

# Transatlantic Free Trade and Potential Consequences for the WTO

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# THE EFFECTS OF TTIP ON MULILATERALISM

## Arguments

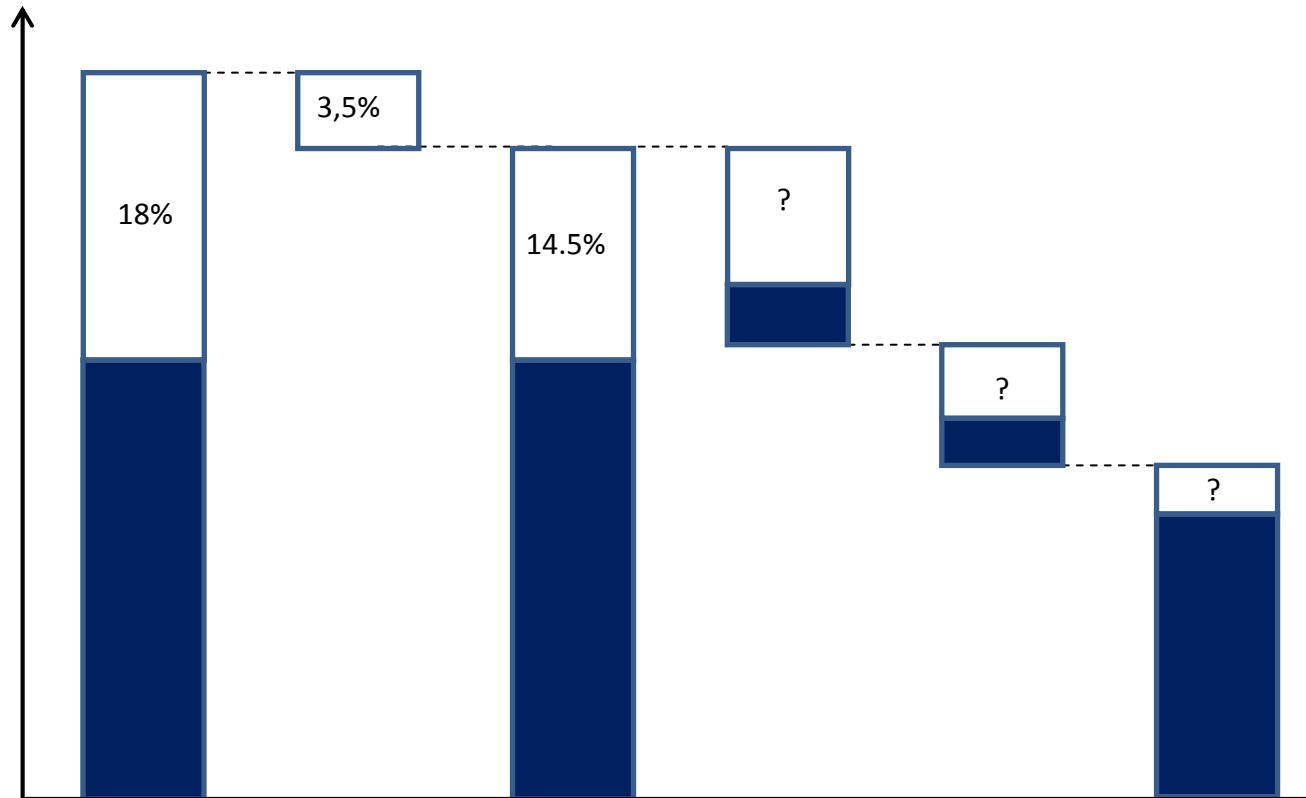
1. Trade liberalization 2.0 (non-tariff barriers) has novel implications for the multilateral system
2. Costs of TTIP for third countries can be potentially very big
3. Incentives and efficiency of multilateral process are likely to improve
4. Megadeals make the WTO more important

## NON-TARIFF BARRIERS (NTBs)

- Tariffs are already low (about 3.5%), many products and sectors are fully exempt (services)
- NTBs, narrowly defined, are barriers arising from regulatory policies and take many guises
  - Standards and norms to protect environment or workers, ensure product safety or technical compatibility ...
  - Public procurement rules, local value added requirements, ...
  - Customs processes
  - Protection of physical and intellectual property ...
- But many other NTB types of trade costs exist
- NTBs are large, and they react strongly to bilateral agreements
- But: potentials difficult to realize

# TTIP: Non-tariff barriers are 4-5 times more important than tariffs

Ifo top-down approach



Trade costs,  
total

Tariffs

Non-tariff  
barriers  
(NTBs),  
broad def.

NTBs,  
narrow def.

Other  
policies

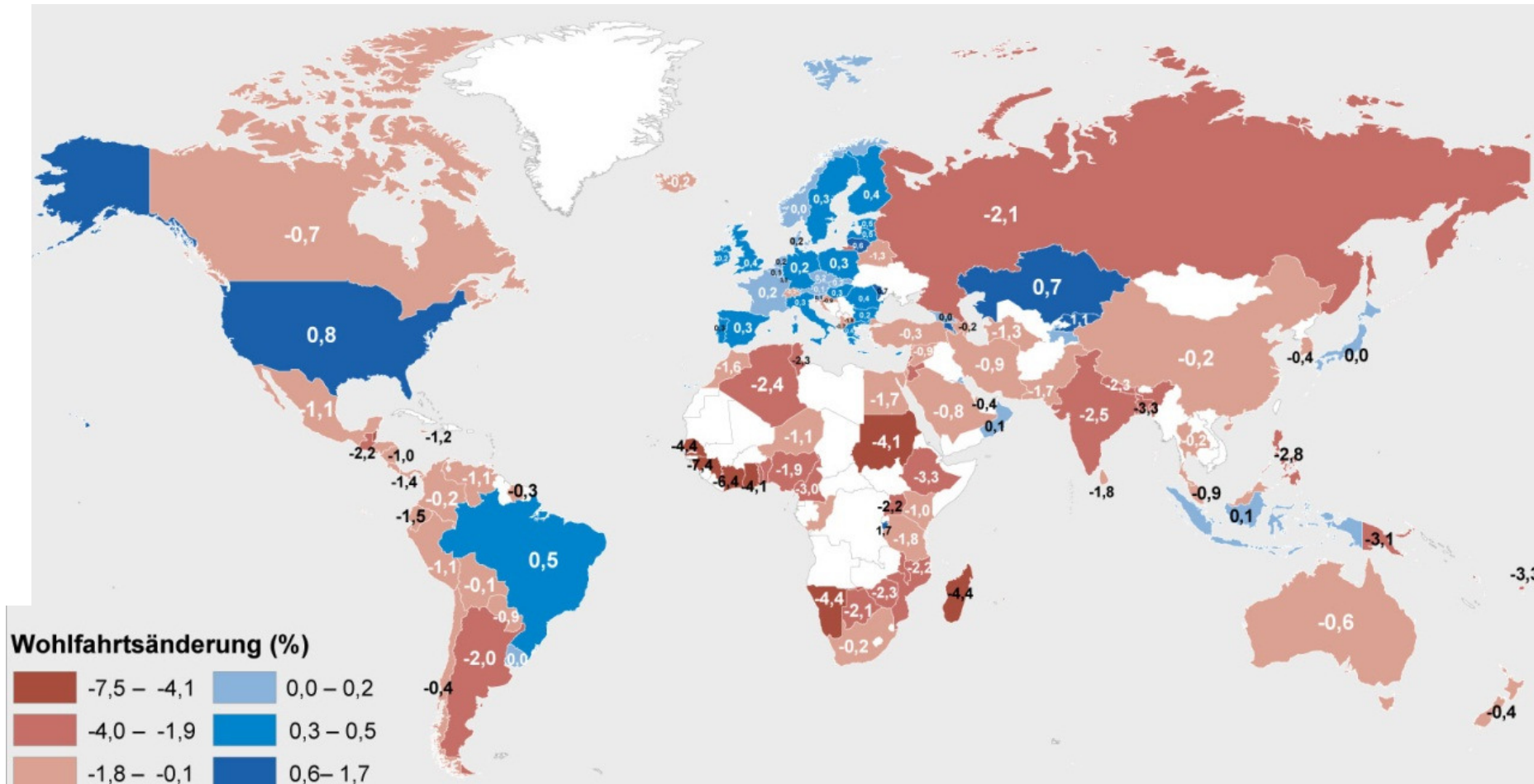
„Natural“  
Barriers

## NTB REFORM DIFFERS FROM TARIFF REFORM

- Many different paths
  - Mutual recognition of standards (e.g., EU-US agreement on organic food)
  - Joint standards
  - Dismantling of access rules
- Qualitatively different impact
  - No tariff revenue involved
  - Real resource savings
- Quantitatively bigger
  - **Larger effects for trade flows and GDP**
  - Welfare effects possibly more nuanced

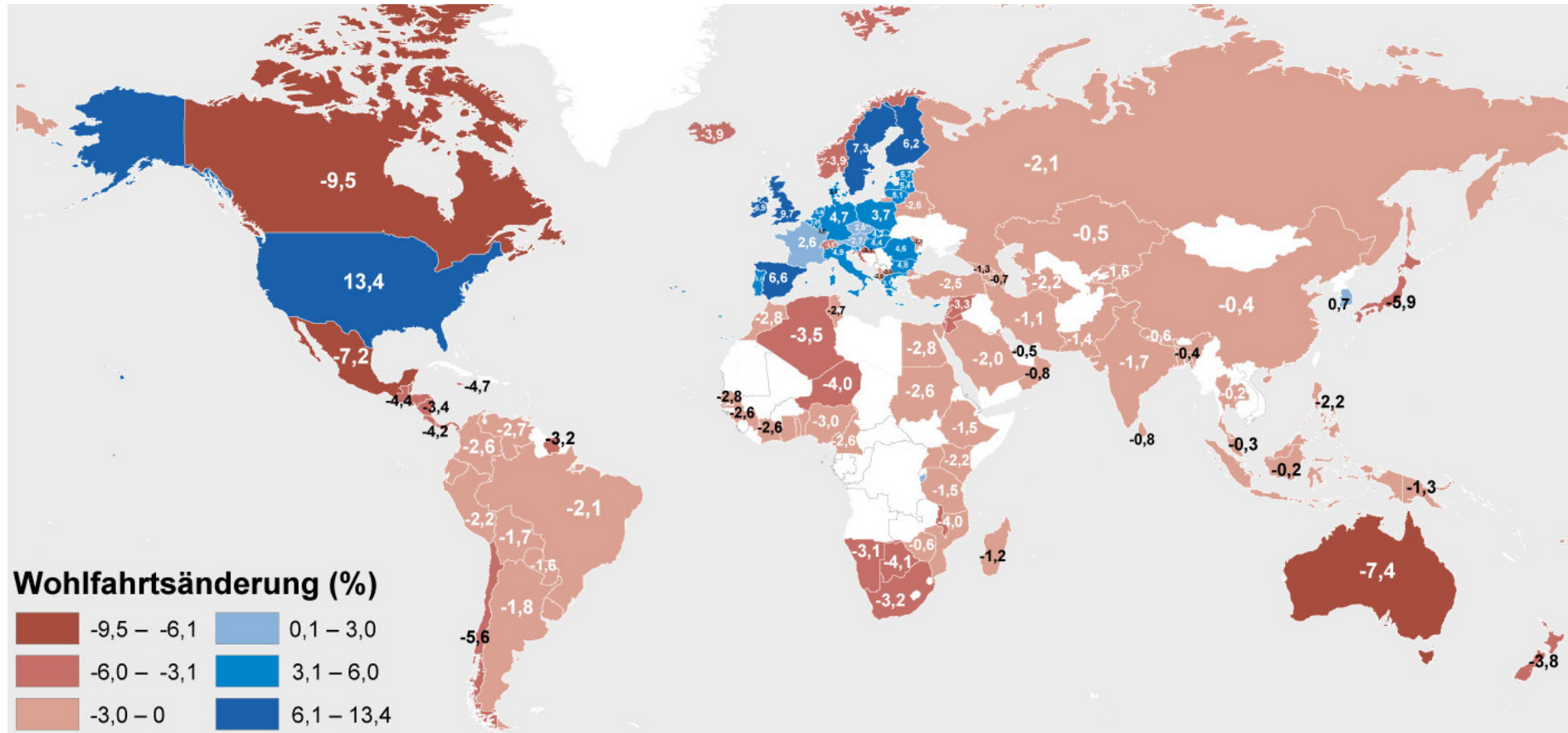
# TTIP: WELFARE GAINS FOR INSIDERS, LOSSES FOR OUTSIDERS, BUT WORLD GAINS

## Tariff scenario



# TTIP: WELFARE GAINS FOR INSIDERS, LOSSES FOR OUTSIDERS, BUT WORLD GAINS

## Comprehensive scenario



Source: Ifo study for BMWi, 2013.

# TTIP NTB REFORM: DIFFICULTIES FOR MULTILATERAL SYSTEM

## Feasibility constraints

- Complex legal and technical issues; complexity increases quadratically in number of negotiating partners
- Institutional trust is the key input

## Desirability of common standards

- Optimal standards differ across countries reflecting development status, democratic orientation, ...
- Trade-off between trade facilitation and internal policy objectives

➤ **WTO ill-suited**



# TTIP NTB REFORM: IMPLICATIONS FOR MULTILATERAL SYSTEM

## How discriminatory would NTB reform in TTIP be ?

- Standards and norms often are „multilateral“, i.e., non-discriminatory (for reasons of practicality)
- Key: national treatment principle
- Discrimination likely in areas such as procurement (common market)
- Third-country costs likely to be much lower than in our scenario simulations

## TTIP NTB REFORM: INCENTIVE EFFECTS IN THE MULTILATERAL SYSTEM

- TTIP makes further bilateral deals more likely, **weakening multilateralism**
  - Link-up between TTIP and TPP likely
  - Spurs further and deeper regional deals (in SE Asia, Latin America, Africa...)
- TTIP may make **multilateral progress more likely**
  - Multilateralism becomes more beneficial for TTIP/TPP outsiders (e.g., Brasil, India)
  - TTIP has the potential to increase world GDP significantly: may increase readiness of US/EU for compromise

## TTIP: AGGREGATION EFFECTS

- WTO system has become very complex: many and very heterogeneous countries
- TTIP can make multilateral negotiations easier as US/EU positions are more likely to be compatible
- However: theory of protection concludes that trade wars are more costly the higher the level of aggregation is (Felbermayr et al., 2012)

**Trade policy role of WTO becomes even more important**

**NOW, LET US DISCUSS**