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TTIP and Third Countries: Making It More Transatlantic

Marek Wąsiński

Third countries worry that, if the Transatlantic Trade and Investment Partnership (TTIP) is agreed, it can have a serious negative impact, in particular decreasing their trade with the European Union and the United States. It will affect not only developing countries, but Western nations too. Concerns of partners of the U.S. and EU could be tackled by giving them an opportunity to join the agreement.

The EU and the U.S. are concentrating on the internal negotiating problems of the TTIP. These are the contentious issues, concerns of society regarding safety standards, Investor-State dispute settlement (ISDS) and transparency of the talks. As a result there is little space in the public debate for discussion about the external implications of the TTIP. There is no doubt that they will be significant, as the EU and the U.S. together account for nearly half of global GDP and a third of world trade.

Most anxiety is felt about the trade-diversion effect. Lower tariffs and the elimination of some technical barriers will boost trade between these partners, but will reduce imports from third countries. Talks on harmonisation and mutual recognition of standards between two major economies can leave other players with little choice but to accept these standards as global. Neither should it be forgotten that there are also geopolitical fears of closer cooperation between the U.S. and the EU, among others in the field of energy.

However, some aspects of the TTIP could prove beneficial for third countries. In the case of mutual recognition, their products may also have easier access to the transatlantic markets. Furthermore, if third countries adjust their regulations and standards to the TTIP, their companies will have similar regulatory frameworks at home as on the EU or the U.S. markets. Trade diversion effects could also prove to be not only negative. As demand in the EU and the U.S. grows, it will increase imports from other countries.

The TTIP will have different consequences for third countries. These effects will depend not only on the final provisions of the deal, but also on export structure, standards and free trade agreements (FTAs) signed by any given country. According to some studies (CEPR) an ambitious agreement (10–20% of non-tariff barriers eliminated in the TTIP) could increase the GDP of third countries from €47 billion to €99 billion. On the other hand, a tariff-only scenario would bring losses to all the global players. In the spirit of such uncertainty, neighbours of the EU and the U.S. follow the ongoing negotiations carefully, and analyse the possible impact of the TTIP on their economies. This situation may be a source of tensions, even for allies of the U.S. and the EU, and, therefore, negotiators should pay attention to this before a deal is signed.

BRICS as the Adversaries of the Agreement. Most concerned are among the biggest developing countries, Brazil, Russia, India, China and South Africa (BRICS), which could suffer losses from 0.4% to 3.2% of GDP per capita (according to a Bertelsmann-IFO study). Brazil, however, specialises in the export of raw materials and could even benefit from the deal. These countries also fear the geopolitical consequences of the Western realignment. If the TTIP and TPP are agreed, it will leave little space for developing countries to defend their interests in the field of standards and regulations.

For China, the most important will be decisions made in the field of intellectual property rights, government subsidies, state-owned enterprises, antitrust and merger regulations, and sectoral standards, such as in the mobile sector.

Chinese officials and analysts point out that the treaty is a way of bypassing developing countries' demands presented during the WTO Doha Round, and to secure Western interests.

At the same time, China is developing alternative trade blocks. It is negotiating the Regional Comprehensive Economic Partnership (RCEP) with India, Japan, South Korea, Australia, New Zealand, and ASEAN members. China is developing its One Belt, One Road programme, which aims to increase economic cooperation between the countries of South-Eastern Asia. The Chinese initiative to create an Asian Infrastructure Investment Bank can also be seen as a response to Western mega-trade agreements.

Russia views on the agreement are particularly strong from the geopolitical perspective. Although Western officials always refuse to call the TTIP an "economic NATO", it is how it is observed from the east. While conflict continues in Ukraine, Russia tries to divide the U.S. and the EU, but the potential transatlantic trade treaty will have exactly the opposite effect, leading to political as well as economic tightening of their markets. What is more, the TTIP has the capacity to unblock imports of liquefied gas from the United States, vastly decreasing European dependence on Russia. That is why Russia seeks to enhance its cooperation with China, especially in the field of energy.

Indian prime minister Narendra Modi actively sought chances to reinvigorate and reopen India's ties with the West. Last November he hosted a summit with U.S. president Barack Obama, and this April he promoted strengthening economic relations with Germany, France and Canada. However, both India and Brazil would prefer multilateral trade negotiations than bilateral or mega-trade agreements that leave them outside the new global order. Their own FTAs with the EU are caught in negotiations hallmarked by a lack of political determination on the EU side to move forward.

Western Allies May Feel Marginalised. The agreement between the EU and the U.S. is called "Transatlantic," but fully transatlantic it is not. It includes only two players, the U.S. and the EU, leaving outside other potential North Atlantic partners, such as Canada, Mexico, Norway and Turkey, not to mention South Atlantic countries. These countries, as well as Japan, are among those that can experience losses exceeding 5% of GDP, based on the assumption of a Bertelsmann-IFO study, that trade creation effect associated with the TTIP will be as high as 80% compared to the 2007 level. It should be noted that it will take years for such a strong effect to be seen. Moreover, the study excluded the possibility of harmonisation of standards by third countries to those envisioned by the treaty between the U.S. and the EU, which would limit the potential negative effects. In 2014, Canada concluded its own free trade agreement with the EU (CETA). It secured the possibility to adjust this deal, so that it would be parallel to the TTIP.

Turkey, on the other hand, is in a Customs Union with the EU, but at the same time remains outside the decision making process. Therefore, U.S. products will obtain privileged access to the Turkish market, but not vice versa. In the current situation, Turkey has neither the right to participate in the negotiations, nor the power to oppose the treaty. That is why Turkish elites argue strongly for being included as a party in the negotiations, or for obtaining their goals in another way. Speaking in Brussels in January, the Turkish prime minister, Ahmet Davutoğlu, said the Customs Union should be updated. Turkish officials also threatened to leave the Customs Union if their interests are not taken into consideration. This was almost certainly an exaggerated statement, but it shows a growing lack of understanding between the EU, the U.S. and this important partner.

On the other side of the Atlantic, Mexico, party to the North American Free Trade Agreement (NAFTA), is in quite a similar position. While this country has its own FTA with the EU, which entered into force in 2000, this agreement will be obsolete by the time the TTIP is agreed, and will need to be updated. Mexico wants to launch such negotiations soon. Norway, Switzerland, Iceland and Liechtenstein (EFTA members) would also consider accession to the TTIP, or signing an FTA with the United States.

Japan, another important Western partner, entered TPP negotiations and launched its own comprehensive Economic Partnership Agreement with the EU when the perspective of launching TTIP negotiations emerged. The TTIP can create a competitive advantage for European and American companies compared to Japanese businesses. Implementation of FTAs with both the EU and the U.S. could decrease this negative effect, or even make the TTIP beneficial for Japan. Many other TPP countries are negotiating or have already signed FTAs with the EU. South Korea signed FTAs with the EU in 2010, and with the U.S. in 2011. All such efforts will enable global interconnections to be established between the biggest free trade area to be created by the TTIP and third countries, preventing possible negative effects.

The TTIP as a Political Tool. It has to be said that TTIP negotiations are the most transparent in the history of trade negotiations. Such transparency serves civil society and third countries well, for they can monitor and assess the potential impact of the TTIP. It does not change the fact that the partnership creates serious concerns among them regarding the economic and political impacts of the treaty. To diminish these concerns, negotiators could include the issue of opening the TTIP, at least in part, to interested third countries. This would decrease tensions and could prevent countries such as Turkey from forging different alliances. The possibility of "docking" third countries at the TTIP could also be an efficient tool to globalise the standards agreed between the U.S. and the EU.

From the Polish perspective, opening the TTIP to other countries could also be a counterbalance against the integrational efforts of Russia and China, and help to diversify Polish exports outside the EU internal market. The possibility of accession to the TTIP could reinforce neighbourhood policy, and attract countries such as Ukraine and Georgia.