The Ramphal Institute

WAR ON WANT
FIGHTING GLOBAL POVERTY

TTIP and Third Countries

A compendium of research studies and articles relating to the impact of EU-US trade negotiations on third countries, with special reference to the African, Caribbean and Pacific Group of States (ACP)

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Excerpts from the research studies and articles in this compendium have been collated in order to inform discussion at the full day conference, 'TTIP's Collateral Impact on ACP States', at the London School of Economics on 24 May 2016. Links are also given to the online location of the research documents, where all the references can be found in full.

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Potential Effects of the Proposed Transatlantic Trade and Investment Partnership on Selected Developing Countries

CARIS, University of Sussex, for the UK Department for International Development (DFID)

July 2013

(full text of the Executive Summary)

This paper evaluates some of the potential effects of EU-US TTIP economic integration on the trade in goods of 43 low-income countries (LIC) listed in Table 1. It first assesses the impact of removing the most-favoured nation (MFN) tariffs that apply to trade between the EU and the US. It then examines the impact of regulatory integration on sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) on LIC. These tariff and non-tariff barrier (NTB) assessments reached similar conclusions, as follows:

The Big Picture

The EU and US are typically in the top ten export destinations of the 43 LIC examined in this study. For the top three exporters of non-fuel goods (Bangladesh, Pakistan and Cambodia), the EU and US are among the top three destinations for their exports.

The EU is almost twice as large a market for these 43 LIC as the US. The EU's MFN tariffs for the products the 43 LIC specialise in are typically lower than 12%, while the US MFN tariff for the same goods are often above 15% and even 20%.

Table 1. Low Income Countries Covered

DFID Footprint Countries	**Low Income Countries (exc. DFID Footprint LIC)**
Afghanistan	Benin
Bangladesh	Burkina Faso
Congo DR	Burundi
Ethiopia	Cambodia
Ghana	Central African Republic
Kenya	Chad
Kyrgyz Republic	Comoros
Liberia	Eritrea
Malawi	The Gambia
Mozambique	Guinea
Myanmar	Guinea-Bissau
Nepal	Haiti
Nigeria	Korea Democratic Republic
Palestine Occupied Territories	Madagascar
Pakistan	Mali
Rwanda	Mauritania
Sierra Leone	Niger
Somalia	Togo
Sudan	
Tajikistan	
Tanzania	
Uganda	
Yemen	
Zambia	
Zimbabwe	

Tariffs

A transatlantic agreement carries potential threats for LIC in some sectors. The reciprocal removal of MFN tariffs in transatlantic trade could entail LIC lose market share to the TTIP partners as a result of the fall in tariffs and other barriers. The higher the initial MFN tariff, the larger the potential loss in preference margin for goods LIC specialise in producing.

At risk here are Bangladesh, Pakistan and Cambodia - the largest LIC traders in non-oil goods. They specialise in textiles, clothing and footwear, which dominate their top 20 exports to the EU and US. However, the EU and US show no indication of being competitive suppliers of these products in each other's markets. Nor do they look capable of imposing large losses in market share on LIC exporters of non-fuel goods after a TTIP.

The smaller LIC traders tend to specialise in raw materials and in products governed by SPS rules. MFN tariffs tend to be low or zero in these sectors. Low tariffs mean less risk of trade diversion and hence losses to third countries.

Fourteen of these countries are dependent on products regulated by SPS regimes. The following countries have ten or more of their top 20 exports subject to SPS regimes: Ghana, Kenya, Nigeria, Burkina Faso, Burundi, DR Congo, Malawi, Nigeria, Occupied Palestine Territories, Rwanda, Sierra Leone, Togo, and Uganda. These countries are potentially vulnerable if greater regulatory cooperation under the TTIP results in more restrictive SPS standards.

SPS and TBT

In general, the ambitions for transatlantic regulatory integration set out in the HLWG report (Annex 1) are quite modest.

The SPS analysis reveals that while some countries are dealing poorly with current SPS regulations on certain products, such as fisheries, others have high levels of compliance. Closer transatlantic integration, whether by harmonisation or mutual recognition, would likely result in cost savings due to a rationalisation of EU and US rules for those countries with success in compliance. If the EU and US move towards mutual recognition route, its importance is not exclusive to EU and US firms. Third country products meeting the rules of one partner will also meet the rules of the other.

On TBT, the main issue to affect LIC is the harmonisation of both labelling rules and the regulatory treatment of azo dyes in textiles and clothing. The process of harmonising these standards is underway but the launch of TTIP could accelerate progress. If implemented, these measures are likely to reduce the costs of doing business after some initial costs of adjustment.

Policy implications

There are limited policy options open to LIC and other developing countries that fear damage to their trade access to EU and US markets as a result of a TTIP. They are not at the negotiating table. They can lobby for ex ante changes in preferences to compensate for any perceived losses. Ex post they can bring cases to the WTO dispute settlement mechanism (DSM) to demand compensation. The former is clearly more attractive than the latter.

Individual LIC options depend on the country's current status and existing policy with both the EU and the US. First, the EU's Everything But Arms (EBA) scheme means that many LIC already enjoy duty and quota free access to the EU. Second, within WTO rules it is difficult for the EU to offer increased preferences beyond what is on offer in the GSP and GSP+ schemes for non-LIC.

The US has not signed up for duty free/quota free access for LIC although many LIC do receive preferences in the US market. This offers the US more room to grant compensation to LIC for the reduction in preference margins. Bangladesh, Pakistan and Cambodia currently receive no preferences on the US's top 20 imports from them, so these products incur the MFN tariff. The US could give these three largest exporters preferences that abolish or reduce the tariff in bilateral trade. More radically, it could reduce or even abolish the MFN tariff thus leaving them in the same situation as before the TTIP, which was facing the same tariff as EU firms.

Why would the US take either of these options? Perhaps as a way of signalling to the other WTO Members that it is conscious of the systemic implications of the TTIP and is acting to protect the most vulnerable. It would also have the effect of reducing the any trade diversion losses to the US economy.

Although unlikely, individual LIC might argue for some or all of the high MFN tariff lines that cover their specialist products to be excluded from liberalisation under the TTIP. This would have the advantage of satisfying domestic lobbies in the EU and US, as well as sustaining the current preference margins enjoyed by the LIC. Such an approach would need to comply with the WTO rules on regional trading arrangements (RTA). These require that "substantially all trade" is covered by any agreement. Although there is no consensus on the interpretation of this rule, any substantial carve-out for LIC would limit the freedom of the US and EU negotiators to maintain protection for their domestic list of sensitive products.

In the regulatory field there may be more opportunity for lobbying. If the EU and US succeed in pursuing effective mutual recognition agreements (MRA), LIC could lobby for these MRAs to be open to third countries meeting the rules of either the EU or US. In this context, where rules are being harmonised and changed for at least some producers, an LIC might look for aid to ensure that their testing and certification facilities were capable of meeting the new rules. More importantly perhaps, aid to help firms reach these standards via training or perhaps loans for capital investment would be a useful flanking measure to help LIC adjust to a changed regulatory environment. Finally, the LIC are not standing still. Their economies and trade are growing and their specialisations are shifting. While the TTIP negotiations get started, the LIC should continue to encourage greater competitiveness and flexibility in their domestic economies to be able to cope with changes in external circumstances. They could also consider focusing more energy into progressing multilateral negotiations at the WTO. These may bring more long run greater benefits than lobbying for preferences or compensation linked to the TTIP.

Full report available at:

http://tradesift.com/Reports/Potential%20Effects%20of%20the%20Proposed%20Transatlantic%20Trade%20and%20Investment%20Partnership%20on%20Selected%20Developing%20Countries_DFID_Final%20Report_July2013.pdf

Transatlantic Trade and Investment Partnership (TTIP): Who benefits from a free trade deal?

Gabriel Felbermayr, Benedikt Heid and Sybille Lehwald, for the Bertelsmann Stiftung

June 2013

(excerpt from the section: 'Effects on the USA and third countries')

One central point of criticism in the debate about any free-trade agreement involves its effect on third countries. If a few countries tear down the trade barriers among them but maintain tariff and non-tariff barriers against countries outside the agreement, there is trade creation that supports welfare among the partners but at the same time, trade with third parties is diverted. In the tariff scenario, it can in theory actually lead to the partner countries obtaining absolutely no benefit from the agreement: The lost tariff income is larger (in monetary terms) than the advantages of improved market access. And typically, those countries that do not participate in the agreement lose. In fact, it is even theoretically possible for real global total income to fall, if the gains obtained by participants in the agreement are smaller than the losses of those who remain outside.

The effects of lower non-tariff barriers are different than those of lower tariffs. There are several reasons for this: Tariffs distribute income — essentially from consumers to producers. Their harmful side effect is how they distort consumption and production decisions. This causes damage to the economy that rises to the square of the tariffs, but when the tariffs are very low (close to zero), they are negligible. Non-tariff barriers do not result in any income distribution; instead they generate direct economic costs. To make products fit for a foreign market, bureaucratic, regulatory and administrative rules have to be respected, delays occur and the market risk rises. These costs are associated with the use of resources but are of very little or no use to the consumer. In this way, even very small non-tariff barriers reduce the purchasing power of consumers and thus their real income.

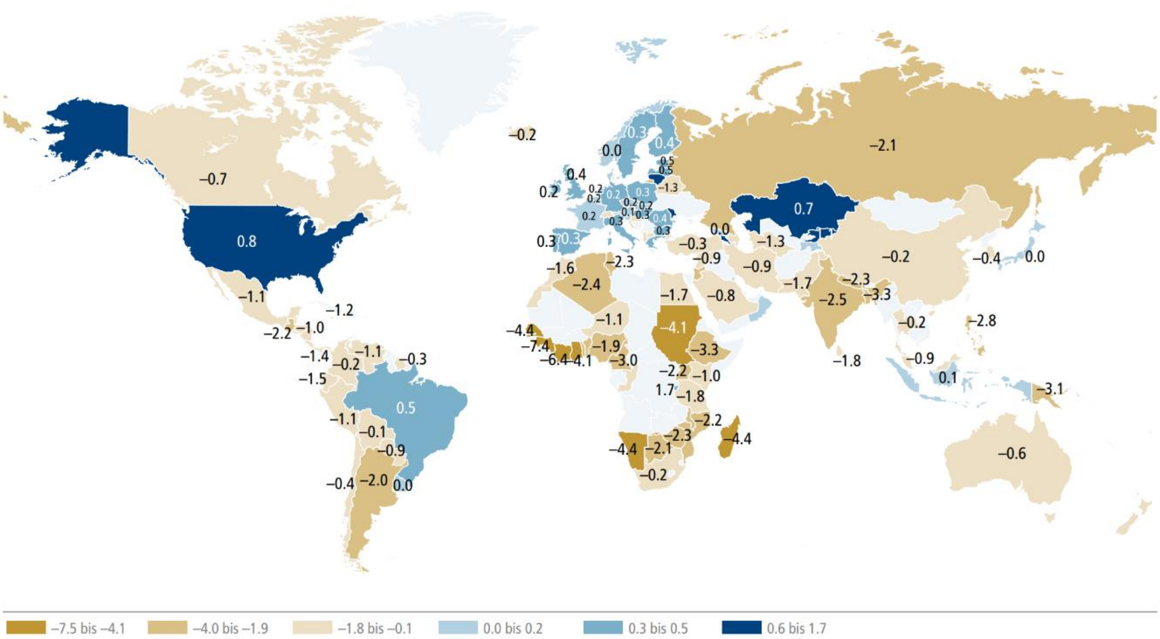
An additional difference between tariff and non-tariff barriers is important in this connection. Non-tariff barriers assume various forms, but one important way to liberalize them is to unify product standards or allow automatic domestic acceptance of products that are allowed for use abroad. That can also assist third countries: If a product satisfies the standards of one member country in a free trade zone, it may then be allowed for sale in all countries of the zone, even if it comes from a third country. With the adoption of standards, third countries can minimize the trade diversion effects that are harmful to them.

In order to quantify the global effects, we refer to the model used in the previous section. This model was calibrated and simulated for 126 countries, so that it can be used for analyzing the effects. First let us turn to the tariff scenario.

Tariff scenario

Figure 7 shows the change in real per capita income in all countries considered. The model covers virtually all the countries of the world, except for some gaps mainly in Africa. Countries that profit from the transatlantic agreement are shown in blue, while those that lose from it are shown in beige. One country colored dark blue is the USA. There, real per capita income rises by 0.8% just from lowering tariffs. Compared to other countries, the total trade barriers of the USA are relatively low. That is due to language, currency and a general policy of openness to foreign trade, and the result is that tariff cuts can have a strong positive effect.

Figure 7: Change in global real per capita income, tariff scenario



Source: ifo Institut

BertelsmannStiftung

The figure shows that the winners in the free trade zone are essentially limited to the USA and EU member states. Other than those, there are only isolated countries in which the average real income rises. These are countries that benefit disproportionately from additional exports because of an improved economy in the EU or USA. Examples are Brazil, Kazakhstan and Indonesia, which are important suppliers of raw materials to Europe and the USA. These countries produce goods like natural gas or cotton for which there are very few good substitutes. Interestingly, the gains for Kazakhstan or Brazil are higher than the average real income gains in Europe. That shows that the complicated international interweaving of the flow of goods can also result in surprising effects. Countries like Norway or Japan see no noticeable changes in their per capita income.

The main losers from eliminating tariffs are the developing countries. They experience dramatic losses in market share from intensified competition on the EU or US markets. Alternative markets with similar market potential are geographically far apart. This is a problem especially for countries in North and West Africa, which traditionally trade intensively with Europe, especially France and Belgium. The list of losers is led by Ivory Coast and Guinea. Their exports to Europe are pushed out by goods from the USA. East Africa comes out a little better, mainly due to its proximity to other large markets like China or Australia/New Zealand. But there too, significant losses can be experienced by countries such as Uganda and Tanzania.

Overall, it shows what was to be feared: If tariffs between the USA and EU fall, the relative barriers to market entry faced by developing countries become on average higher. It is exactly the poorer countries that suffer, some of them to a remarkable extent.

Full report available at:

http://www.bfna.org/sites/default/files/TTIP-GED%20study%2017June%202013.pdf

The expected impact of the TTIP
on EU Member States and selected third countries

European Parliament, Directorate-General for External Policies of the Union,
Policy Department

September 2014

(excerpt from the Conclusion)

The TTIP is likely to produce a negative impact on a number of third countries. The WTO was basically created to provide a solid legal framework for trade among the two biggest trade blocks of the time – the EC and the USA. Conflicting interests and different internal regulations have since led to frequent disputes between the two blocks: there have been 51 EU-US disputes (of which 32 were brought by the EU), notably more than the 10 cases between the EU and China (of which 7 were activated by the EU) or the 24 between the US and China (15 of which were activated by the US). The Dispute Settlement Mechanism has so far proved solid enough to address all of these.

But the WTO has not evolved since 1994. Its 20-year-old trade rules have been enriched with interpretations from the Dispute Settlement Body (DSB) and some WTO-based plurilateral treaties (such as the International Telecommunication Union and the Government Procurement Agreement), Policy Department, Directorate-General for External Policies 22 but new attempts to conclude multilateral talks have been deadlocked, and numerous rules have proved ill-adapted to new economic patterns, such as vertical integration, e-commerce and on-line counterfeiting. Efforts to update existing trade rules – especially in emerging areas of services, investments, non-tariff barriers, procurement, competition and intellectual property – have been led by the EU and the US and have involved building a network of bilateral treaties which 'export' the EU or US vision and rules. The compatibility of 'US-driven FTAs' and 'EU-driven FTAs' is, however, increasingly in question, particularly as developing countries attempt to maintain their market shares in their main markets (the USA for Latin America and the EU for Africa).

If the TTIP is concluded, the increase in trade between the two partners will be mirrored by substantial trade diversion. Many of the EU's and the US's principal trade partners will have their market shares in the EU and the US challenged by greater competition – from European goods and services in the US, and from US goods and services in the EU.

The countries that risk becoming the 'biggest losers' – Mexico, Canada and Australia in the US market, and Turkey, Norway and sub-Saharan countries in the EU market – are aware of the challenge and already requesting compensation. It may be possible to provide this from resources generated by the trade generated by the TTIP, which may also eventually encourage an advanced integration of standards among WTO members.

Full report available at:

http://www.europarl.europa.eu/RegData/etudes/IDAN/2014/536403/EXPO_IDA(2014)536403_EN.pdf

Mega-Regional Trade Agreements: Implications for the African, Caribbean, and Pacific Countries

European Centre for International Political Economy (ECIPE)

April 2014

(excerpts)

The implementation of both the TPP and TTIP can potentially have a significant effect on trade with ACP member states. The extent of this effect is dependent on both the existing levels of trade and the structure of trade between ACP countries and members of each of the regional trade agreements. Higher levels of trade between ACP countries and members of mega-regional agreements imply more at stake for ACP countries. In the same way, where the structure of ACP countries exports are similar to exports between members of mega regionals, ACP countries may face stronger export competition in existing markets.

At an aggregate level Figure 3 shows the average share of exports from each ACP region destined for the US, EU and TPP members (excluding the US). At a regional level, it is clear that the TTIP is likely to concern Africa the most, given that close to 40% of Africa's exports are destined either for the USA or EU market. For the Caribbean, it would appear that both the TTIP and TPP may have a significant impact on trade, with the USA accounting for close to 35% of the Caribbean's exports while the EU and the rest of the TPP account for 11% and 8% respectively. For the Pacific region it is clear that the TPP will play a significant role in shaping trade performance since over 40% of the Pacific countries exports are destined for the rest of the TPP states.

A number of studies suggest, however, that the overall impact of either the TPP or the TTIP on non-member states is anticipated to be small. Cheong's results suggest that the establishment of the TPP will result in a 0.07% reduction in the rest of the World's GDP, mainly as a result of trade diversion from more efficient producers outside of the TPP to less efficient exporters within the TPP. Estimations by the Peterson Institute, which include the potential impact of non-tariff measures, find that implementation of the TPP also results in a roughly 0.07% reduction in GDP for the rest of the World by 2025.

However, the Bertelsmann Institute, whose results the European Commission (EC) cautions against, indicates that the TTIP's impact may be substantially negative for a large number of developing and low income countries. Individual country real per capita income is estimated to change by between 0.5% and -7.4% for developing countries under a tariff liberalization scenario. Under a "deep liberalization" scenario the fall in incomes is more widespread, with real per capita incomes estimated to fall by between -0.1% and -7.2% for developing countries. This occurs largely as a result of preference erosion and trade diversion away from developing countries, with these negative effects accentuated for some countries under the deep liberalization scenario.

By contrast, the EU commissioned study finds that low-income countries would gain marginally from the establishment of the TTIP, with GDP rising by 0.09% relative to the baseline under the "less ambitious" scenario, and by 0.2% under the ambitious scenario. The positive impact of this study is a combined result of wider trade creation effects and the positive "spill-over effects" that arise from the "streamlining of EU and US regulations in the process of negotiations and convergence of EU-US standards" and the "scope for some resulting convergence on global standards and cross-recognition" of standards. These spillover effects are found to offset the negative impacts of trade diversion, but are highly dependent on the extent to which transatlantic negotiations lead to a comprehensively harmonized framework and system of mutual recognition.

There are a number channels through which mega-regional agreements can impact on ACP countries and through which these studies estimate the impact of mega-regional agreements. The first is the direct effect that mega-regional agreements can have on existing ACP access to EU and USA markets on preferential terms not available to middle and high-income countries. The second channel is the impact that the reduction of non-tariff measures and the harmonisation of standards within the mega-regional agreements can have on either raising or reducing export costs for ACP countries. […]

FINAL REMARKS

The assessment of the internal and external impact of mega-regional agreements highlights a number of key conclusions. First, it is likely that the implementation of mega-regional agreements involving either the USA or the EU will result in some preference erosion for ACP countries. The significance and impact of this erosion is likely to be somewhat muted given the fact that existing MFN tariffs duties for the USA and EU are already low across most product categories. The proliferation of multilateral and bilateral agreements has further served to weaken preferential treatment afforded to developing and low income countries. The structure of many ACP countries trade is also substantially different to high- and middle-income economies, making competition along product lines unlikely in the near term. However, the highly concentrated nature of trade (in mainly primary commodities) for some ACP countries implies that the erosion of preferences in a small set of specific product categories where developing countries compete directly with more developed nations (and specifically the EU and the USA) is likely to have important negative consequences for these countries.

Second, the review of studies assessing the possible impact of the various mega-regional agreements makes it clear that non-tariff measures are an increasingly important consideration, and in many cases the effective protection from, and therefore the effective gains from reduction of, non-tariff measures is greater than those presented by tariff duties. This places increasing importance on "21st century regionalism" and the negotiation of agreements that are able to effectively deal with these issues. These pressures are likely to remain in place and intensify, not least because non-tariff measures impede the operation of global value chains that structure the global trading system.

Finally, from a comparative perspective, in the long-term the establishment and implementation of a comprehensive TPP may be more significant than the Transatlantic Partnership, if it lays the ground for the establishment of an APEC-wide agreement. Such an agreement would see the establishment of one of the largest FTAs incorporating China, Japan and the USA along with a number of fast growing Asian and Pacific countries. The impact of such a regional agreement would have considerable repercussions for the rest of the globe.

Full report available at:

http://www.ecipe.org/app/uploads/2014/12/OCC22014_.pdf

Europe, Africa, and the Transatlantic:
The North-South Challenge for Development-Friendly Trade Policy

Helmut Asche, for the Heinrich Böll Stiftung

October 2015

(excerpt from section 3: The transatlantic partnership)

For Africa, implementing the Economic Partnership Agreements constitutes a tall order – and that despite the fact that the treaties have been limited to trade in goods. Global political attention is now focussed on other economic integration projects, which affect Africa indirectly. Since 2009, the EU and Canada have been negotiating CETA, and, since 2010, Trans-Pacific Partnership (TPP) negotiations are underway. Add to this the proposed Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US, and the general shift away from multilateral and towards bi-regional agreements becomes apparent.

Major bi-regional treaties such as TTIP are under critical scrutiny for good reason, as they limit national or regional sovereignty. Critics on the left are not always aware that the opposite side of the political spectrum is also critical of such treaties. An older group of market-liberal critics opposes such bi-regional agreements, as they consider them obstacles on the way towards greater multilateral liberalisation. However, the alternative to both bi-regional and multilateral pacts is bilateral agreements such as, for example, the bilateral investment treaties (BIT), and this latter format does not guarantee better results for the environment, consumers, or development than group-based negotiations with North America or the European Union. Hence, critics of TTIP should always consider the alternatives.

MAIN CONTENTIOUS ISSUES

The official negotiators routinely claim that big trade and investment pacts generate growth and employment, however, their immediate concern is very different – they focus on cost reduction for private investors. Consequently, many stakeholders doubt that further trade liberalisation is a win-win situation, and the classical concern is that over job losses. In addition, the following aspects of TTIP are at the centre of a debate which has become Europe-wide: Investor state dispute settlement (ISDS); privatisation of public utilities versus public provision of essential services; consumer, environmental, social, technical, etc. standards for goods and services; protection of culture and media.

Many of these issues, such as the investor-state arbitration, are not part of the EPAs, and not a single consumer or social standard has been harmonised in those treaties. For instance, EPAs do contain arbitration mechanisms, however they concern state-to-EU regulations and are hence less problematic. The question is, why did the EC renounce investor-state arbitration in the EPAs, something considered to be of paramount importance by the advocates of the transatlantic negotiations? There are two answers. Firstly, the bilateral investment treaties still have provisions for such rulings. Of the ca. 130 German bilateral investment treaties, 85 have ISDS clauses.

Secondly, TTIP is the testing ground for new bi-regional regulations meant to replace earlier bilateral/bi-regional provisions. Initial studies tried to forecast trade, growth and income effects, mainly within the EU, with little focus on third countries. These studies, referred to as Ecorys, CEPII, CEPR, tend to stress the positive economic effects for both regions and, in general, for third countries too, though they predict considerably lower growth rates than publicly announced by some governments and business associations. Essentially, they rely on computable general equilibrium (CGE) models and make use of sector-level or micro-level assessments. To this, the first ifo study, commissioned by the Bertelsmann Foundation, adds some gravity modelling. An alternative calculation from Tufts University, based on the explicitly Keynesian UN Global Policy Model, predicts grave negative consequences concerning jobs and income distribution, something ignored in the CGE models.

While the studies gauge the effects of the removal of tariff barriers, they have a greater focus on non-tariff barriers such as administrative, technical, social, and environmental regulations. In the spirit of GATT/WTO such non-tariff measures (NTM) are described throughout as being nothing but non-tariff barriers (NTB). This subtle notional shift has the effect that the studies list high numbers of dispensable NTM/NTB yet ignore the social cost of abolishing them, which is considerable, as many of them are meant to protect people's welfare. By the same token, the studies ignore potentially important trade creation effects for developing countries, for example, through norms for fair trade or sustainable agriculture.

Some of the main factual assumptions behind the models are questionable, too. For example, they all look at gross exports after tariffs and NTB have been removed – and predict a double-digit growth in trade between the EU and US. For net exports, most suppose that this will include a massive diversion away from intra-European trade and towards transatlantic trade (including US exports with sourcing from third countries). In other words, the transatlantic trade intensifies while trade within Europe declines. Tufts points out that this presents the European Commission with a serious policy paradox. Indirectly suppliers, for example from China, would benefit, as well as Mexican and Salvadorian *maquilas* or agro-exporters used by US exporters to Europe. The reason behind the assumption that EU suppliers are not competitive in labour-intensive goods are earlier examples of regional integration – within the EU or the North American Free Trade Agreement (NAFTA). What matters for the Africa-related discussion below: here, trade diversion away from Europe is considered a critical factor in favour of the US and some developing countries. Shortly, we will discuss what these supply chains from Mexico to US, and further into the EU, may imply for ACP competitors.

More recently, some studies have put greater emphasis on the effects TTIP will have for developing countries. A second ifo study, commissioned by the German Development Ministry, estimated their welfare losses as "not dramatic". The upbeat assessment is based on the following three pillars:

1. Growth in the EU and US from liberalised trade (trade creation) and investment will offer additional export opportunities for developing countries.

2. The preference erosion for developing countries through the abolition of transatlantic tariffs will divert trade to the EU and US. Existing global value chains with the participation of third world producers will however mitigate this effect.

3. The harmonisation of technical, social, or environmental transatlantic product standards will have important positive spillover effects for developing countries, as it will make it easier for their producers to serve this unified market.

Taken together, and in stark contrast to earlier considerations, there now is an emphasis on how trade may be diverted *from developing countries*. Exports from Sub-Saharan Africa to Europe are concentrated in exactly those few market sectors where tariffs still exist between the EU and US – textiles, footwear, and processed agricultural goods – hence the imminent risks from preference erosion.

What about the efforts to assuage such concerns by stressing (1) the trickle-down effect of additional growth, (2) global value chains, and (3) the positive effect of harmonised standards? Will those three factors suffice to ward off negative effects of TTIP on developing countries?

Ad 1) 'Trickle-down': It makes sense to abolish residual tariffs between highly industrialised countries. However, the growth effects and the subsequent indirect effects on exports from third countries to the EU and US are very difficult to predict, and claims that losses from trade diversion will be offset by gains from transatlantic growth are on shaky ground. The estimated GDP effects vary wildly and are essentially theory with numbers.

Ad 2) 'Value chain resilience': Projections on how trade diversion versus trade resilience will play out in global production chains are fraught with methodological and factual problems. A number of authors assert that most developing countries are so well integrated into global value chains that little trade will be diverted. Admittedly, the GVC literature in general remains inconclusive on the perspectives such chains offer for less developed countries. In a daring effort to sum up a comprehensive body of literature, one can safely posit that global commodity, supply, or value chains present a market-based way for developing countries to participate in global production networks. As a rule, such global chains are governed by a few lead companies and not by governments, and success stories often come about regardless of government policies – see Kenya's horticultural and Bangladesh's textile production. However, analysts agree that, in order to succeed, even well managed global value chains need good public policy, regulation, and training, as well as social and environmental policies, otherwise countries will typically run the risk of "trading down". This has become an important field for development aid – something that would be difficult to explain if the invisible hand of the market were sufficient. TTIP studies largely ignore the critical GVC literature, which comes to less upbeat conclusions about the nature of such chains and the opportunities for developing country producers.

Three examples may show why many estimates of TTIP's positive effects on developing countries are in all likelihood grossly exaggerated:

1. The abolition of outright prohibitive agricultural tariffs by the US (350% on tobacco, 130% on peanuts) may make Southern Europe competitive again and also affect goods like fruit juice. Ongoing subsidies for cotton on both sides of the Atlantic, though not conforming to WTO policy, may have similar effects in combination with zero tariffs.

2. If transatlantic tariffs on clothes and shoes (ca. 30%) are scrapped, this may have devastating effects on African and Asian producers. Apparel-making is known as the archetypical footloose industry. It is possible that TTIP will lead to a resurgence of textile, clothing, and leather industries in Southern Europe, and the fact that Africa grows its own cotton will not be enough to sustain its downstream industries.

3. Selected hi-tech industries may also be affected. There is some car and car parts production in Africa, however with little depth. Exceptions are the automobile industries in South Africa and, partly, Nigeria. One study shows that Morocco specialises in wiring harnesses, as does Tunisia, where they constitute the second most important export (6%, as in Morocco). In both countries this is helped by their proximity to European assembly plants, and the link might indeed remain intact. To stay viable, South Africa's car industry, on the other hand, had to be propped up repeatedly through special programmes (the MIDP), in particular for car parts suppliers.

In sum, case studies may seriously underestimate the negative effects on third world countries of breaking up existing value chains.

Add to this what is happening at the cutting edge of industrial production. Above all, Germany and the US are pushing ahead with new, automated ways of integrating production, consumption, and services. In both countries this is driven by a joint initiative of government and industry, often under the catchwords 'industry 4.0' and 'internet of things'. Rapid responses to differentiated customer demands in car and machine making is a feature, which can be extended to light consumer goods, where economies of scope also matter. Although it is too early to say whether this will become the fourth industrial revolution, as some claim, it is obvious that only suppliers in countries with high-speed and highly secure internet connections will be able to participate, and that less qualified workers may lose their jobs – further factors that do not favour the developing countries.

Finally, none of the studies has considered the joint effects of TTIP and EPA – for the simple reason that the effects of the EPAs were not yet known. Thus far, the further opening of African markets through EPAs on the import side, combined with the potential effects of TTP on export production chains has not been investigated, and neither have cases where industrial diversification will be completely aborted through the combined effect of both treaties. By definition, such foregone production possibilities are difficult to measure and are hence rarely counted in the balance sheet of trade agreements.

Ad 3) 'Spillovers': The second ifo study – and by analogy the CEPR study – has been heavily criticised by German advocacy groups because it reversed the negative conclusions of the first study, however without withdrawing it – something rarely seen in sound economic research. Apart from the optimistic GVC assessment, this was mainly done by stressing the spillover effects of harmonised product standards. Critics noted that designing such development-friendly effects is not at all part of the TTIP negotiators' mandate. As a matter of principle, harmonised rules and standards work very much like public goods, and it is difficult to exclude outsiders; therefore, it is not far-fetched to consider them welcome for developing countries. However, positive externalities of harmonised standards for third parties are extremely difficult to establish across the board. This becomes clearer from a taxonomy of the general cases set out in the TTIP negotiations. They are:

a. Cases where product standards are different, yet high in both the EU and US, and can be mutually acknowledged as equivalent. Drug regulation seems to be a good case in point. Rules of origin belong here.

b. Cases where standards are high on both sides but need to be harmonised, mostly at high levels, in order to avoid lowering consumer (etc.) protection.

c. Cases where standards diverge and one side has superior regulations. Here, one would expect standardisation at the higher level, for example, the general implementation of US FDA standards for medical equipment (German companies are lobbying the EC to oppose this).

d. Cases where standards on both sides are low. Bode singles out food & agriculture as areas with weak regulation. Here, the solutions for cases a. and b. cannot apply.

e. Finally, the often cited cases of outdated technical product standards, which exist for purely historical reasons and could thus be lowered or abolished.

Of those five cases only the last may be of advantage to third-country suppliers, provided they have respective products to offer. How the fundamental difference between Europe's precautionary principle (*Vorsorgeprinzip*) and laxer principles in the US (*Nachsorgeprinzip*), which, in turn, comes with severe liability risks, will play out across the five cases is difficult to predict. The limited evidence available makes it nearly impossible to predict any *automatic* spillover effects from TTIP.

EPAs and TTIP combined mean, on the one hand, that African countries lose the advantage against their North American competitors of duty-free access to EU markets, while, on the other, none of the third-country effects of TTIP will occur automatically. Geopolitically, this erosion of preferences would deal another blow to the already difficult relationship between EU and ACP countries. Positive outcomes for third countries do not trickle down; they have to be brought about by deliberate political decisions. This means the format (institutions, actors, processes) and contents of TTIP have to be changed in such a way as to make TTIP negotiation (and EPA implementation) truly participatory for developing country stakeholders.

Full report available at:

https://www.boell.de/sites/default/files/web_151022_e-paper_europe_africa_transatlantic.pdf

‘A Transatlantic Partnership with Ripples Across the Oceans: What Does Africa Stand to Gain or Lose?’

Philani Mthembu, in Daniel Cardoso et al (eds.), *The Transatlantic Colossus*

December 2013

(excerpts)

Basing its assessment on a study by the Centre for Economic Policy Research (CEPR), the European Commission (EC) predicts that a TAFTA / TTIP would have a positive impact for the rest of the world, even to the amount of €99 billion. However, a different study conducted by the ifo-Institute comes to different conclusions. Both examine two scenarios: the first with an elimination of tariffs in trade and a second consisting of a comprehensive liberalisation scenario, which also includes the reduction of non-tariff trade barriers.

While the CEPR estimates gains to non-signatories (€99 billion), these are mostly distributed within the OECD countries (€39 billion). Thus, even under this optimistic study, the gains would be shared disproportionally, with Africa likely getting the least gains. Using a different methodology, the research conducted by the ifo-Institute is more explicit about the global distribution of gains and losses, making it vividly clear that exports from African countries would be negatively affected, while the impact on welfare also shows a decline.

According to the study, countries of the Maghreb, with which the EU has an FTA called the Euro-Mediterranean Agreement, would lose under both a limited (tariffs only) and a comprehensive scenario (reduction of tariffs and non-tariff barriers). European companies would become more competitive, while EU imports from the Maghreb would decrease as “traditional trade diversion effects predominate”. Given the political turmoil in the region and added need to bring about stability and improve their economic outlook, this scenario is worrying for the region. North and West Africa are especially affected, since they traditionally have extensive trade relations with Europe. The Ivory Coast and Guinea are the biggest losers as their exports into the EU are affected by the USA. While East Africa may fare a little better due to its closer proximity to larger markets such as China; Uganda and Tanzania record big losses.

As the largest economy in Africa, South Africa’s trade into the EU would also suffer the effects of trade diversion, as South African companies face increased competition with US companies in the EU. This would mean that South Africa’s current FTA with the EU, in the form of the Trade, Development, and Cooperation Agreement (TDCA) signed in 1999, would now have fewer benefits. With these results, the ifo study is unequivocal: African countries stand to lose access to the transatlantic market.

The picture painted is particularly worrying at a time when the EU puts pressure on African regional economic blocs to sign comprehensive Economic Partnership Agreements (EPA’s) which cover areas such as intellectual property rights (IPR’s), sanitary and phytosanitary standards (SPS), public procurement, investment, and services. Fears in African countries partly stem from analyses that the losses in customs duty would surpass the gains of a free trade agreement with the EU. […]

COUNTERING THE NEGATIVE EFFECTS OF THE TAFTA / TTIP

In order to reduce the negative spillovers, the transatlantic partners have the option of adopting a policy of mutual recognition of standards with flexible rules of origin extended to third countries. Researching the impact of standards and the reduction of non-tariff barriers in regional agreements, Aaditya Mattoo and Maggie Xiaoyang Chen find that “such agreements increase the trade between participating countries but not necessarily with the rest of the world. Harmonization of standards may reduce the exports of excluded countries, especially in markets that have raised the stringency of standards. Mutual recognition agreements are more uniformly trade promoting unless they contain restrictive rules of origin, in which case intra-regional trade increases at the expense of imports from other countries." This means if the TAFTA / TTIP adopts a policy of mutual recognition with flexible rules of origin, negative spillovers may be minimised.

Mattoo argues that "with mutual recognition, the EU and the US would accept each other's standards or conformity-assessment procedures, allowing firms to adhere to the less stringent requirements in each area. If the policy were extended to third-country firms, it would have a powerful liberalising impact. [...] If however, the [TAFTA /] TTIP excluded third-country firms from the mutual recognition policy, their competitiveness vis-à-vis European and American companies would diminish substantially." With this option ultimately relying on the transatlantic partners, it would be sensible for African countries to be proactive and take pre-emptive steps to minimise the potential negative effects.

This would mean remaining committed to increasing intra-Africa trade. This is important since Sub-Saharan African countries continue to have higher non-tariff barriers between themselves than on trade with third countries. Such an effort must involve continued efforts to harmonise regional technical regulations and standards, sanitary and phytosanitary measures as well as rules of origin, which have all added significant costs to doing business in Africa.

Tony Elumelu and Jonathan Oppenheimer argue that a new generation of African entrepreneurs and businesses is emerging, challenging traditional incumbents with new models and strategies. Examples include Kenya's information and communications technologies companies, and Nigerian banks such as the United Bank of Africa. In telecommunications, South African companies such as MTN now operate in 21 countries, while Glo, a Nigerian mobile operator, has also increasingly expanded in its region. These companies are all increasingly breaking down regional barriers and expanding intra-Africa trade. In 2009, South Africa invested $1.6 billion (FDI outflows) into other African nation states. Despite these positives, intra-Africa trade still remains too low. Regional economic blocs will play a central role in further breaking down trade barriers, to unlock the full potential of African economies, and to reduce the vulnerability to external changes.

Lastly, African countries must seize opportunities provided by the growing role of emerging powers. This means using the added revenue to invest in trade related infrastructure while moving away from primarily shipping raw materials towards the beneficiation of goods and building local value-adding industries. This will take political will but ensure that African countries increasingly become less vulnerable to the constant changes of the global trading system.

The BRICS account for 40% of the world population, one fifth of global output and nearly a fifth of all trade and FDI flows, while their development cooperation across Africa is also growing rapidly. These trends are likely to continue in the coming years, putting African countries at a position to make strategic decisions that impact their economic landscape. While trade with emerging powers cannot replace trade with the transatlantic partners, a combination of intra-Africa trade with increased trade with emerging powers allows African countries to be less vulnerable to trade diversion effects in the TAFTA / TTIP, while ensuring that they are not purely at the mercy of negotiators in Brussels and Washington.

Full text of the book available at:

http://goo.gl/rP9Lmi

TTIP: Why the World Should Beware

Manuel Pérez-Rocha, for the Rosa Luxemburg Stiftung Brussels Office

May 2015

(full text of the Executive Summary)

The Transatlantic Trade and Investment Partnership (TTIP) is a comprehensive free trade and investment treaty currently being negotiated – practically in secret – between the European Union and the United States of America. It could have massive implications for people and the environment on both sides of the Atlantic. The stakes couldn´t be higher for Europeans and Americans, but also for the rest of the world that would be affected in many different ways by this agreement between these two super powers of trade. The objectives of TTIP go well beyond the intentions to solidify the Anglo-Saxon neoliberal model. It is a geopolitical strategy to confront the emergence of a multipolar world.

In this paper we explore from different angles why human rights, environmental, consumer advocate and many other organisations all over the world that are working for a world different from the corporate-led neoliberal dogma, should pay special attention to TTIP.

1. ESTABLISHING A NEW "ECONOMIC NATO"

TTIP – like the massive Trans-Pacific Partnership between the US and countries around the Pacific – is an attempt to revive the deregulatory free trade agenda promoted by the US and the EU in the past. That agenda largely failed at the global level, thanks to opposition from governments of the global South and civil society action worldwide. But the objectives of TTIP go well beyond intentions to embed Northern, neoliberal trade rules as the global norm. It is above all a geopolitical strategy to confront the emergence of a multipolar world. This is why former U.S. Secretary of State Hillary Clinton reportedly views TTIP as an "economic NATO", and former EC Trade Commissioner Karel De Gucht claimed that TTIP "is about the weight of the western, free world in world economic and political affairs".

2. IMPOSING GLOBAL STANDARDS ON TRADE, INVESTMENT, SERVICES AND INTELLECTUAL PROPERTY RIGHTS

TTIP is a corporate-led project for the benefit of the Atlantic elite whose aim appears to be the reversing of social policies in the West. With TTIP business would have the upper hand on the rest of society, within and beyond the Atlantic. Both the US and the EU view TTIP as a way to set the "gold standard" for future bilateral, plurilateral and multilateral trade agreements, for investment protection globally (including investor state dispute settlement), as well as for other EU- and US-led global agreements such as the Trade in Services Agreement (TISA) and the Trade-Related Aspects of Intellectual Property Rights agreement (TRIPS). Also, despite the risk of another massive financial crisis, TTIP would include rules that could lead to further financial services deregulation.

3. REGULATORY COOPERATION: CREATING A WORLD PARLIAMENT FOR BIG BUSINESS?

TTIP's regulatory coordination scheme can act as the first step towards a "world parliament" for transnational big business and is set to impact negatively on the rest of the world through regulatory cooperation. TTIP negotiations are based on three pillars: market access, regulatory cooperation and new rules. Two thirds of the TTIP project can thus be said to be about rule setting for international trade and investment. TTIP regulatory coordination might have a dramatic negative impact on the political room to maneuver for developing countries, and would most probably impose a "regulatory chill" in their legislative processes. The aim is that TTIP signatories will constitute such a critical mass in international trade relations that other countries will either gravitate towards the new transatlantic rules, or be forced to accept them at the WTO. Post-democracy is what regulatory cooperation is about.

4. US VERSUS THEM: SO-CALLED EU AND US "COMMON VALUES" IMPLY THAT OTHERS MAY NOT SHARE THEM

TTIP is promoted as a means to reassert the alleged superiority of "common Western values". President Obama has said that forging strong economic ties across the Atlantic is "a way to show our public opinions and the world who we are at heart, in Europe and in America (sic) – economies based on rules, societies based on values, and proud of being so." However, at a time of harsh austerity measures, it is worth taking a hard look at the human rights effects of so-called "value-driven" European policies. And there are strong differences of views about the values behind a wide range of policies at play in the TTIP talks, including hormones in livestock, GMOs, chlorinated chickens, privacy protection, plastic packaging, cyber laws, and financial, social and environmental standards. This "common values" discussion goes beyond issues of "democratic governance," where the United States and the EU have long considered themselves the examples to follow. In the TTIP context, the discussion affects the role of the state, the provision of public services and the pre-eminence of human rights over corporate rights.

5. REACTING TO THE EMERGENCE OF THE BRICS AND UNDERMINING MULTILATERAL TRADE NEGOTIATIONS WORLDWIDE

The main goal of TTIP is geopolitical. The rise of China and other countries, combined with the relative decline of the US and the economic malaise of the Eurozone, is spurring the transatlantic West to use its combined economic and political dominance to write new global trade rules reflecting "free market" economy principles. Given the global shifts of power, TTIP has been described as a "West against the rest" strategy to shore up a US-European alliance against the economic, political and ideological threat posed by emerging economies (in particular the BRICS) that do not strictly adhere to the Anglo-Saxon style laissez-faire doctrine. In the longer term, the major risk with respect to multilateralism derives from the fact that in an age of unpredictable globalisation and an unclear "new world order", TTIP – in its intention to cement the latter based on Western supremacy – would actually exacerbate the rivalry of economic blocs and thus deepen the present economic and institutional global crisis.

6. LEVERAGING US AND EU IN THEIR BILATERAL AND INTER-REGIONAL NEGOTIATIONS

Both the US and the EU acknowledge that a major motivation for including investor-state dispute settlement (ISDS) in TTIP is to avoid weakening their hands in negotiations with emerging market countries. If not for this broader agenda, it would be difficult for them to justify allowing foreign corporations to bypass domestic judicial systems which are considered robust on both sides of the Atlantic. For all their regional and bilateral trade and investment negotiations (i.e. the TPP, the US-China bilateral investment treaty or the EU-Mercosur), TTIP has the objective of serving as the leverage point for the US and the EU to confront together models of self-determination with increased South-South interrelations, and to continue imposing their model of dependence on Western hegemony.

7. CONTRADICTING EU PRO-DEVELOPMENT RHETORIC AND GLOBAL EFFORTS TO OVERCOME POVERTY

The EU's trade and investment policies in relation to third countries contradict its discourse on promoting the integration of policy coherence for development (PCD), which aims to take into account development cooperation objectives in non-development policies (such as trade). It is of concern that there has been very little discussion of the likely impacts of the deal on countries not engaged in the negotiations. A closed agreement is only cementing the view that the two powers are not supportive of the developmental goals of the global South. There should also be increased coherence with global efforts to overcome world poverty and the Post-2015 Agenda for the Millennium Development Goals. TTIP spells the end of any commitments to coherence for development and efforts to overcome global poverty.

8. WEAKENING "LOCAL BARRIERS TO TRADE" MEASURES, LOCAL DEVELOPMENT AND "SUBSIDIARITY"

Early reports from TTIP negotiations include an unprecedented U.S. proposal that seeks to target "localisation barriers", particularly in emerging economies. These "barriers" include (as defined by the USTR) "measures designed to protect, favour, or stimulate domestic industries, service providers, and/or intellectual property at the expense of goods, services, or IP from other countries". This proposal would commit the US and EU to jointly pressure other countries to eliminate rules designed to favor local economic development. This would increase pressure on developing country governments by taking the US-EU efforts to undermine such "localisation" efforts out of the WTO and into a more politicised realm of "advocacy". In doing so, the EU would contradict its own principle of "subsidiarity", which ensures that decisions are taken as closely as possible to the citizen.

9. STATE OWNED ENTERPRISES AND OTHER GOVERNMENT-CONTROLLED ENTITIES UNDER ATTACK

A fundamental objective of the US in TTIP is to constrain the role of states – including those of third parties – in their economies. The USTR seeks to "establish appropriate, globally relevant disciplines on state trading enterprises, state-owned enterprises (SOEs), and designated monopolies, such as disciplines that promote transparency and reduce trade distortions". SOE rules in TTIP would serve as a model for other countries, making the dismantling of the activist or interventionist state a precondition for greater trading and economic relations with the EU and the US. The pressure against SOEs is a challenge to both BRICs and the global South, given that a great deal of their competitive power derives from the fact that the state plays a very significant role in supporting domestic and state industries. Therefore, the US intention to constrain SOEs is a key concern for third countries that seek to compete with US and EU transnationals, with their own self-defined interests, including the degree to which the state should foster economic development.

10. LIMITING EU AND US MARKET ACCESS FOR NON-TTIP COUNTRIES

The European Commission claims that "TTIP will be a big bonanza for developing countries", based on assumptions that the harmonisation of certain standards will ease the rules for their exports, or by allowing them to benefit from US-EU trade expansion through their contribution to supply chains. Contradictorily, the EC also asserts that in the Rules of Origin chapter of TTIP "we want to create user-friendly rules that guarantee that products benefiting from TTIP really are produced in Europe or the USA" and make sure that "goods from other countries do not enjoy the same benefits". In fact, study after study has found that TTIP is likely to have varying degrees of harmful impacts and preference erosions for third countries. Along with the uncertainty that TTIP would bring to third parties in terms of market access to the EU and US, the aggressive European Market Access Strategy and US policies for global market access will be reinforced.

11. THREATENING GLOBAL FOOD SAFETY STANDARDS AND STRUGGLES FOR FOOD SOVEREIGNTY

Any food safety and other standards agreed to in TTIP would have great influence on global rules. TTIP would likely impede new regulations, including those on the use of emerging technologies like nanotechnology or synthetic biology in foods. The draft chapter on Regulatory Coherence establishes a process by which any new rules on consumer products, food safety or environmental standards are subject to cost-benefit analysis and new review periods that would slow the development of new regulations down to a snail's pace. The draft Sanitary and Phytosanitary Standards (SPS) chapter would also require that food safety rules be the "least trade restrictive" possible – rather than the most effective for protecting human, plant or environmental health. Overall, the impact would be to consolidate corporate power over agriculture and food systems and limit the ability of governments to ensure safe food. Increased market access afforded by TTIP will further strengthen and consolidate the ability of EU and US-based corporate actors to dictate terms all along the supply chain. It will also involve a strengthening of corporate control over natural resources globally. In sum, under TTIP, local efforts for food sovereignty – to rebuild food systems so that they respond to specific livelihood, cultural and climatic conditions – could be pushed aside.

12. EFFORTS TO TACKLE CLIMATE CHANGE AT RISK

According to German Chancellor Angela Merkel, the biggest benefit of TTIP could be facilitating trade in energy. President Obama has said that the US "has already approved licenses for natural gas exports, which will increase global supply and benefit partners like Europe". However, this geopolitical energy strategy– justified as a way to counter Russia – raises global environmental concerns. A leaked EU trade document reveals the dangers of TTIP for the global struggle against climate change, and how it could also set a precedent for agreements with other countries: "in the future, an energy and raw materials chapter negotiated between the US and the EU could serve as a platform for each party's negotiations with energy and raw materials-relevant partners". As civil society organisations have warned, given that TTIP will serve as a blueprint for future trade agreements, it could also restrict the ability of governments and communities outside of the US and EU to adopt urgently needed climate measures.

13. UNDERMINING INTERNATIONAL TREATIES ON HUMAN RIGHTS

Human rights organisations warn that TTIP's broad scope implies that it will have a strong impact on peoples' lives in other countries. And yet there appears to be no plan to assess whether TTIP is consistent with US and EU international human rights obligations. All member States of the EU are State Parties to the International Covenant on Economic, Social and Cultural Rights (ICESCR), and although the US has not yet ratified it, it has signed the treaty and hence all must refrain from any act that would defeat its object and purpose. TTIP should also be put to test with the UN Charter, the EU Charter of Fundamental Rights, the European Convention of Human Rights and the International Covenant on Civil and Political Rights (ICCPR). Additionally, there is also great concern for the digital rights of people. Undoubtedly, TTIP negotiations present a new urgency for legal mechanisms that place international law privileging holistic human and environmental rights considerations above corporate rights.

Full report available at:

https://www.rosalux.de/fileadmin/rls_uploads/pdfs/engl/TTIP-BEWARE-june2015.pdf

TTIPing Away the Ladder: How the EU-US trade deal could undermine the Sustainable Development Goals

Trade Justice Movement

September 2015

(full text of the Executive Summary)

The sustainable development goals (SDGs) replace the millennium development goals (MDGs) as of September 2015. As with the MDGs, the SDGs commit world governments to achieving poverty reduction targets (over the next 30 years and beyond) including for example to "end poverty in all its forms everywhere" (goal 1). A number of these goals are directly relevant to the trade policies of developed countries. For example, goal 17 commits governments to "strengthen the means of implementation and revitalize the global partnership for sustainable development" – if properly designed, trade can help to build the 'means of implementation', for example by generating growth, but since trade rules are agreed internationally, it requires a 'global partnership' to ensure that this happens. Goal 17 explicitly recognises the role that developed countries have in achieving the SDGs: target 17.14 underlines the need for "policy coherence for development", such that countries should design their trade (and other) policies to be compatible with the SDGs. Trade also receives a separate set of targets under goal 17 and is referred to under several other SDGs.

In light of the above commitments, and given that it is the biggest trade deal ever negotiated, the Transatlantic Trade and Investment Partnership (TTIP) clearly needs to be assessed for its compatibility with the SDGs. The size of the deal alone – covering 40 per cent of global trade – means that there will inevitably be implications for developing countries. Furthermore, the EU and US have also specifically stated that they wish to 'multilateralise' the deal, making TTIP the blueprint for future international trade agreements. Dan Mullaney, the US Chief Negotiator on TTIP, told an audience in New York: "[we] have an opportunity in this negotiation to send a message to the rest of the world… We can ensure that the United States and the EU continue to provide the preeminent economic model for the global community." This has serious implications for the ability of developing countries to achieve their goals in trade negotiations.

Global trade policy and efforts to tackle poverty are inextricably linked. However, negotiations – both at the World Trade Organisation (WTO) and in the bilateral context – have been characterised by repeated failure to prioritise the needs of developing countries. The conclusion of the Uruguay round of negotiations in 1994, which led to the creation of the WTO, was widely criticised for failing to tackle developing country priorities such as trade in agricultural products. Fast-forward to the present day and the WTO continues to give precedence to rich countries' priorities. Repeated commitments to a Doha 'round for development', made by both the EU and US since 2001, have not been matched by action at the WTO. For example, the 2013 Trade Facilitation Agreement (TFA), which aims to make cross-border trade easier, has been heavily criticised for giving too many advantages to large multinational corporations at the expense of small producers and for threatening to worsen trade imbalances for developing countries because of the lack of parallel market access commitments.

Even more worrisome is that negotiations within the WTO are increasingly being used by the EU and US to shore up their position of global dominance against the growing influence of emerging markets like China and Brazil. Furthermore, the EU and US are often at the forefront of opposing proposals that would benefit developing countries. For example, at the 2013 ministerial conference, they fought a proposal for an agreement on public stockholding for food security. Whilst the agreement was passed, it was weakened to such an extent that some developing countries may struggle to make use of it. For these reasons, there are serious concerns that a consolidated position between the EU and US, agreed under TTIP, outside of the WTO and without the input of other countries, is likely to lead to the further marginalisation of developing country interests in the multilateral context.

As a deal that could set a strong global precedent, one of the biggest threats that TTIP poses to the SDGs is undermining target 17.5, which recognises the need to: "respect each country's policy space and leadership to establish and implement policies for poverty eradication and sustainable development". Trade agreements influence a number of policy areas, such as health, education and economic growth, that are key to the SDGs. In order to take action on these issues, countries will need to make decisions about the delivery of public services and their strategies for industrial development and public procurement. There is no one-size-fits-all approach and negative experiences with the privatisation of health, education and water, demonstrate that countries need a range of policy options. However, both the EU and US aim to use TTIP to set in stone a particular, market-based approach to these sectors. Given their aim of multilateralising TTIP, this would severely limit the policy options available to other countries.

The threat to governments' policy space is made worse by the likely inclusion of an Investor-to-State Dispute Settlement (ISDS) mechanism. This offers investors the possibility of suing countries if they believe their investment has been negatively impacted by a policy decision. There is growing evidence that countries are avoiding policies, rather than face the expense of a costly legal case and potential award against them, which could run to millions of dollars. For example, in 2010, Germany agreed to lower environmental requirements of a coal power plant rather than defend a claim by Vattenfall. In this context, developing countries such as South Africa, India and Ecuador are seeking to review or terminate their investment agreements. But TTIP could undermine these moves by setting a powerful global precedent for the inclusion of ISDS in trade agreements.

As well as creating a global blueprint that will limit developing countries' policy space, there are worrying indications that TTIP will directly undermine some SDGs. For example, target 17.11 commits governments to "increase significantly the exports of developing countries, in particular with a view to doubling the Least Developed Countries' (LDC) share of global exports by 2020". Whilst there is currently no consensus regarding the likely impacts of TTIP on developing countries' trade, there are worrying indications that they could experience significant trade diversion and preference erosion, with countries like Niger and Malawi seeing drops in exports to the US of between 3 and 12 per cent.

TTIP is also likely to directly undermine SDG 13, which commits countries to "take urgent action to combat climate change and its impacts", widely accepted to be fundamental to tackling poverty. The European Commission (EC) has attempted to give reassurances that TTIP will support the EU's climate targets, yet its own impact assessment states that its preferred outcome from the negotiations will add an additional 11 million metric tons per year of CO_2 to the atmosphere. The Intergovernmental Panel on Climate Change (IPCC) argues that fossil fuel use is the leading contributor to global increases in CO_2 concentrations. Yet a clear priority for the TTIP negotiations is to increase transatlantic trade in fossil fuels, with President Obama commenting that "TTIP would make it even easier to get licences to export gas to the [European] continent". To make matters worse, if these licences are subsequently revoked, for example by EU governments elected with a clear mandate to support the transition from fossil fuels to renewable energy, TTIP's ISDS provisions may allow US investors to sue EU governments for loss of profits.

Finally, TTIP threatens to undermine goal 3, which commits governments to "ensure healthy lives and promote wellbeing for all at all ages". One of the biggest difficulties for developing countries in dealing with major health issues like the prevalence of HIV and TB is the lack of availability of affordable medicines. Trade rules, in particular the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), already play an important role in driving an approach to the development and distribution of medicines that relies heavily on market principles. This has led, for example, to spiralling costs for medicines: a course of treatment for some forms of TB can cost up to US$250,000. The EC argues that it has “consistently led efforts to facilitate access to medicines in developing countries”. Yet one of its key objectives is to strengthen the very intellectual property protections that allow companies to maintain monopolies over particular drugs, keep prices high and undermine the cheaper generic drug production that is key to many developing countries’ public health objectives. It is seeking to use TTIP to develop a global blueprint that would see trade rules go beyond the WTO’s TRIPs agreement by tightening up intellectual property rules, for example to limit the disclosure of clinical trial data and to oblige health authorities to price patented pharmaceutical products at their market value.

This report reveals the huge inconsistencies between commitments under the SDGs and the current proposals for TTIP. Intended as the blueprint for multilateral trade, it undermines the global partnership for sustainable development and directly challenges the ability of individual countries to develop their own strategies for poverty reduction and sustainable development. Instead, it sets a powerful precedent that promotes privatisation and liberalisation as the de facto policy option and seeks to ‘discipline’ state involvement in key sectors such as public service delivery and industrial strategy. Furthermore, as currently envisaged, it threatens to directly undermine targets on health and climate change as well as hindering developing countries’ ability to trade.

If the EU is genuinely committed to making trade work for developing countries, it must:

• Halt negotiations on TTIP

• Focus on achieving a multilateral deal that genuinely gives priority to sustainable development goals

• Work with the US to address the EU and US’s damaging trade policies, in particular to bring agricultural subsidies in line with WTO commitments; to reduce the often high tariffs on products coming from developing countries and to simplify rules of origin

• Deliver on its commitments under the Sustainable Development Goals

Full report available at:

http://www.tjm.org.uk/documents/TTIPing_Away_the_Ladder.pdf

'TTIP and Sub-Saharan Africa: A Proposal to Harmonize EU and US Preferences'

Eveline Herfkens, in Daniel Hamilton (ed), *The Geopolitics of TTIP*

October 2014

(excerpt from the introduction)

The Transatlantic Trade and Investment Partnership (TTIP) has generated a great deal of commentary about its economic potential for the EU and the United States. Much less consideration has been given to its impact on third countries and the global trading system. Will a preferential trade agreement covering so much of world trade, further undermine the multilateral trading system, sucking negotiating energy out of the WTO, just as the WTO, following its Bali Ministerial, appears to be recovering from its slide to irrelevance?

Preferential trade agreements (PTAs) discriminate against non-participants, as they may divert trade from cheaper non-member to more expensive member sources. Poor non-members, currently enjoying preferences, see their preferential margins erode, as overall levels of protection are reduced. To what extent will a TTIP lead to trade diversion at the expense of third countries, especially poor ones? Will there be offsetting positive effects? Obviously, if tariffs and non-tariff barriers between the United States and the EU decline or are eliminated, the relative barriers to market entry faced by third countries become higher. The evidence on trade diversion of previous PTAs is quite mixed. The WTO in a comprehensive review reported significant trade diversion in some cases (MERCOSUR vis-à-vis the Caribbean) and little in others.

The highly concentrated nature of exports from Sub-Saharan Africa (SSA) implies that the erosion of preferences in a small set of specific product categories (textiles, clothing and footwear and specific agricultural products such as fish, bananas and sugar) can have important negative consequences for these countries. More rigorous standards might be more difficult to comply with or even lock out SSA exporters. And more advanced intellectual property rules might affect the introduction and production of generic drugs and their supplies to SSA.

One of the few efforts to quantify the potential impact of a TTIP has been undertaken by the Bertelsmann Stiftung. Its report, *Transatlantic Trade and Investment Partnership (TTIP): Who benefits from a free trade deal?*, predicts that the main losers will be developing countries including Sub-Saharan Africa, a region that contains most of the world's poorest countries. If that were allowed to happen it would be contrary to existing European and U.S. policies, which aim, however imperfectly, to improve market access and export prospects for Sub-Saharan Africa.

At present both the United States and the EU operate a complex set of preferential trade arrangements vis-à-vis Sub-Saharan Africa. The TTIP creates the opportunity to codify, align and extend these arrangements instead of undermining them; and it can do so as a part of the architecture from the outset, not as an afterthought following years of exclusive negotiations. This chapter focuses on how TTIP can be used to help rather than hinder Sub-Saharan Africa, the region that not only has most to fear from a TTIP, but also most desperately needs generous access to rich country markets. Caring about SSA would be consistent with core Western values. And showing compassion is the more opportune, as the West is losing the battle for African "hearts & minds."

Full text of the book available at:

http://mercury.ethz.ch/serviceengine/Files/ISN/185476/ipublicationdocument_singledocument/83d1ec17-7951-4ee1-ae8c-5691d8430c0a/en/Complete_book.pdf

'TPP Risks and TTIP Opportunities: Rules of Origin, Trade Diversion, and Developing Countries'

Kimberly Elliott, for the Center for Global Development

March 2016

(excerpts)

As one would expect with two advanced economic markets, trade between the European Union and United States is mostly in capital intensive, technologically sophisticated products, not agriculture and labor-intensive manufactures. The top categories of exports, accounting for just over three-fifths of total trade between the two, include aircraft, autos, other machinery, medical devices, and pharmaceuticals (annex table 1). While the broad categories are similar, specific products (still relatively aggregated at the 4-digit tariff level) within them sometimes differ. The table also shows the average, as well as the highest, tariff in each category, which underscores that tariffs on manufactured products are quite low for both destinations.

Annex table 2 shows EU and US imports from developing countries other than China and, not surprisingly, there are important differences. Two are natural resource-based and two are labor-intensive manufacturing sectors. The top import by far for both is mineral fuels and products, but in this case it is mostly crude oil. US trade with Europe in this sector is mostly in petroleum products. There are three categories in annex table 2 that do not appear in annex table 1—HS 71, which includes diamonds, gold, platinum, and jewelry, and the two apparel categories (knitted and woven).

The other manufacturing sectors include electronics and motor vehicles where global supply chains are extensive and restrictive rules of origin could be particularly disruptive. There are substantial imports from developing countries of computers and cellphones that are relatively labor-intensive in final assembly. But in other sectors, particularly motor vehicle parts, developing countries (other than China) are important upstream suppliers for TTIP manufacturers. In this sector, American negotiators, as they did in the TPP, will no doubt want TTIP rules that accommodate, and protect, the integrated North American industry. This needs to be done in a way that does not disrupt EU trade in motor vehicle parts with Turkey and other developing countries.

As with textiles, China is also a major exporter in many of these sectors and TTIP negotiators sometimes express concerns that it will benefit disproportionately if rules of origin are not strict enough. One way to address this concern would be to provide for extended cumulation with each party's other PTA partners and GSP beneficiaries. China has never been eligible for US GSP and most of its exports to the EU are no longer eligible for the GSP program because they have been deemed competitive.

CONCLUSIONS AND RECOMMENDATIONS

Preferential trade agreements inevitably raise the potential for trade diversion at the expense of excluded parties and rules of origin are an important part of the story. While tariff reductions generally benefit insiders at the expense of outsiders, rules of origin can cut either way, depending on patterns of trade among PTA parties. Restrictive rules influence the sourcing of intermediate goods and thus affect the competitiveness of the final good. This could to varying degrees offset the trade diverting effect for competing producers of final goods outside a PTA, or it could create a trade diverting effect for competitors supplying intermediate products.

The TPP and TTIP illustrate different scenarios in terms of key concerns for developing countries. Among TPP parties, there are few sources of textile inputs from which Vietnam can source in the short run while keeping costs down enough to remain competitive. Thus the yarn forward rule of origin could offset some or all of the benefits of tariff liberalization for Vietnamese apparel. In the short run at least, that would reduce the trade-diverting effect for external final goods competitors like Bangladesh and Cambodia. As Vietnam adapts, or competitive textile producers such as Korea join the TPP, the trade-diverting impact on neighboring competitors will rise, all else equal. In that case, the United States could mitigate the impact on the Asian LDCs by extending duty-free, quota-free market access as the EU and all other high-income countries have done.

In TTIP, trade in the high tariff categories that typically trigger restrictive rules of origin is relatively small. Overall, US and EU exports also tend to have large shares of domestic value added in what they export, already. Thus, the default should be simple and non-onerous rules for most manufactured goods to maintain supply chain relationships with developing countries. For textiles and apparel and other sensitive sectors where TTIP negotiators are concerned about Chinese competition, a broadly defined cumulation zone that includes other PTA partners and unilateral preference beneficiaries would help to ensure they do not suffer trade disruption. Extended cumulation along these lines would be one way to minimize negative effects for Turkey and Mexico, including in the important auto sector.

In agriculture, rules of origin for processed food products often require the use of domestically-produced commodities. This provides another layer of protection for agricultural commodities where tariffs are already high. To protect existing trade flows and provide additional opportunities for developing country trade, TTIP negotiators should adopt rules that require only a simple change in chapter heading for food preparations— without exceptions.

The US and EU markets absorb 40 percent of all imports from developing countries (excluding China) and a TTIP that includes restrictive rules of origin could seriously disrupt this trade, even in sectors where current tariffs are relatively low. If TTIP negotiators are genuinely interested in ensuring that any agreement they reach is supportive of the multilateral trading system, they should avoid that outcome.

Full report available at:

http://www.cgdev.org/sites/default/files/CGD-Policy-Paper-Elliott-TPP-TTIP-Rules-of-Origin.pdf

‘It's not just Europeans who will feel the consequences of TTIP’

Diane Abbott MP in *New Statesman*

4 April 2016

As more is revealed about the Transatlantic Trade and Investment Partnership (TTIP), it is clear that it has little to do with improving trade. If implemented corporations will have the power to force governments to put corporate interests above the needs of their own citizens.

From labour protection to public health, corporations are using the a rapidly-growing private justice system known as Investor-State Dispute Settlements, the proposed enforcement mechanism for TTIP, to sue governments for anticipated lost future profits incurred from the passage of democratically-decided regulation.

If it sounds dystopian, that’s because it is. Investor-State Dispute Settlements (ISDS) have been used for multi-million pound lawsuits by big tobacco firm Philip Morris to sue Uruguay for tightening up on tobacco advertising; American food giant Cargill to sue Mexico over a sugar tax; and French water company Veolia to sue Egypt after it increased the minimum wage for refuse collectors after the Arab Spring.

Secretly negotiated between the United States and the European Union, TTIP is now being picked over by the machinery of the European Commission and could be passed over the next year or two.

But one element of TTIP has been largely ignored – the deal’s impact on developing countries.

The world came together last year to agree to the Sustainable Development Goals (SDGs), which hinge on ending poverty and hunger by promoting sustainable growth, combating climate change and making food, water, medicine and energy affordable for all.

It would make sense to be signing trade deals that steered the world closer to achieving these goals. Instead, these new generation trade deals will make the SDGs more elusive, particularly for the world’s poorest.

For example, under the SDGs governments have agreed to ensure medicine is affordable because one-third of the developing world’s population cannot afford essential medicines they need. But these deals extend drug monopolies, which means that cheaper, generic copies cannot immediately be made for the poorest.

I met last week with Margaret Chan, the director of World Health Organisation, who shares my concern over the dangers TTIP will have on the poor. Last year she said: “If these agreements open trade yet close access to affordable medicines, we have to ask: Is this really progress at all?”

The SDGs also commit to increase the exports of developing countries, including “doubling the least developed countries’ share of global exports by 2020”. Yet several studies – including a DFID-commissioned paper by the University of Sussex – highlight that developing countries will lose out on exports as a consequence of the US and EU prioritising trade with each other under TTIP.

A major German study highlights even bigger losses for developing countries, with many in Africa losing more than 4 per cent from per capita income levels. Research commissioned by a European Parliament group shows Latin America may suffer a 2.8 per cent GDP loss over the course of a decade from TTIP.

TTIP also bodes ill for climate change, which affects the developing world much more than the developed world.

Under TTIP, there will be a predicted increase of 11 million metric tons in CO_2 emissions, while, in tandem with CETA, the deals' deregulation agendas are paving the way for previously banned tar sands oil to enter the EU. With their 23 per cent higher greenhouse gas emissions, NASA climate scientist Prof James Hansen warns tar sand exploration means "game over for the climate".

On top of this, ISDS is being used to prevent transition to cleaner forms of energy: Germany is being sued for €4.7 billion for ending nuclear power; Canada faces a $250 million case for banning fracking; and the US itself has recently been hit by a $15 billion case – although the company building the pipeline only spent $2 billion – after President Obama vetoed the Keystone XL tar sands pipeline in order to meet climate change commitments.

This danger has been recognised by UN Independent Experts who have argued that: "These treaties and agreements are likely to have a number of retrogressive effects on the protection and promotion of human rights, including by lowering the threshold of health protection, food safety, and labour standards, by catering to the business interests of pharmaceutical monopolies and extending intellectual property protection."

While the European Commission is currently engaged in promoting a 'reformed' ISDS, including the introduction of public appellate courts, serious, perhaps intractable, problems remain.

The whole point of ISDS-based trade agreements like TTIP is to increase foreign direct investment no research has emerged that this is the case – citing the lack of evidence, Brazil, South Africa and Indonesia are repealing ISDS-clauses or are refusing to include them in their bilateral trade agreements.

I agree with the UN's Independent Expert Alfred de Zayas, who has said "ISDS cannot be reformed. It must be abolished."

Diane Abbott MP is the UK Shadow Secretary of State for International Development.

This article is available online at:

http://www.newstatesman.com/politics/staggers/2016/04/its-not-just-europeans-who-will-feel-consequences-ttip

Potential Responses to Mega-regionals by Excluded Countries

Uri Dadush, in World Economic Forum, *Mega-regional Trade Agreements: Game-Changers or Costly Distractions for the World Trading System?*

July 2014

(excerpts)

The TPP and TTIP intend to reshape world trade rules for the 21st century. However, the negotiations exclude some 160 countries, which are home to over 80% of the world's population. These countries typically grow 3% a year or so faster than those included in mega-regional negotiations and, on current trends, may well account for over half of world trade in the not distant future. Thus, how the excluded countries respond to the rise of the mega-regionals is an important question not only for their citizens, but also for the United States, the European Union, Japan and the other 10 countries that are participants in the negotiations. […]

How should excluded countries respond? The tendency is to think of countries as led by an all-knowing and independent expert who will choose the public interest. In practice, the response to the mega-regionals will reflect the weight of domestic political interests and how they see themselves affected by the new trends. One implication is that countries are unlikely to react until an important domestic constituency sees a clear threat or opportunity. Another implication is that the largest countries, especially those that see themselves as rising powers – such as China, India and Brazil – will probably react faster to the perceived systemic implications of the mega-regionals, including their geopolitical and security implications, than will many smaller countries who see themselves as little able to affect the system.

Following are the pure strategies that can be pursued, recognizing that they will sometimes be deployed in combination.

1. Do nothing

This is often a bad strategy but one to which many political systems naturally converge. In this case, the uncertainties are so big that it may make sense to wait and see, especially for small countries that cannot hope to affect the negotiations or to realistically craft a systemic response. Even then, countries will want to monitor developments closely and analyse the impact of alternative scenarios or outcomes on their most important trade interests. They may begin to devise strategies and send out feelers to trading partners.

2. Reject, withdraw, obstruct

This is the worst response. Countries are not likely to retreat into protectionism or obstruct WTO negotiations just because they do not like being excluded from mega-regionals. However, where influential domestic constituencies are hostile to trade anyway, the disappointments with multilateral approaches and exclusion from the most vital parts of world trade negotiations can play into the hands of antiglobalization lobbies and of those who argue that the dice are loaded. Although the modest progress made in Bali may have mitigated this risk, the shift of focus by the major trading powers onto mega-regionals will discourage countries that tend to be inward-looking, such as India, Brazil, Russia and South Africa, from adopting a more liberal stance.

3. Enact autonomous reforms

This is the best response to mega-regionals but also the least likely course politically. The mega-regionals do little to change the political economy of autonomous trade reforms in the excluded countries, and, if anything, strengthen the hand of protectionists. Still, if done at the right pace and with adequate companion measures, unilateral regulatory reform and trade liberalization can induce a supply response and reduce distortions, and are an effective way to prepare firms for the increased competition, tougher standards and bigger markets that successful mega-regionals would bring. Moreover, these reforms are robust – worth pursuing regardless of the shape that mega-regional may take.

4. Join them

One strategy, most likely to appeal to smaller countries eager to join the TPP, is to use the available "docking stations". The downside of this approach for a small country is that it will mean being subjected to one of the most lopsided trade negotiation in history. Moreover, this path is very unlikely to be pursued by large countries, not only because the likes of China or Indonesia will not accept unconditional adoption of the TPP "acquis", but also because the incumbents will be reluctant to open their doors so wide to a big, new source of competition without imposing additional conditions.

Given the complexities of joining a mega-regional after their conclusion has been reached, a more realistic approach is to enter into a bilateral negotiation with both the US, which is a way to get a large chunk of the market access under the TPP and TTIP, and the EU. Such an approach would provide a window to the regulatory reforms and tougher standards both trading powers are aiming for. Many smaller countries will be attracted by this option, even though the negotiations are likely to be lopsided. Larger countries, with greater bargaining power, may also pursue this route – as in the Brazil-EU and India-EU negotiations at present.

5. Compete with them

This strategy consists of joining competing regional arrangements or forming new ones. There is, however, nothing on offer that is likely to compare in terms of ambition or scope with the TPP and TTIP. The prospect of RCEP, which includes China, India and Japan – geopolitical rivals with very divergent trade agendas – resulting in a high ambition agreement is, to say the least, distant. Any number of other opportunities exist for countries to enter into farreaching trade agreements with neighbours or with their most important trading partners in other regions, including those that are set to join the TPP (those joining TTIP are part of the EU Customs Union) and from whom one can "learn" the new standards. However, these agreements would be limited in their reach (proportion of trade covered). They would only be a very partial response to the mega-regionals and are best seen as a complement to autonomous trade reforms.

6. Re-engage in the WTO

This strategy could have been considered as pure wishful thinking before Bali. After the modest success in Bali, and given the growing realization that successfully negotiating the TPP and TTIP also presents great challenges, WTO reengagement is perhaps a less far-fetched option for many countries, including those engaged in the mega-regionals.

Adopting a realistic post-Bali agenda in Geneva is not going to stop the TPP and TTIP train, but, if done right, could create a positive dynamic between the regional and multilateral negotiations. Indeed, the constructive role played in Bali by many, from the US to China, the LDCs and even India, may reflect concerns that the mega-regionals could render the WTO irrelevant and ultimately undermine its acquis. In some aspects of the mega-regional negotiations, for example on trade facilitation, the Bali agreement could represent the minimum denominator starting point, and advances in regional negotiations could eventually feed back into the multilateral sphere.

What appears unrealistic after Bali is the pursuit of far-reaching WTO agreements based mainly or exclusively on the single undertaking/consensus rule. To revitalize the multilateral system, countries involved in TPP and TTIP negotiations and those excluded will probably have to accept slicing up the Doha agenda (and the many issues which Doha did not address) into manageable pieces involving a critical-mass subset of countries willing to move faster and farther than the rest.

Conclusion

For the countries excluded from mega-regionals and worried about the systemic implications for the global trade system, "plurilateral" or flexible geometry approaches within the WTO probably represent the only realistic response. Such approaches would form an important part of their overall national response to mega-regionals, which could also include autonomous trade reforms and the initiation of new bilateral or regional negotiations with the contracting parties to the TPP and TTIP, as well as with other important trading partners, enabling them to raise the competitiveness of their productive apparatus.

Full report available at:

http://www3.weforum.org/docs/GAC/2014/WEF_GAC_TradeFDI_MegaRegionalTradeAgreements_Report_2014.pdf

Further reading

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Ramphal Institute

Virginia Woolf Building

King's College London

22 Kingsway

London WC2B 6LE

www.ramphalinstitute.org

War on Want

44-48 Shepherdess Walk

London N1 7JP

waronwant.org

May 2016