TTIP

Summary of EC's Impact Study

EE 459

Case Analysis 2

European Commission

September 2013

Transatlantic Trade and Investment Partnership

The Economic Analysis Explained

TTIP - The Economic Analysis Explained

- The overall impact of TTIP The CEPR study predicts that an ambitious TTIP deal would increase the size of the EU economy around €120 billion (or 0.5% of GDP) and the US by €95 billion (or 0.4% of GDP).
- This would be a permanent increase in the amount of wealth that the European and American economies can produce every year.

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- Specific Impacts The study provides some assessments of the sectors that are likely to benefit most from TTIP, which include:
  - metal products (exports up 12%)
  - processed foods (+9%)
  - chemicals (+9%)
  - other manufactured goods (+6%)
  - other transport equipment (+6%)
  - motor vehicles (40%).
- Overall output in agriculture, forestry and fisheries taken together is expected to increase by 0.06%, though there may be limited negative impact in certain subsectors. Further specific studies would be welcomed on this question.
- The standard models that economists use to analyse these type of agreements cannot quantify the number of jobs created.
- Therefore the study does not assess the overall impact a potential agreement on jobs.
- However, it does say that wages for both skilled and less skilled workers are likely to rise as a result of the agreement, by roughly 0.5% for both skilled and less skilled workers alike.

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- The study predicts that as a result of the TTIP jobs will indeed move out of some sectors and into others. However this movement (predicted to be about 7 jobs in every 1000 over 10 years) is much smaller than the natural movement that happens between sectors as a result of normal changes in the economy (currently about 37 jobs per 1000 every year).
- Based on the Commission's own rough calculations the TTIP may result in an increase by several million of the number of jobs dependent on exports in the EU. Consumers will also benefit from cheaper products.
- The study estimates that in total the average European household of four will see its disposable income increase by something in the region of €500 per year, as a result of the combined effect of wage increases and price reductions.
- According to CEPR's researchers, TTIP will be beneficial not only for the US and the EU but also for their trading partners around the world, to the tune of €99 billion.

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- This is because economic growth in the US and EU means more purchases by consumers and business of other countries' products.
- It is also because any common regulatory approaches between the EU and the US will reduce costs for exporters from and to those markets – so-called positive spillover effects.
- A recent study carried out by the IFO Institute and published by Bertelsmann that points to negative consequences for third countries uses a different methodology to the CEPR study and other studies produced to date.
- Its results are very different also, partially because its approach ignores spillover effects.

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How accurate is the CEPR study?

- The CEPR study is uses a **computable general equilibrium (CGE)** model to simulate the impact of TTIP.
- These are standard tools for trade economists that create a **computerised simulation of the world economy** and model what happens when changes are introduced.
- The CGE model used by CEPR is state-of-the-art. It needs to make assumptions about the economy in order to work but these are as reasonable as possible to make it as close to the real world as possible. For instance, it is able to account for the effects of economies of scale, different skill-levels of employees, imperfect competition between companies and many other features of the real world economy.
- The study also makes reasonable assumptions about the content of a likely agreement. The ambitious scenario – which gives the overall figures quoted above – would involve **tariff barriers being reduced to zero**, **non-tariff barriers in goods and services being reduced by 25%** and **public procurement barriers being reduced by 50%**.
- This is realistic: Both sides have already announced the goal to eliminate the vast majority of tariffs and, while the work on regulatory cooperation is only beginning, there is already a consensus between the EU and the US that the agreement should go further than any other existing agreements in this area.

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- It is also likely that the study underestimates, rather than overestimates the gains from a potential agreement. This is because the model is not able to take all effects on productivity into account.
- For example, the same goes for the positive effects on foreign investment by multinational firms, which is very significant for international trade in services in particular. Nonetheless it is important to understand that CGE models have limitations.
- The figures are best understood as a “ballpark” indication of the economic effects rather than precise predictions of exactly what will happen. With that caveat, it is important to note that the CEPR study is at the mid-range of most other studies carried out on TTIP.
- The outlier of studies produced to date remains the Bertelsmann/IFO study, which predicts much greater impacts (positive for the EU and US and negative for their trading partners.) The Commission believes in a conservative approach to analysis of policy changes as complex as TTIP.
- It is essential that other researchers experiment with new methods for the sake of advancing the state of the art.
- However, the Commission is reluctant to put forward over-optimistic results that may not withstand scrutiny. Alternatives to the CGE approach may have their merits but none has yet proven to be sufficiently reliable for an ex-ante analysis of economy-wide effects of trade policy changes.

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What about the impact on the rest of the world?

- The TTIP should not only boost trade and income in the EU and US but also in the rest of the world.
- The CEPR study finds that the agreement would increase GDP in our trading partners by almost €100 billion. More specifically, the GDPs of high income OECD economies (minus the US and EU) are found to gain collectively as much as €36 billion (or +0.19%) in an ambitious TTIP scenario.
- The same goes – though to a lesser extent – for the low income countries, would see GDP gains of some €2.4 billion.
- These expected gains suggest that the benefits to the EU and the US will not be achieved at the expense of the rest of the world.

TTIP - The Economic Analysis Explained

Why do other countries gain from an agreement between the EU and the US?

More income in EU & US means more imports from other countries

- An overall increase in GDP and in income for households in the EU and the US means that people will have more money to spend in general.
- That implies higher demand, not only for goods and services produced in the EU and the US but also from elsewhere in the world.
- Given that the EU and the US together make up 46% of the world economy and that our economies are some of the most open, this will have a noticeable impact on demand for exports from other countries around the world.

More growth for EU & US companies means more orders for their suppliers in other countries

- The world economy is increasingly interdependent given the ever greater complexity of global value chains. Increased demand for products made by American or European companies will also increase demand for components and services from their suppliers in other countries.

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Office of the US Trade Representative

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European Commission

http://ec.europa.eu/trade/policy/in-focus/ttip/

The Guardian

https://www.theguardian.com/business/ttip