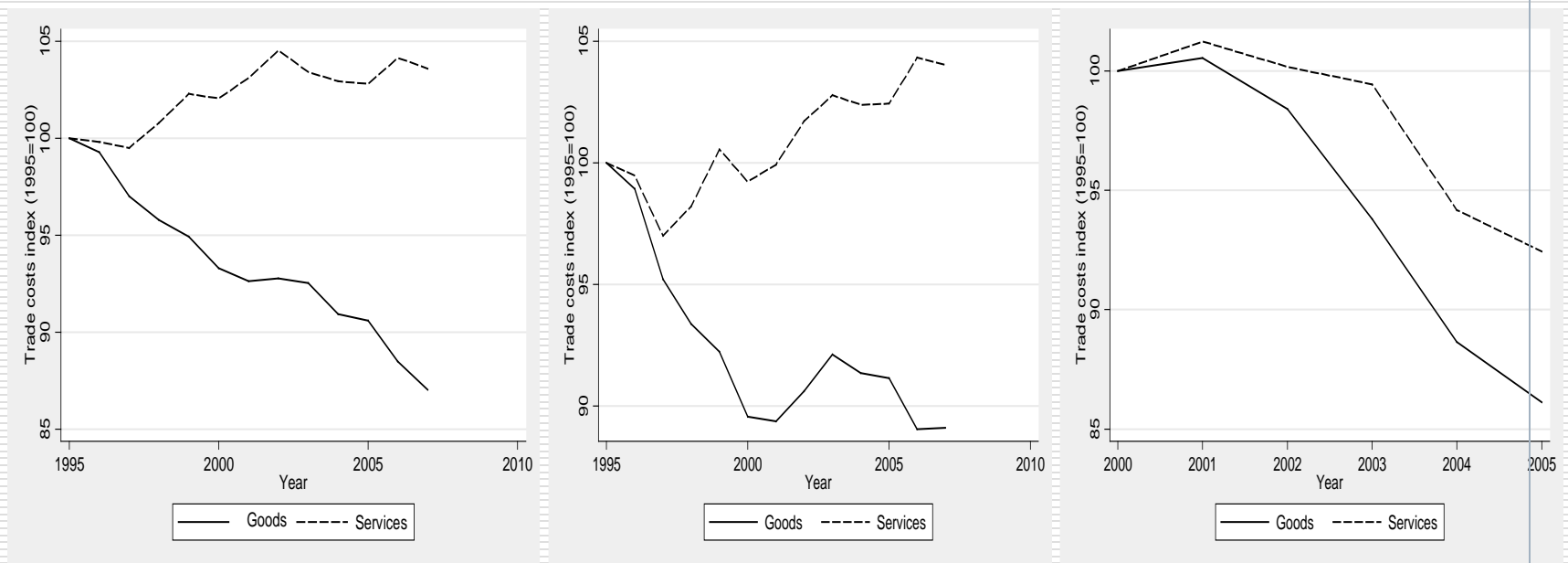
- Gains from liberalization are function of the size and level of protection of the services sectors to be liberalized: then a lot of opportunities.
- Source #1 of gains: cuts in applied regulatory constraints.
 - Size: services targeted for liberalization are larger than the whole manufacturing sector.
 - Level of protection: both high, even if US seems better than EU (good for US Congress).

	Level of applied regulatory barriers (PMR indicators)										
	Electricity	Construction	Distribution	Tourism	Transport	Post & telecoms	Financial services	Real estate activities	Renting of machinery	Professional & Business Services	All services
	1	2	3	4	5	6	7	8	9	10	11
United States	30,6	4,7	22,4	4,2	19,5	19,2	25,3	2,6	17,0	14,9	16,0
EU-14 [a]	23,5	7,0	29,3	6,3	24,1	19,5	22,1	3,0	24,6	23,9	18,3
EU-18 [b]	23,5	7,2	27,6	7,0	24,0	20,9	25,7	3,4	25,7	25,0	19,0

■ Source: Messerlin and van der Marel.

Services (2/5)

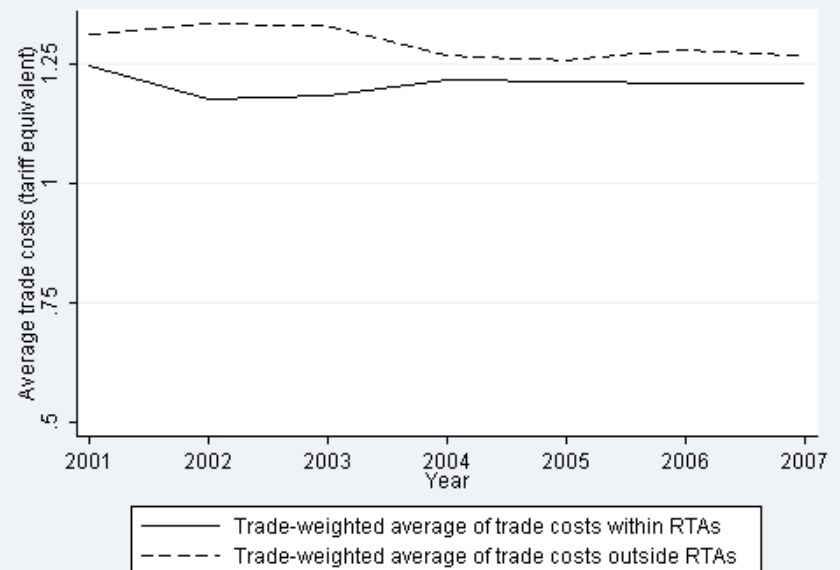
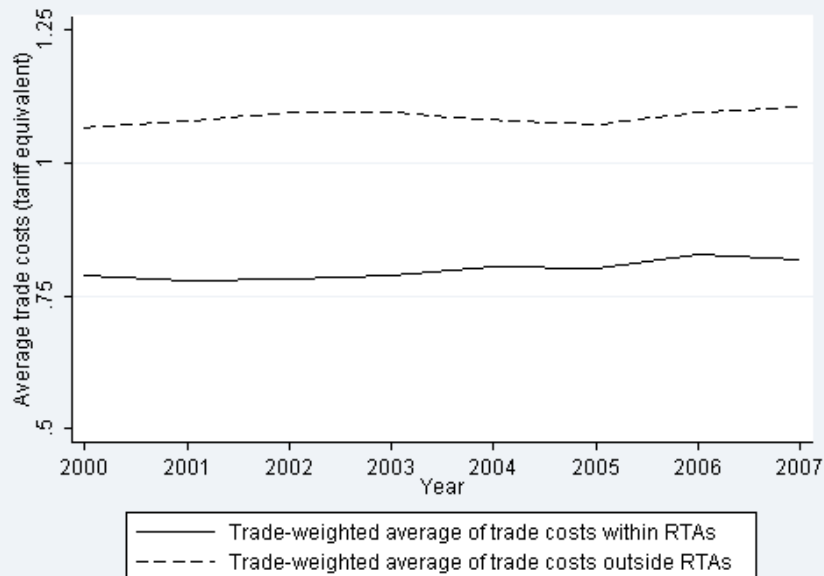
- Trade costs indices, 1995/2000-2007
- Disappointing performances for the EU (left panel) compared to the US (middle panel) and to China (right panel, since 2000).



Source: Miroudot and Shepherd

Services (3/5)

- Trade costs within and outside PTAs: goods (left) vs. services (right).
- Question: are PTAs efficient in services liberalization (intra-EU case)?



Services (4/5)

- ❑ Source #2 of gains: gains from cutting bound tariffs at the applied level. Possibilities of trans-border coalitions.
- ❑ Question: Is it the same for the US States?

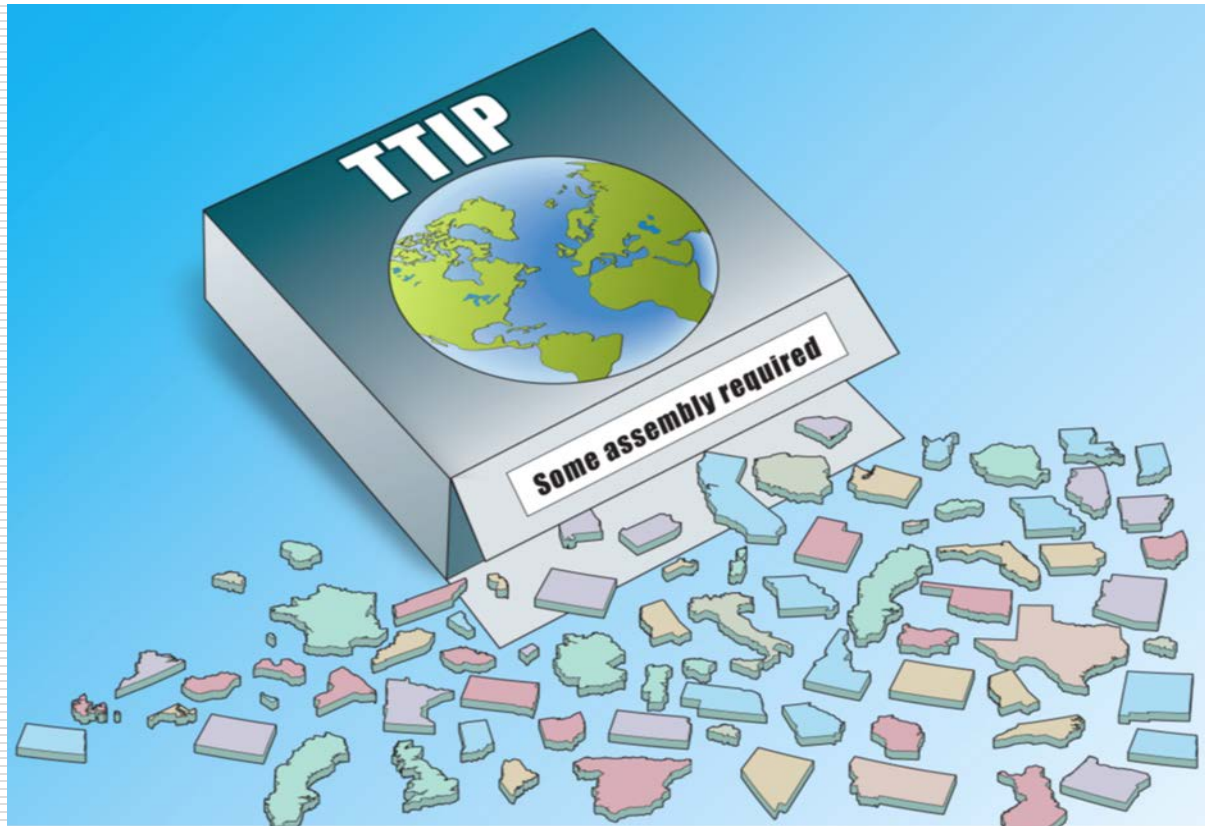
	PMR 2003		PMR 2007		Value of binding in 2007 based on	
	Highest	Lowest	Highest	Lowest	2003	2007
	EUMS	EUMS	EUMS	EUMS		
Electricity	60.0	0.0	41.7	0.0	60.0	41.7
Construction	12.8	4.0	12.2	3.6	9.2	8.6
Distribution	41.5	13.0	40.9	12.7	28.8	28.2
Tourism	16.5	3.8	13.2	3.4	13.1	9.8
Transport	55.8	11.2	43.8	9.1	46.7	34.7
Post & telecoms	32.6	15.8	27.8	12.0	20.6	15.8
Financial services	46.8	10.9	45.9	10.5	36.3	35.4
Real estate activities	9.5	1.6	7.6	1.5	8.0	6.1
Renting of machinery	42.4	10.9	42.0	10.5	31.9	31.5
Prof. & Business Services	41.3	10.4	40.8	10.0	31.3	30.9

Services (5/5)

- Source #3 of gains: gains from cuts in bound commitments.
- Market Regulation (PMR) indicators (OECD 2008) shows how big can be this source:
- huge differences between highest and lowest PMR indicators,
- the ECMS with the highest (second highest) PMR often a large ECMS.
- the ECMS with the lowest PMR always a small ECMS (one exception for Britain—advantage to the first).
- “water in protection” within the EC.

	Highest PMR		Second highest PMR		Lowest PMR	
	PMR	EUMS	PMR	EUMS	PMR	EUMS
Electricity [c]	41,7	Sweden	41,7	Ireland	0,0	Britain
Construction	12,2	Belgium	10,0	Italy	3,6	Sweden
Distribution [d]	40,9	France	39,9	Belgium	12,7	Sweden
Tourism	13,2	Slovakia	12,3	Poland	3,4	Sweden
Transport	43,8	Greece	32,3	Portugal	9,1	Denmark
Post & telecoms	27,8	Slovakia	27,7	Poland	12,0	Netherlands
Financial services	45,9	Slovakia	41,7	Poland	10,5	Ireland
Real estate	7,6	Poland	5,1	Czech R.	1,5	Greece
Renting machinery	42,0	Austria	39,2	Germany	10,5	Sweden
Business services [d]	40,8	Austria	38,5	Germany	10,0	Sweden

Services: footnote 1...



□ Source: Atlantic Council and Bertelsmann Foundation, 2013.

Services: footnote 2...

- Back to Geneva for a minute: in services, EIGHT countries represent more than 80% world production), all of them as (or more) protected as the EU. Illustration of the conflict China-US.

	Total value added (GDP)	Total goods	Total services [a]	Total services [b]	26 Electricity	27 Gas	28 Steam and hot water supply	29 Collection and distribution of water	30 Construction	31 Wholesale and retail trade; repairs	32 Hotels & restaurants	33 Land transport; transport via pipelines	34 Water transport	35 Air transport	36 Supporting and auxiliary transport activities	37 Post and telecommunications	38 Finance & insurance	39 Real estate activities	40 Renting of machinery & equipment	41 Computer & related activities	42 Research & development	43 Other Business Activities	44 Public admin., defence, compulsory social security	45 Education	46 Health & social work	47 Other community, social and personal services	48 Private households, extra-territorial organisations	
A. The Transatlantic partners																												
USA	26,8	17,9	30,1	28,5	25,0				21,3	27,5	28,2	19,6	11,1	40,9	9,0	30,6	33,6	32,4	33,7	34,9	67,4	19,5	40,8	7,4	34,1	43,4	-	
EU19	24,6	21,3	25,8	25,4	20,5	7,0	39,4	33,9	24,7	23,3	30,1	21,1	29,6	25,6	48,4	24,0	19,6	27,2	27,6	31,4	7,6	40,4	20,1	40,9	31,4	22,6	44,0	
B. The "Top 8" [c]																												
Japan	7,8	5,3	8,8	9,1	6,5	19,3	18,3	16,2	9,8	9,3	9,2	8,4	14,2	4,0	11,0	8,5	7,1	10,1	15,3	10,1	8,1	8,1	5,7	11,8	8,9	8,9	5,0	
China	7,6	16,6	4,3	5,1	14,2			13,0	8,8	4,2	5,5	9,7				6,7	5,3	1,6				7,7	2,6	5,5	1,2			
India	3,6	6,2	2,7	2,8	4,1	5,1	0,0	4,6	3,7	3,7	1,3	5,9	6,0	1,2	1,4	2,3	3,6	1,7		2,2			2,8	5,1	0,9	1,8		
Brazil	2,8	3,3	2,6	2,4	3,4	5,1	0,0	5,5	4,3	1,6	1,9			2,2	2,9	3,0	2,4	3,7	0,3	1,1		1,6	5,6	2,3		1,1	9,3	
Russia	2,7	3,5	2,4	2,9	3,6	32,5	0,0		3,2	6,6		8,2					2,7				2,0				2,7	1,8		
Canada	2,2	2,3	2,2	2,3	2,5	7,3	0,0		2,0	2,4	2,0	2,0		2,7	2,4	2,3	2,3	2,7	1,9	2,3		2,9	2,0	3,5	1,1	1,7	1,8	
Korea	2,0	2,4	1,8	2,0	1,9	4,2	23,1	2,6	2,6		2,1	1,6	2,6	1,7	2,7	2,7	2,4	2,2	2,4		1,8	2,2	1,3	3,0	1,6		2,1	
Turkey	1,5		1,3	1,3	1,3	1,5		3,2	1,9	1,8	1,7	4,2	5,0	2,4	1,5						0,0		1,6				15,1	
C. The "Occasional 9" [d]																												
Indonesia	1,3	2,7					5,8				1,5		4,8		1,4				0,5		0,4							0,6
Taiwan	1,2						1,1			1,5			3,4	2,0		1,4	1,7	1,4	0,4	0,9	0,5	0,6		1,9	0,7	1,1	3,1	
Australia	1,0					2,7	0,0	3,5						2,7	3,1	1,4		1,6		2,1		1,2		1,8	1,2	1,3		
Argentina	0,7					2,2		1,2														0,8				1,0	4,6	
South Africa	0,7							1,3				1,5											1,4					
Switzerland	0,6																		5,1	0,9	0,1						1,6	
Norway	0,4												4,8															
Israel	0,2																											
New Zealand	0,2												3,0							0,2	0,5							
D. Summary																												
Transatlantic	51,4	39,2	55,8	53,9	45,5	7,0	39,4	33,9	46,0	50,7	58,3	40,7	40,7	66,5	57,4	54,6	53,2	59,6	61,3	66,3	75,0	59,9	61,0	48,3	65,5	65,9	44,0	
Top 8	30,2	39,5	26,1	27,9	37,4	75,0	41,5	45,1	36,3	29,5	23,7	39,9	27,9	14,2	21,9	25,5	25,8	22,0	20,0	15,7	12,0	22,5	21,7	31,2	16,4	15,4	33,2	
Occasional 9	6,4	2,7	0,0	0,0	0,0	4,9	7,0	6,0	0,0	1,5	1,5	1,5	15,9	4,7	4,5	2,8	1,7	2,9	6,3	4,4	1,2	2,6	1,4	3,6	1,9	3,4	10,0	

Investment: intra- and extra-barriers (1/2)

- Huge differences in the OECD FDI restrictiveness indexes among EUMS and between the EU/US/Japan. (Old figures unfortunately because latest OECD figures are inappropriate).

		1. Legal services	2. Accounting	3. Architecture	4. Engineering	5. Fixed telecoms	6. Mobile telecoms	7. Construction	8. Distribution	9. Insurance	10. Banking	11. Hotels/Resto	12. Air transport	13. Maritime transport	14. Road transport	15. Electricity
EF	Belgium	22	22	22	22	72	72	22	22	44	44	22	122	248	72	22
EF	France	233	33	33	33	72	72	22	22	138	94	22	198	198	72	322
EF	Germany	22	22	22	22	122	122	22	22	116	72	22	248	198	22	122
EF	Italy	22	22	22	22	72	72	22	22	88	144	22	494	66	22	122
EF	Netherlands	11	11	11	11	11	11	11	11	55	33	11	411	355	11	611
EW1	Britain	17	17	17	17	17	17	17	17	83	67	17	267	361	17	17
EW1	Denmark	1000	562	22	22	72	72	22	22	44	22	22	422	22	122	122
EW1	Ireland	22	22	22	22	122	122	22	22	88	44	22	466	66	22	1000
EW2	Greece	462	506	462	462	122	122	22	22	88	88	22	522	254	22	1000
EW2	Portugal	22	66	22	22	122	122	22	22	116	172	22	1000	122	22	122
EW2	Spain	512	66	22	22	322	322	22	22	226	182	22	304	316	22	22
EW3	Austria	348	348	348	348	172	172	172	172	272	172	172	322	472	222	172
EW3	Finland	550	550	110	110	110	110	110	110	110	160	110	310	210	154	210
EW3	Sweden	556	292	66	66	166	166	66	66	116	116	66	316	266	166	166
ECC	Czech Rep.	125	375	50	50	50	50	100	50	150	150	50	450	100	100	450
ECC	Estonia	1000	22	22	22	22	22	22	22	122	22	22	322	366	22	622
ECC	Hungary	100	100	100	100	200	100	100	100	150	100	100	500	400	150	200
ECC	Latvia	0	0	0	0	0	0	0	0	0	0	0	132	0	100	1000
ECC	Lithuania	50	50	50	50	50	50	50	50	50	100	50	350	94	50	650
ECC	Poland	225	175	75	75	375	375	75	75	75	325	75	375	75	125	175
ECC	Romania	250	50	50	50	150	150	50	50	50	175	50	750	150	50	450
ECC	Slovakia	75	375	75	75	72	72	72	72	172	172	72	372	122	72	322
ECC	Slovenia	125	125	100	100	200	100	100	100	100	100	100	740	244	100	700
EC27	All ECMS	250	166	75	75	117	108	50	48	107	111	48	408	205	76	374
RC	Japan	100	100	25	25	286	25	25	25	25	75	25	675	275	25	25
RC	United States	75	25	25	25	25	25	25	25	175	275	25	650	275	25	125

Investment: an EU institutional problem (2/2)

- Investment as a common competence: it will need a long time—or it will be very costly for the EU (it took roughly 30 years for a more or less EU common policy in terms of quotas—and with the help of antidumping measures...).
- Source: Regulations allowing foreign companies to establish or acquire local companies (Investing across borders, World Bank).

EU cohorts	Mining, oil and gas	Agriculture and forestry	Light manufacturing	Telecom	Electricity	Banking	Insurance	Transport	Media	Construction, tourism, retail	Health care, waste management
EU-1958	100	100	80	100	100	100	100	60	20	100	100
EU-1973	100	100	83	100	100	100	100	80	100	100	100
EU-1980s	100	100	100	100	50	100	100	45	50	100	100
EU-1995	100	100	100	100	71	100	100	80	75	100	100
EU-2004a	100	100	100	100	100	100	100	73	92	100	100
EU-2004b	--	--	--	--	--	--	--	--	--	--	--
EU-2007	100	100	100	100	100	100	100	80	100	100	100

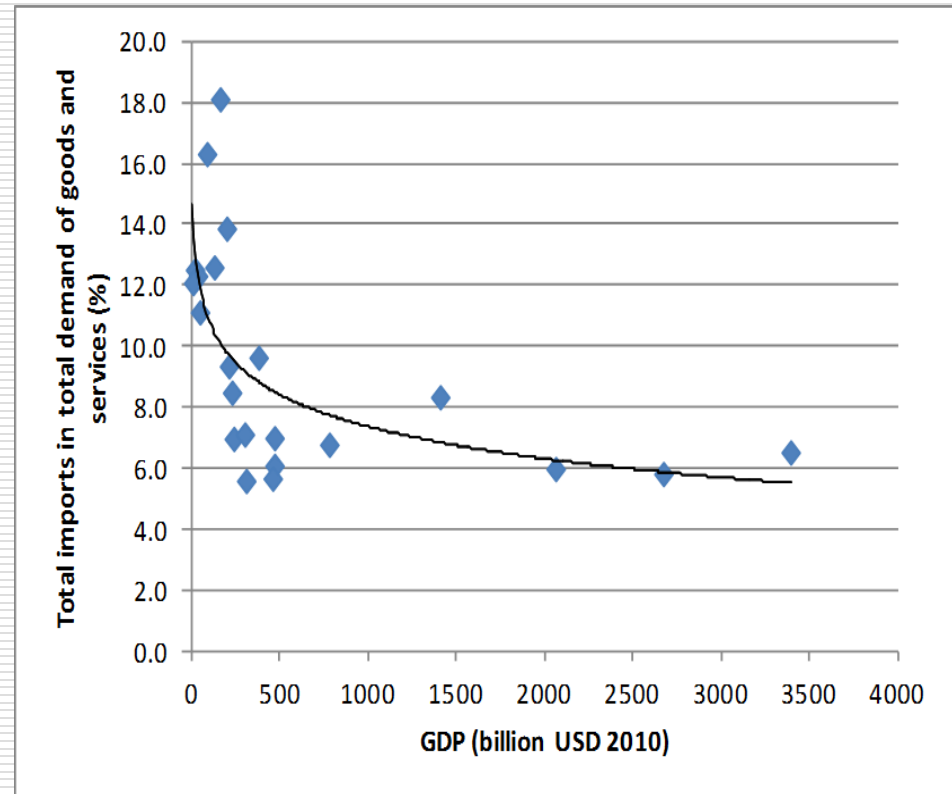
Public procurement (1/3)

- ❑ Statements of EU officials: based on columns 2 and 3 (in red).
- ❑ **BUT:** EU 'specific derogations' defined on a partner basis. For instance, no access of Japanese firms to EU Member States public procurement in electricity and urban rail (1995 GPA): 95=>70.
- ❑ **BUT:** De facto openness of foreign public procurement markets. For instance, Japanese markets are de facto open: 28 => 72.

	Size of PP markets covered by GPA [a]	de jure [b] commitments		de facto [b] commitments		Status in terms of PTA between the EU's trading partners and the EU 6
		GPA	GPA	EU's	EU	
		2011	1995	partners	[c]	
	1	2	3	4	5	
EU	370	95	85	--	--	
USA [d]	559	na	32	47	46	ongoing joint study
Japan	96	na	28	72	70	Comm's request for opening negotiations
Canada	59	na	16	40	10	ongoing negotiations
Korea	25	na	65	80	82	PTA implemented
Israel	2	na	75	75	na	PTA implemented
Mexico	20	na	75	92	na	PTA implemented
China	83	na	0	24	0	no PTA under consideration
Russia	18	na	0	56	0	no PTA under consideration
India	19	na	0	70	0	ongoing negotiations
Brazil	42	na	0	38	0	ongoing negotiations with Mercosur
Turkey	24	na	0	25	0	PTA does not cover public procurement
Australia	20	na	0	63	0	no PTA under consideration
Total non EU	967	na	25	na	18	

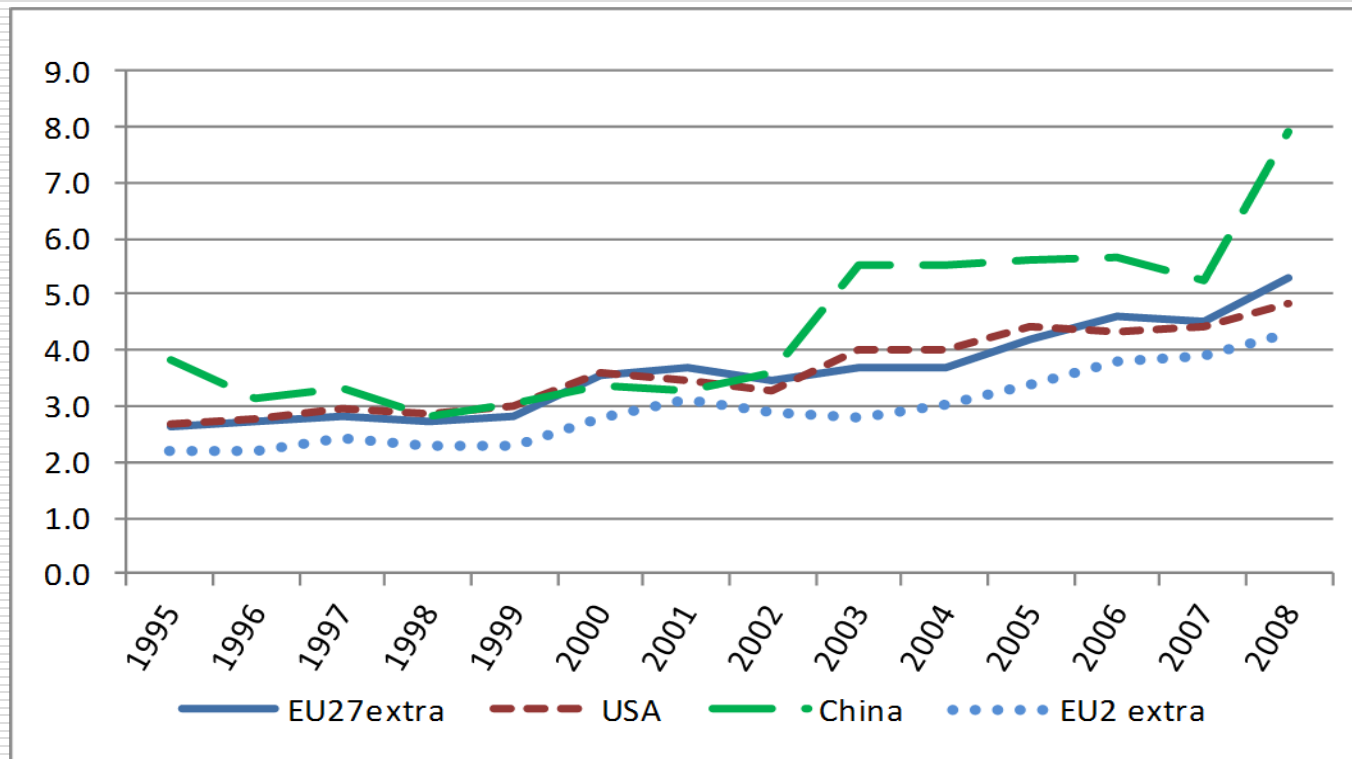
Public procurement (2/3)

- Commission's study relies on bid notifications which have many problems:
 - one year whereas bids often are multi-years operations,
 - ex ante values versus ex post values,
 - arbitrary "nationality" of the bid participants,
 - only "big" contracts (>~150k\$).
- There is a much better source: National Accounts which take into account every cent spent by the administrations and public bodies of all types in given country.
- Interesting to have information on US States (like in service).



Public procurement (3/3)

- EU-US 'openness' ratio similar up to 2002, then the US slows down its growth (before the Great Crisis) and the EU becomes more open.



A wider view: the TTIP is not alone...

- ❑ It would be wrong to look at the TTIP independently of what happens in the rest of the world.
- ❑ The key question is what happened in the Doha Round in May 2008?
 - a host of trade frustrations culminating in the trade dispute between the US and India?
 - or something more fundamental? A China-US collision course on global governance.
- ❑ The answer to this question determines the view on the ongoing initiatives on 'mega-PTA': TPP (US), EU-Japan (EU-Taiwan) and the China-Japan-Korea (CJK).
- ❑ If it is a China-US basic issue, then no chance to go to the WTO soon:
 - The US will do its best to make the TPP a WTO version 2.0.
 - China will believe that time is on her side.

The 'insurance' principle

- What are the key 'intersection points' when pivoting to Asia: Korea (done) Japan (75% of the 'Asian' TPP) and Taiwan (because China in the long term).
- Thus, in addition to the growth-based motive for PTA, there is also an 'insurance' (anti-discrimination and trade distortion) motive: ensure that, whatever the other partner (EU or US) does in Asia, that will not hurt the domestic firms.

	EU market expansion (% EU GDP)		Regulatory quality		"Hub" quality	EU Members States by cohort		EU Partners	
	2010	2030	[a]	[b]		EUMS	Rank	Partner	Rank
	1	2	3	4	5				
A. PTA implemented in 2013									
EU	100,0	100,0	5 to 100	2 to 83	Korea				
Korea	6,3	6,7	8	22	EU, US, ASEAN, China	EC-1973	7	Singapore	1
								Korea	8
								Canada	13
								Malaysia	18
B. The PTAs listed by the 2006 "Global Europe" Communication									
Canada	9,7	10,3	13	10	USA (Mexico)	EC-1995	19	Japan	20
Indonesia	4,4	20,3	129	44	ASEAN	EC-2004b	24	Taiwan	25
India	10,7	49,7	132	51					
Brazil	12,9	23,5	126	58	Argentina	EC-1958	41		
Russia	9,1	20,2	120	63		EC-2004a	50		
						EC-1980s	58		
						EC-2007	66		
C. The best PTA partners for boosting EU growth									
Japan	33,9	36,1	20	6	ASEAN			China	91
Taiwan	2,7	7,6	25	13	China, NZ (Singapore)			Argentina	113
Chiwan	5,1	14,6	(na)	(na)	--			Russia	120
China	36,2	168,6	91	27	Taiwan, ASEAN			Brazil	126
								India	132

Insurance argument: TPP and CKJ

- **The Trans-Pacific Partnership: potentially the most discriminating agreement against EU firms because it is deeper than CKJ.**

- **EU agriculture and services very hardly hit.**

- **CJK (China-Japan-Korea) will follow and make Taiwan key (ECFA). (Korea-China is Korea's insurance policy).**

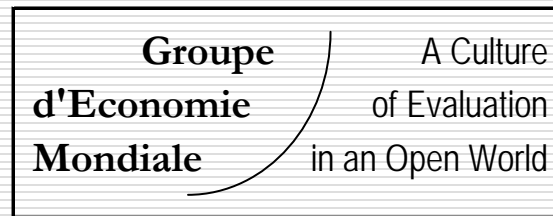
- **Insurance: before the accident, not after.**

	Magnitude of the risks [a]	Criteria used to classify a TPP country as "highly protected" [b]
Border barriers		
Tariffs		
agriculture		
applied	73.4	TPP11 countries with average tariff higher than 10 percent
bound	75.7	TPP11 countries with average tariff higher than 10 percent
manufacturing		
applied	0.0	TPP11 countries with average tariff higher than 10 percent
bound	13.9	TPP11 countries with average tariff higher than 10 percent
"high"	29.5	TPP11 countries with high bound tariffs lines > 25% all tariff lines
Trans-border trade	43.3	TPP11 countries not included in the 18 top countries [c]
	30.5	TPP11 countries not included in the 36 top countries [d]
Behind the borders barriers		
Norms in agriculture and industry		no systematic information available
Services	89.9	TPP11 countries with an index > 30 [e]
	28.5	TPP11 countries with an index > 40 [e]
International investment		
transport	100.0	TPP11 countries with an index > 20 [f]
telecoms	96.2	TPP11 countries with an index > 20 [f]
media	40.9	TPP11 countries with an index > 20 [f]
financial services	12.3	TPP11 countries with an index > 20 [f]
real estate	11.3	TPP11 countries with an index > 20 [f]
all others	0.0	TPP11 countries with an index > 20 [f]

Concluding remarks

- TTIP is attractive for the US (opening a large economy, only partly more protected and less well regulated) and for the EU (benefiting from a large more dynamic economy).
- ... but, for the US side:
 - TPP is even more important (China)
 - Hence a conflict of priorities: leaning to harmonization and convergence in the Pacific side, forced to lean to unconditional mutual recognition in the Atlantic side.
- ... but, for the EU side:
 - An handicapping institutional design for times of domestic reforms.
 - Still the wrong confidence that the EU is the largest economy, hence that the 'reciprocity' stick will work:
 - non credible threat for large partners: China public procurement markets compared to French plus German public procurement markets: 1/8 in 1995, 1/3 in 2000, 1.2 in 2008... Credible threat for small partners—but which gain?

Thank You for Your Attention



Openness ratios of public procurement markets: Japan, France and Germany

