

Mega-Regionalism and the European Union

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Based on an Assessment of a Reduction of Barriers to Trade
and Investment between the EU and the US

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Overview

- The New Regionalism: Quad Country regional initiatives overview
- The New Regionalism
 - Drivers
 - Benchmarking
- Case Study – the transatlantic relationship: TTIP
 - Several recent national studies: France, Germany, Austria, UK, for example
 - Not new
 - NAFTA = North Atlantic Free Trade Area in 1960s
 - Baldwin/Francois study in 1990s for the EC on same topic.
 - How we trade and produce has changed. About 20% of EU and US trade is with each other. Most of this goes into production.
 - Ranking priority sectors
 - Policy scenarios assessed by economic modeling
- Closing comments



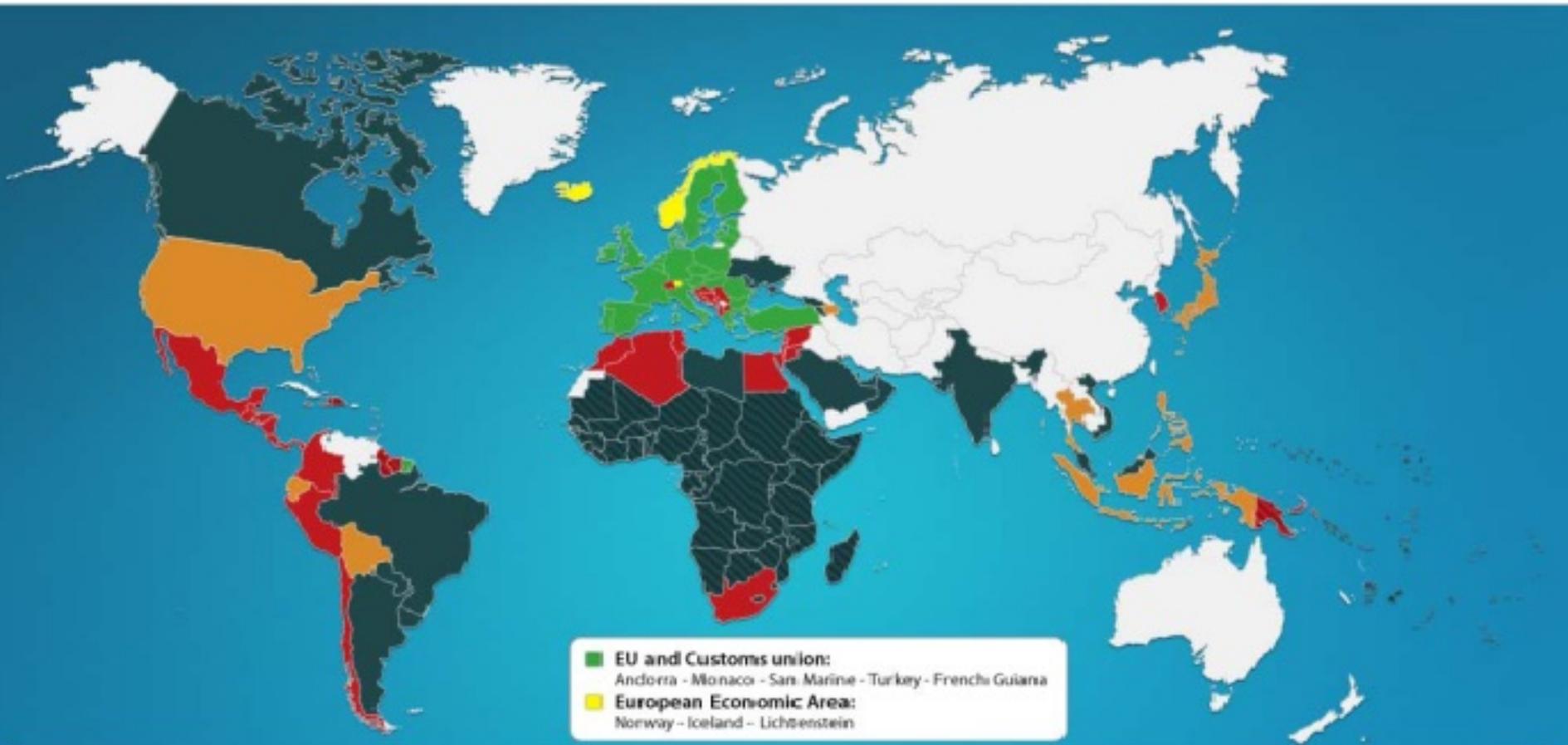
Quad Country Regionalism

The US FTA Landscape

Countries with U.S. FTAs



The EU FTA landscape



■ **EU and Customs union:**
 Andorra - Monaco - San Marino - Turkey - French Guiana
■ **European Economic Area:**
 Norway - Iceland - Liechtenstein

■ Countries with which the EU has concluded preferential trade agreements:

Mexico - Chile - Colombia - Peru - Panama - Costa Rica - El Salvador - Guatemala - Nicaragua - Honduras - Morocco - Algeria - Tunisia - Egypt - Jordan - Israel - Occupied Palestinian Territory - Lebanon - Syria - Former Yugoslav Republic of Macedonia - Albania - Serbia - Montenegro - Bosnia-Herzegovina - Croatia - Switzerland - South Africa - Republic of Korea (South Korea) - Antigua* - Barbuda* - Belize* - Bahamas* - Barbados* - Dominica* - Dominican Republic* - Grenada* - Guyana* - Haiti* - Jamaica* - Papua New Guinea* - St Kitts and Nevis* - St Lucia* - St Vincent and the Grenadines* - Seychelles* - Suriname* - Trinidad and Tobago*

■ Countries with which the EU is currently negotiating preferential trade agreements:

Canada - India - Singapore - Malaysia - Ukraine - Brazil - Argentina - Uruguay - Paraguay - Saudi Arabia - Botswana* - Cameroon* - Ivory Coast* - Kuwait - Qatar - United Arab Emirates - Fiji* - Oman - Bahrain - Libya - Cook Island* - Kiribati* - Lesotho* - Swaziland* - Madagascar* - Mauritius* - Mozambique* - Marshall Islands* - Micronesia* - Nauru* - Samoa* - Solomon* - Timor Leste* - Tonga* - Tuvalu* - Vanuatu* - Angola* - Namibia* - Comoros* - Djibouti* - Eritrea* - Ethiopia* - Malawi* - Sudan* - Zambia* - Burundi* - Kenya* - Rwanda* - Uganda* - Tanzania* - Central African Republic* - Chad* - Congo* - Democratic Republic of Congo* - Equatorial Guinea* - Gabon* - Sao Tome and Principe* - Benin* - Burkina Faso* - Cape Verde* - Gambia* - Ghana* - Guinea* - Guinea-Bissau* - Liberia* - Mali* - Mauritania* - Niger* - Nigeria* - Senegal* - Sierra Leone* - Togo* - Zambia* - Zimbabwe* - Vietnam - Moldova - Armenia - Georgia

■ Countries with which the EU is considering opening preferential negotiations:

Japan - Azerbaijan - Brunei Darussalam - Indonesia - Philippines - Thailand - Ecuador - Bolivia - United States of America

*Economic Partnership Agreements

The Japan FTA Landscape

EPA•FTA in Japan (July, 2012)

● Concluded ▶ 13

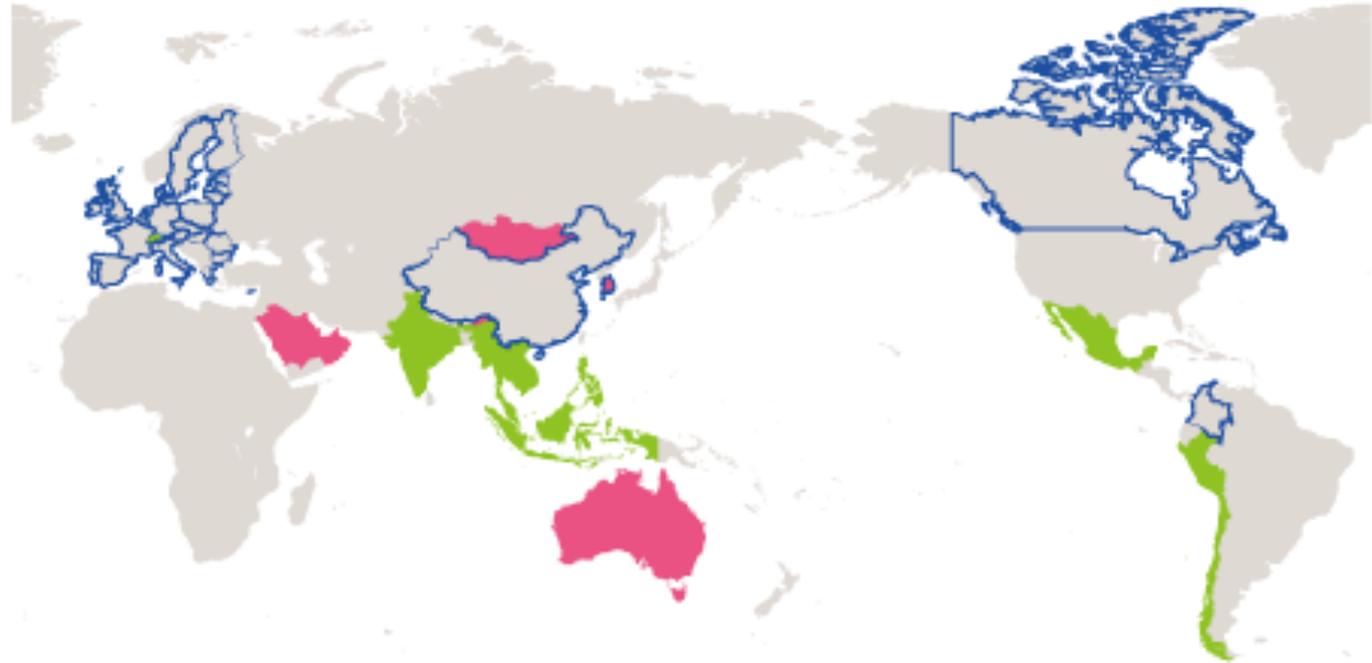
Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN, Philippines, Switzerland, Viet Nam, India, Peru

● Negotiating ▶ 4 (Include Countries unsigned)

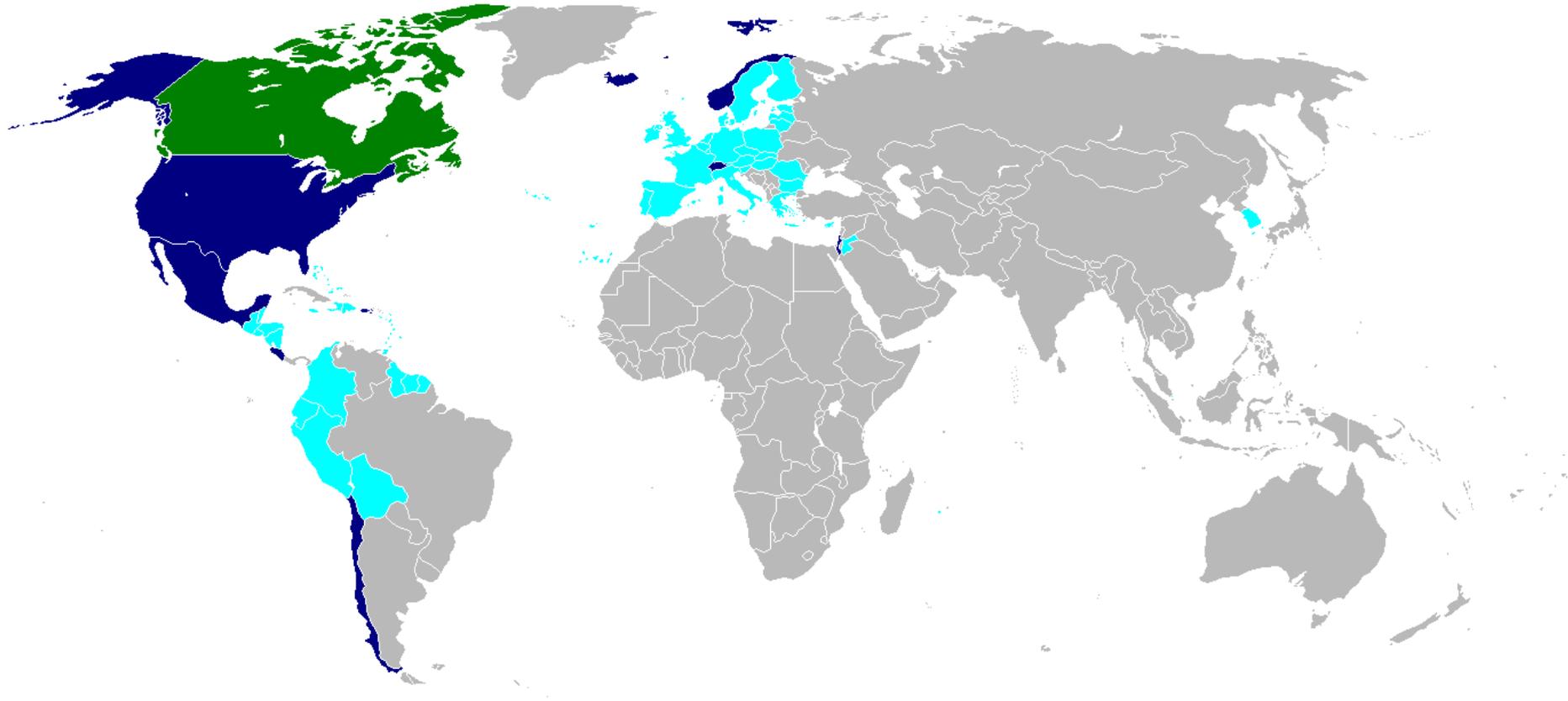
Australia (Negotiating), GCC (Negotiating), Korea (Negotiation suspended), Mongolia (Negotiating)

○ Joint Study

Canada, Japan-China-ROK, Colombia, EU



Canada FTAs



The New Regionalism

The New Regionalism

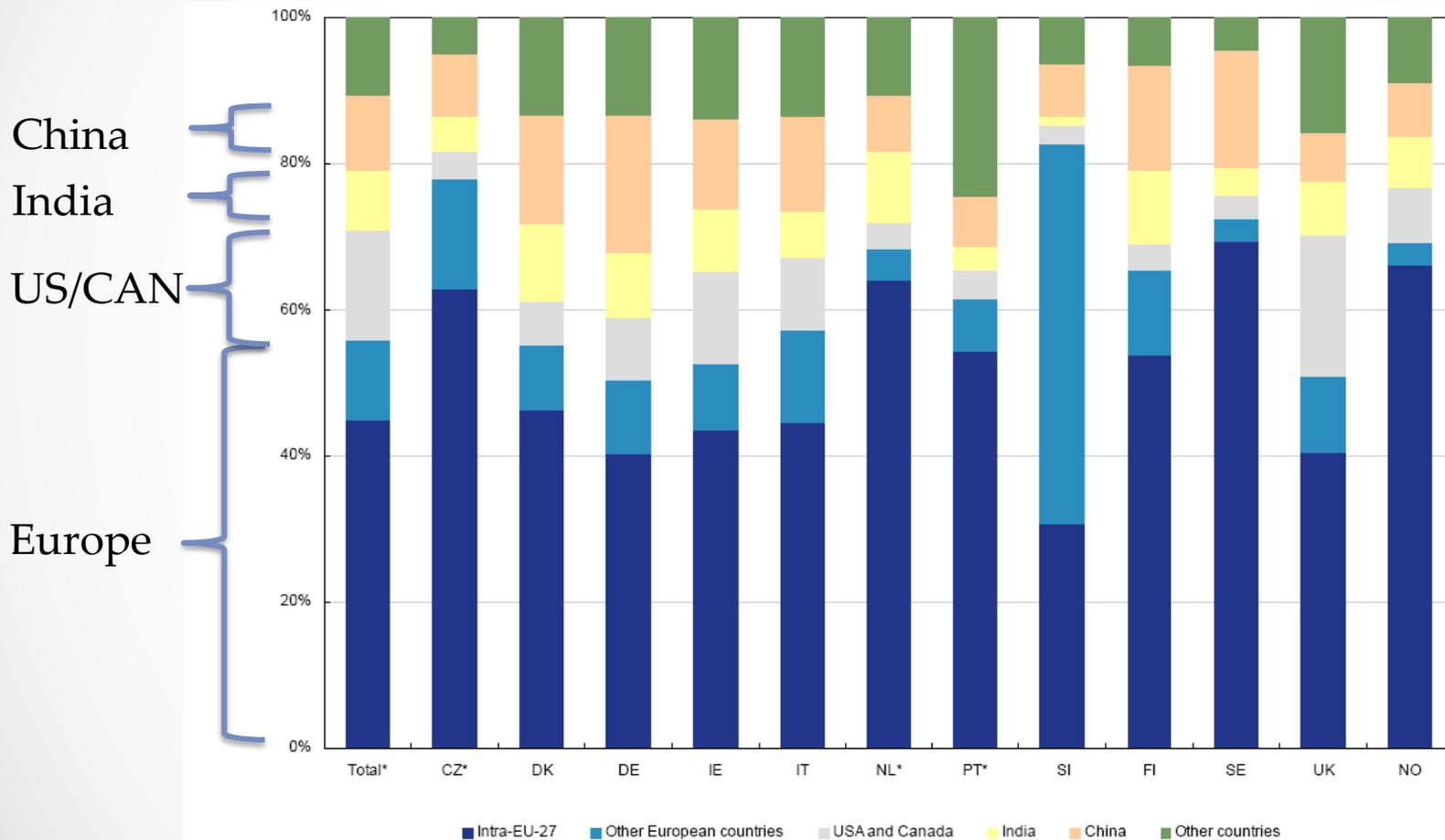
- Regional production networks and cross-border trade in parts and components (now almost 80% of world trade)
- MNEs operating in multiple regulatory regimes
- Demand for progress in areas outside WTO (hence Baldwin's call for WTO 2.0)
 - Regulation of MNEs
 - Behind the border measures
 - Increased importance of NTMs (aka NTBs), and impact on policy calculus (political cost-benefit analysis)
 - Trade-related IP issues (overlap with competition)
- The “Dragon in the Room” problem

Benchmarking NTB costs: potential impacts

- Firm surveys
- Gravity Analysis
 - Trade
 - Foreign affiliate trade
- Numerical assessments (structural/CGE analysis)

Locations for outsourcing

Extra-EU: US is top location choice



Source: International sourcing statistics, Eurostat, 2008.

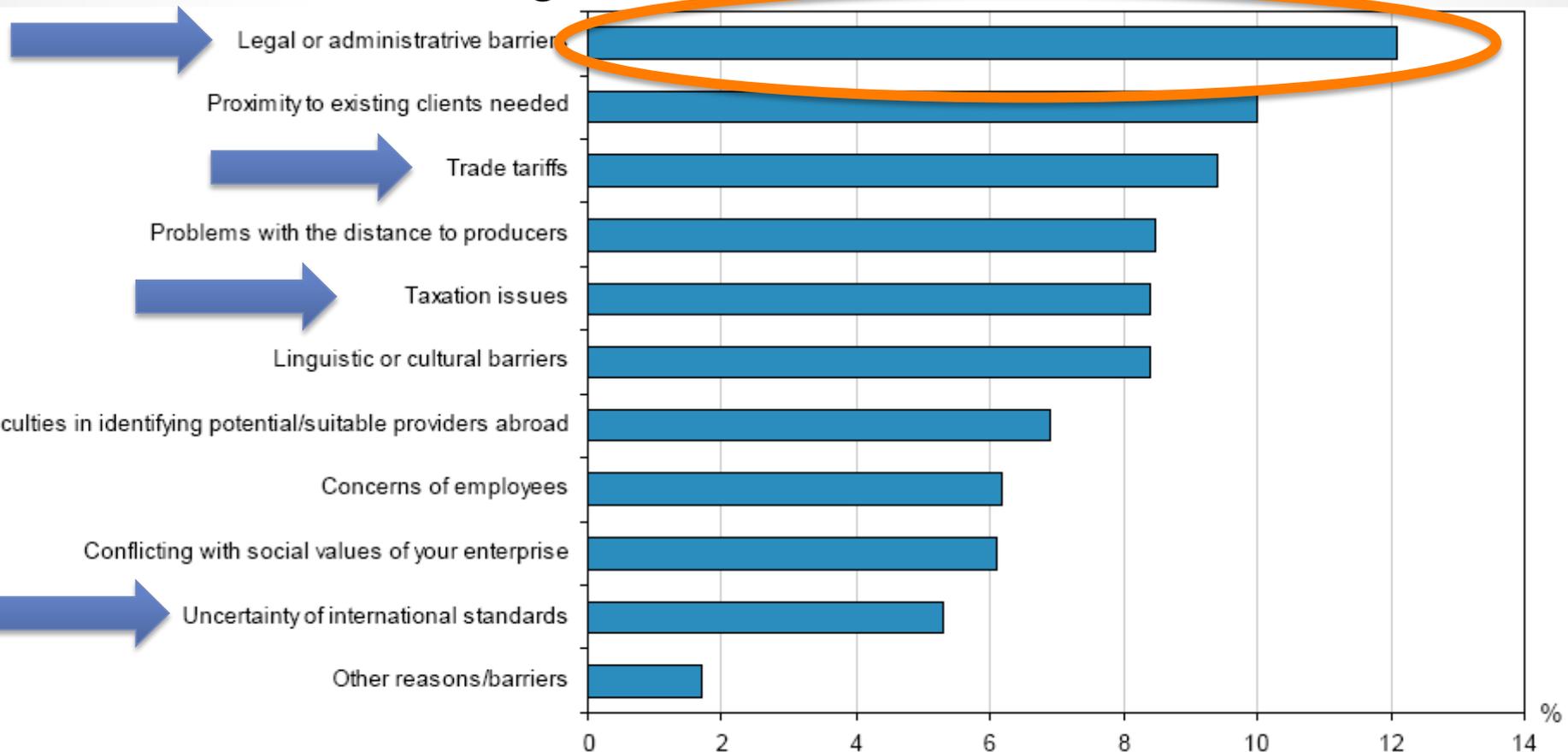
Source: Eurostat, SBS

* CZ, PT: provisional data; Total, NL: unreliable data.

Note: The percentages are calculated on the basis of the number of times the enterprises have mentioned the countries and/or country groups as a destination for international sourcing.

Benchmarking Barriers: Eurostat survey of outsourcing

Barriers to sourcing abroad



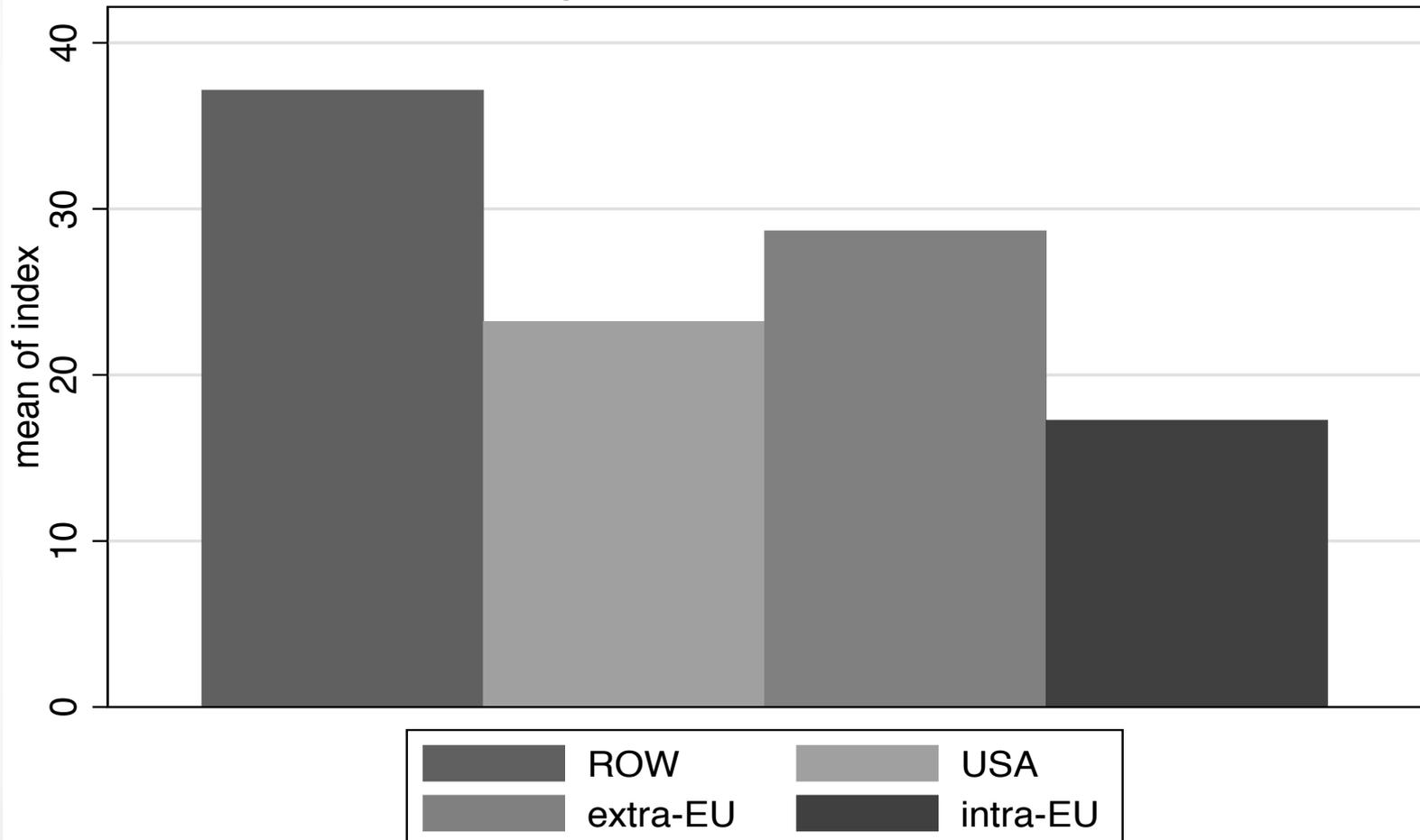
- Source: International sourcing statistics, Eurostat, 2008.

Benchmarking barriers: non-tariff barriers

- The Ecorys (2009) study represented a concerted effort to triangulate barriers
 - Firm surveys – including overall rankings and detailed barriers
 - Industry, legal, regulatory experts
 - Econometrics, fed into CGE modeling
- Some basic findings
 - The origin of barriers is not always deliberate. Legitimate goals can be reached in different ways. This in turn can lead to regulatory divergence. Examples include regulation of chemicals and motor vehicles.
 - Not all regulatory barriers can actually be negotiated and reduced. For example, the Japanese require legal documents in Japanese. This concept is called actionability.
 - Barriers can be grouped broadly into those that are cost raising barriers, and those that instead are rent generating barriers (i.e. they generate rents by limiting competition and market access).
- ○ Semantics matter: NTBs and NTMs.

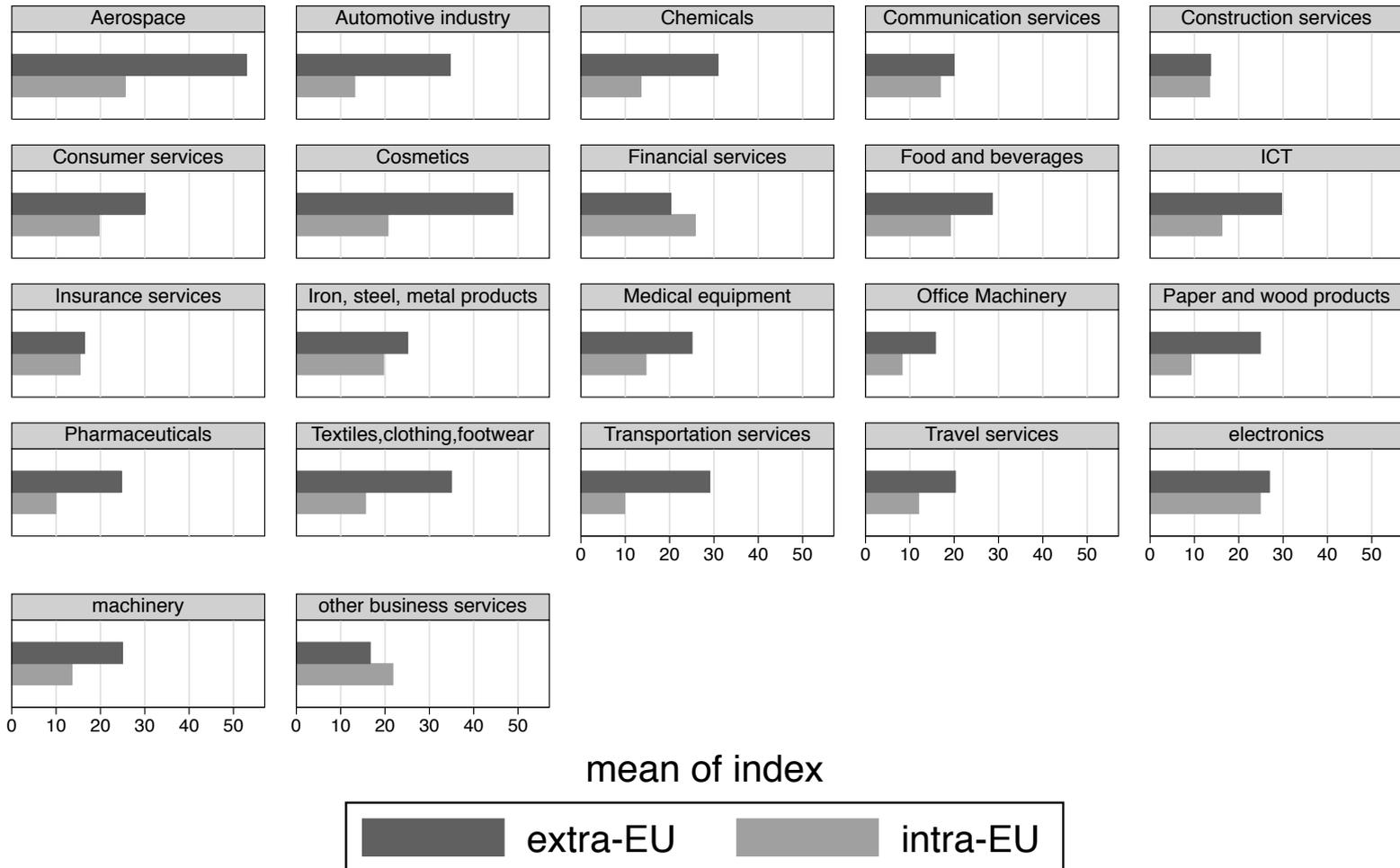
Benchmarking barriers: investment barriers

Average NTM indexes for FDI



source: NTB survey data.

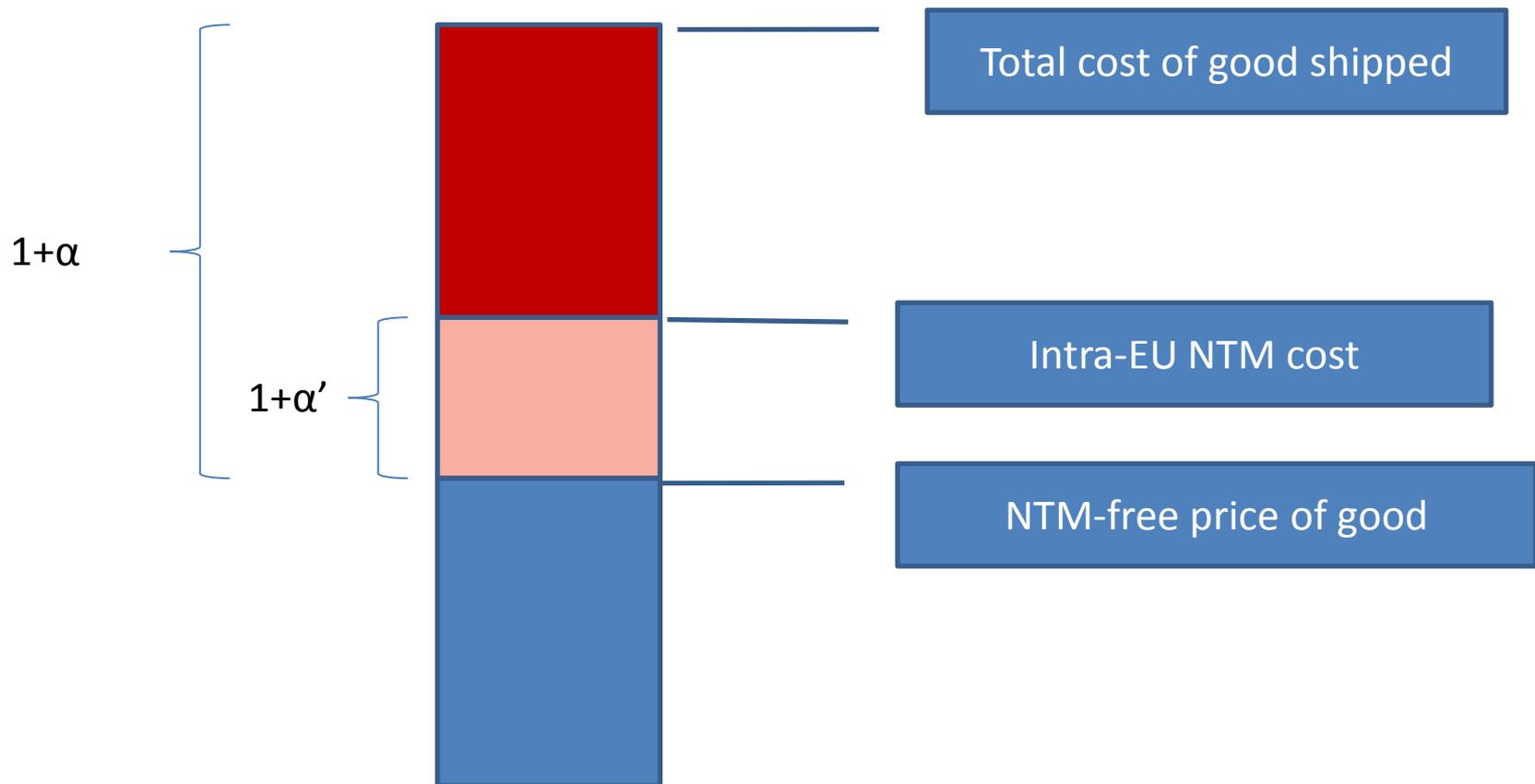
Intra- vs Extra-EU market access



source: See text. Extra-EU(Intra-EU) refers to NTMs faced by non-EU(EU) firms when operating in the EU.

NTB estimates

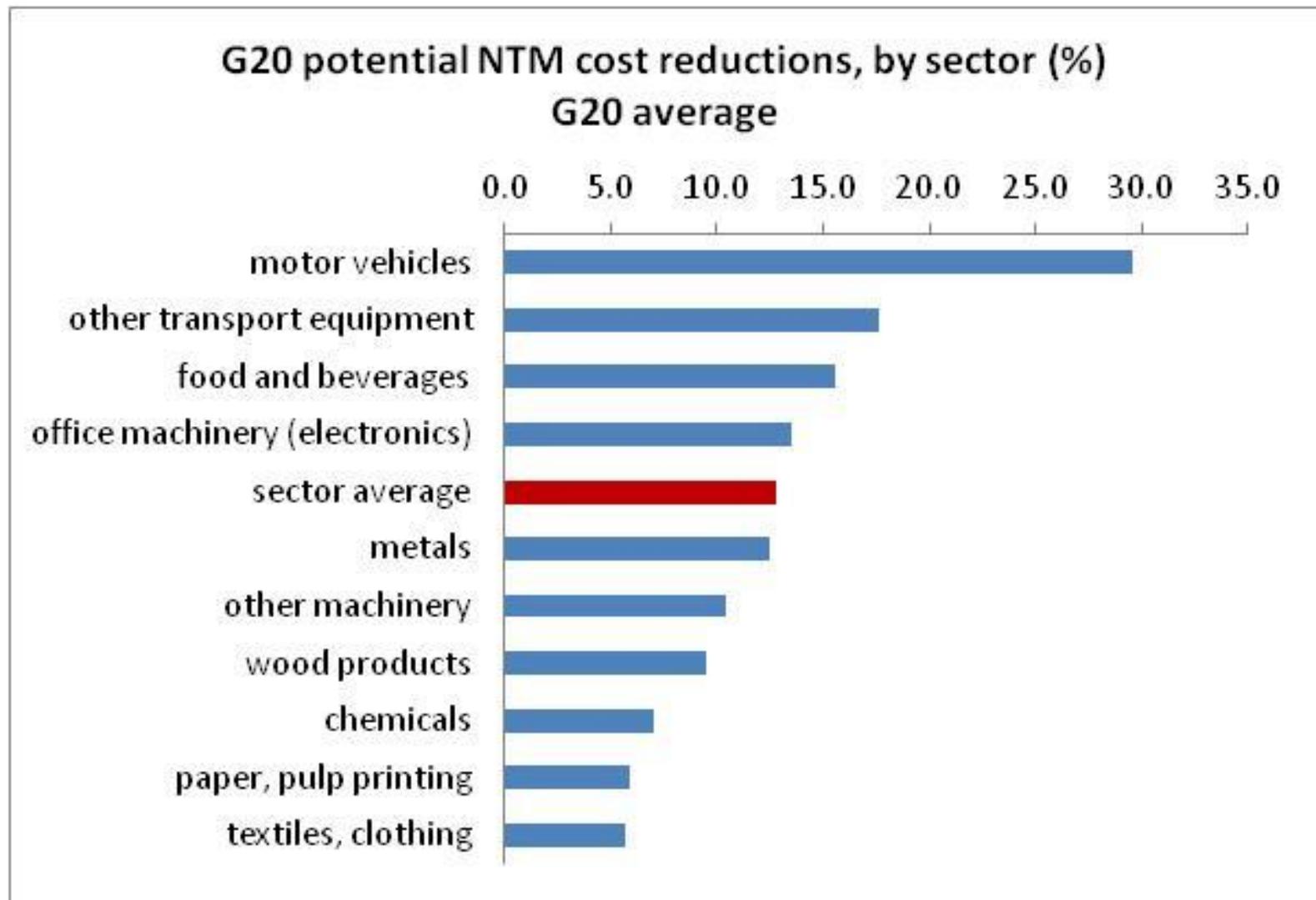
Feasible reductions



Reduction to zero infeasible (and does not maximize welfare): down to intra-EU level ($1+\alpha'$) should be attainable:

Efficiency gain: $(\alpha-\alpha')/(1+\alpha)$

Estimates of “feasible” cost savings



Estimates of “feasible” cost savings

G20 NTB potential cost reduction estimates

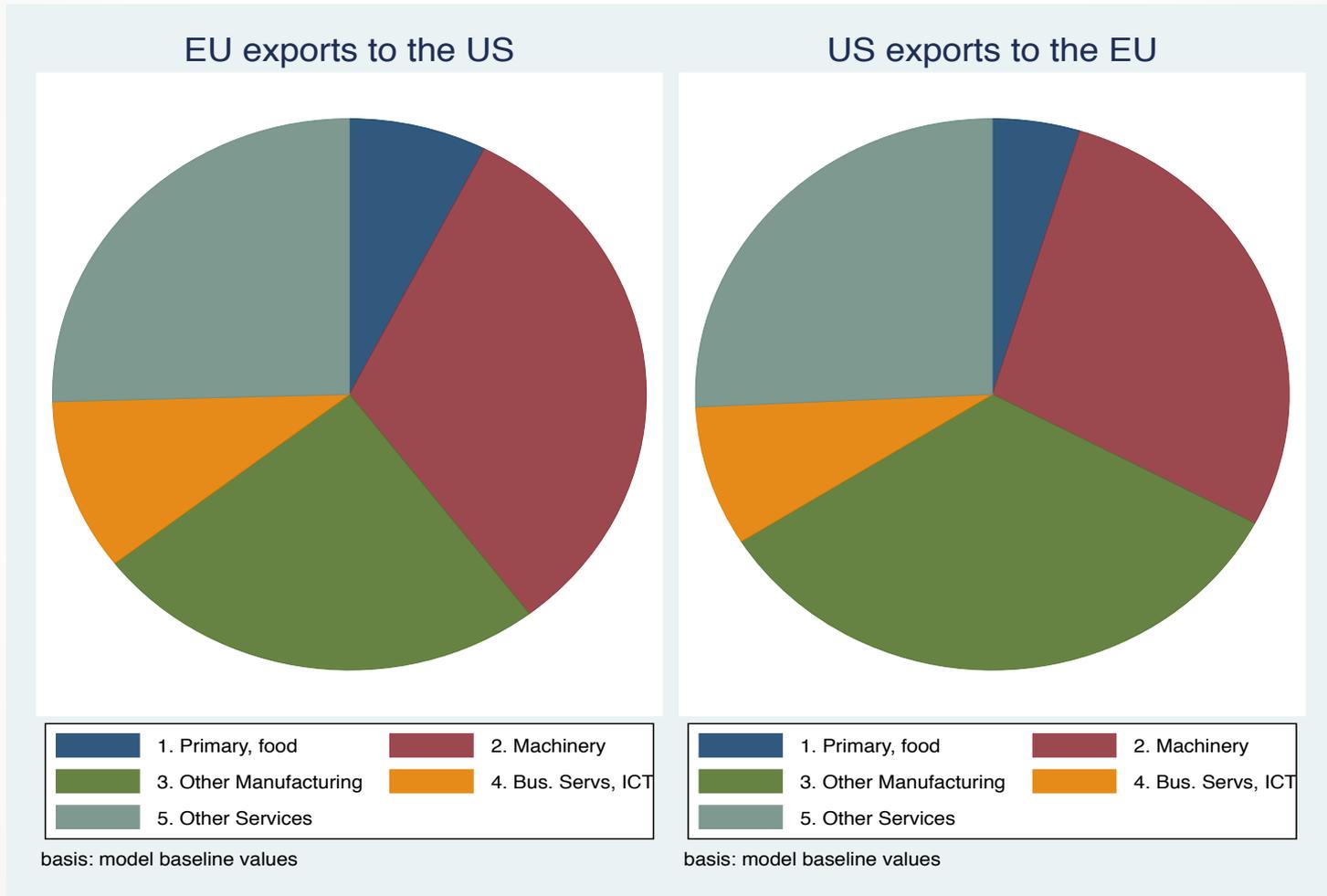
	ISIC 15,16 food and beverages	ISIC 27,28 metals	ISIC 17-19 textiles, clothing	ISIC 20 wood products	ISIC 21,22 paper, pulp printing	ISIC 24,25 chemicals	ISIC 30, 32 office machinery (electronics)	ISIC 29,31,33 other machinery	ISIC 34 motor vehicles	ISIC 35 other transport equipment	mean deviation from G20 average
Argentina	14.63	.	.	.	.	8.30	.	17.54	.	.	1.27
Australia	13.88	13.79	.	.	.	0.00	.	0.00	23.18	0.00	0.46
Brazil	17.06	9.15	4.46	.	.	7.38	.	10.53	33.94	23.74	1.02
Canada	13.99	.	.	.	.	7.48	13.99	11.83	1.50	18.89	0.88
China	18.93	17.43	5.79	13.20	8.30	9.36	18.94	15.48	38.09	12.89	1.27
European Union	16.90	11.54	6.02	10.84	6.79	7.48	10.76	13.87	24.90	15.56	1.03
India	19.03	17.12	.	.	.	8.95	10.20	14.77	34.06	.	1.20
Indonesia	7.87	.	.	.	.	8.36	.	4.14	.	21.26	0.82
Japan	19.90	10.14	4.23	13.02	8.19	7.62	.	9.08	29.11	18.08	1.06
Korea	14.84	10.90	4.17	.	.	7.02	12.02	11.86	30.77	15.70	0.94
Mexico	3.69	.	.	.	.	.	.	9.23	.	.	0.56
Russia	22.26	12.06	9.74	10.19	6.37	8.62	.	14.40	37.04	30.24	1.31
Saudi Arabia	13.99	19.71	.	.	.	.	.	.	47.61	.	1.36
Turkey	15.63	0.73	.	.	.	.	15.36	.	.	.	0.73
United States	21.02	15.00	5.64	0.00	0.00	6.53	12.96	12.61	24.70	20.27	0.86
South Africa	.	.	.	.	.	4.16	.	0.00	.	.	0.30
average	15.57	12.51	5.72	9.45	5.93	7.02	13.46	10.38	29.54	17.66	1.00
OECD	14.98	10.35	5.02	7.95	4.99	6.02	13.02	9.78	22.36	14.75	0.88
nonOECD	16.25	15.10	6.66	11.69	7.34	7.87	14.57	10.98	38.15	22.03	1.15

The TTIP

Trans-Atlantic Trade and Investment Partnership

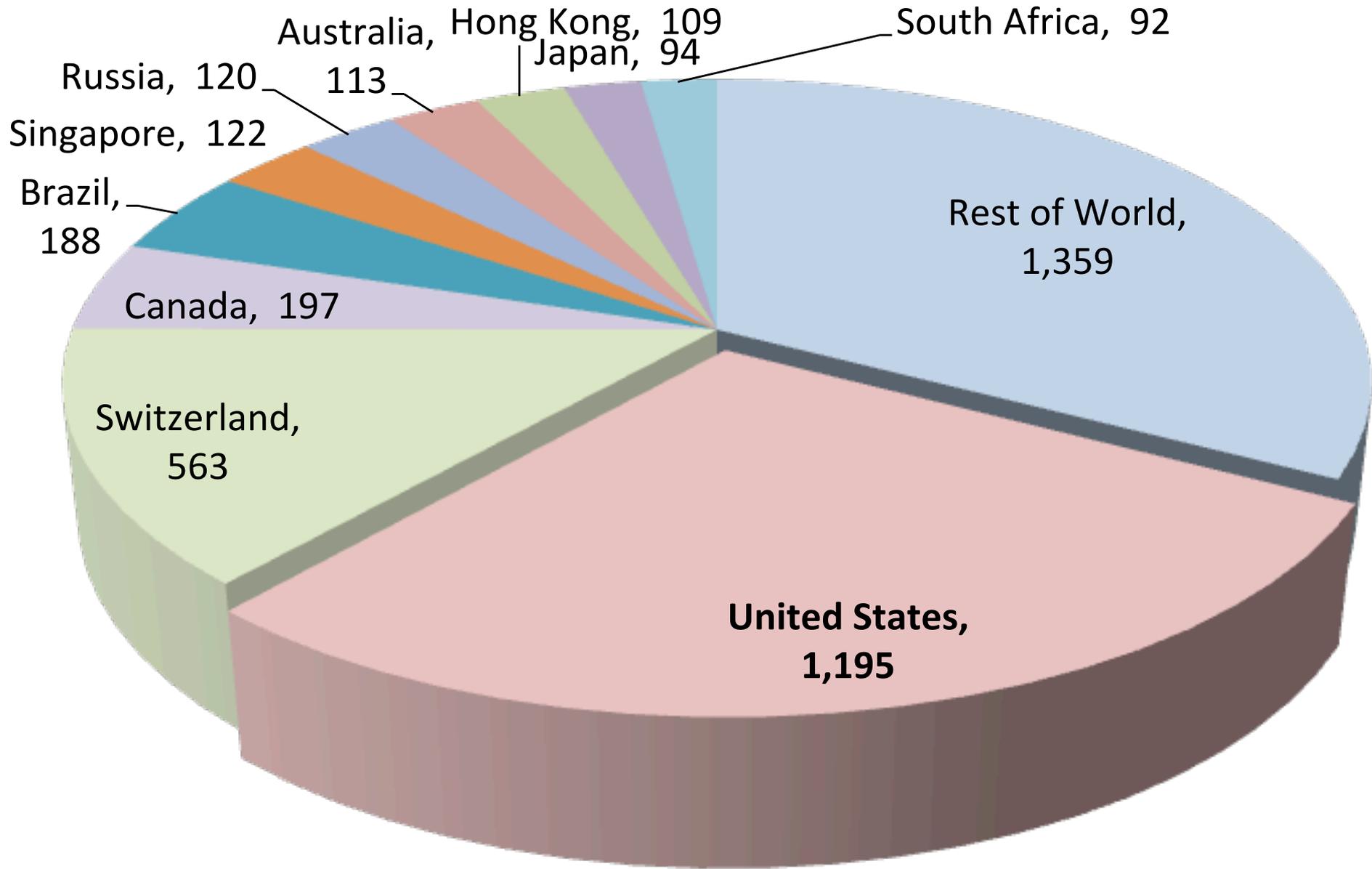
The Trans-Atlantic Relationship

trade in goods and services



Approximately 17% of EU exports of goods and services are destined for the US.
65% of this is exports of goods.

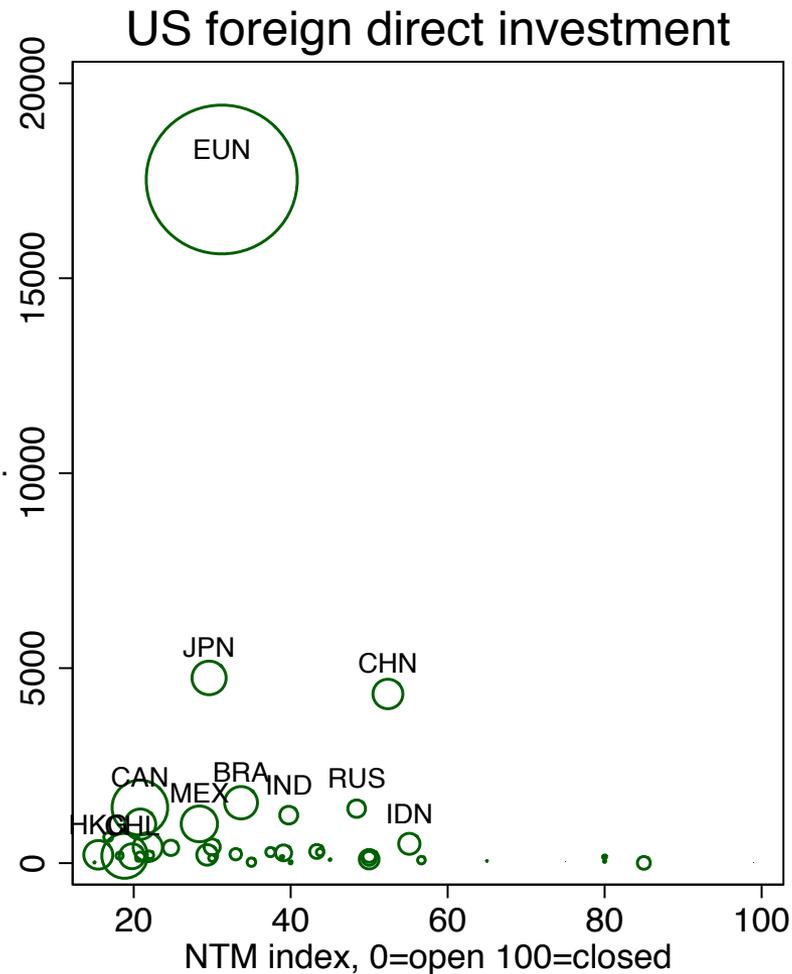
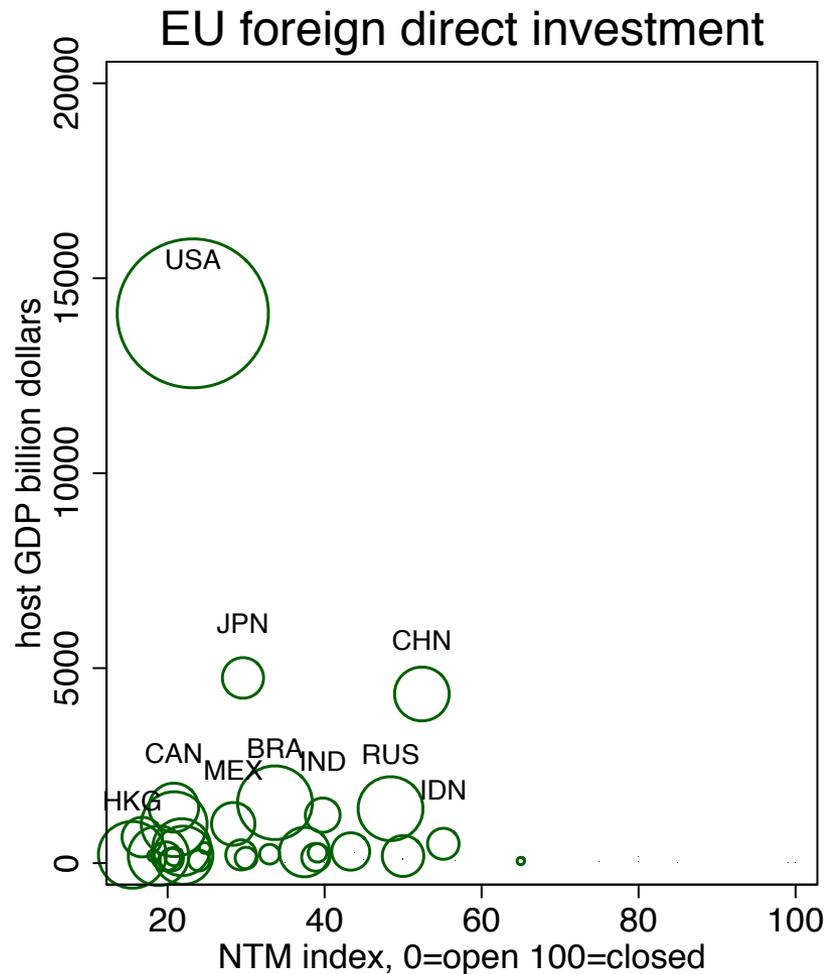
Outward EU FDI



FDI and market access

Foreign Direct Investment by Host Country

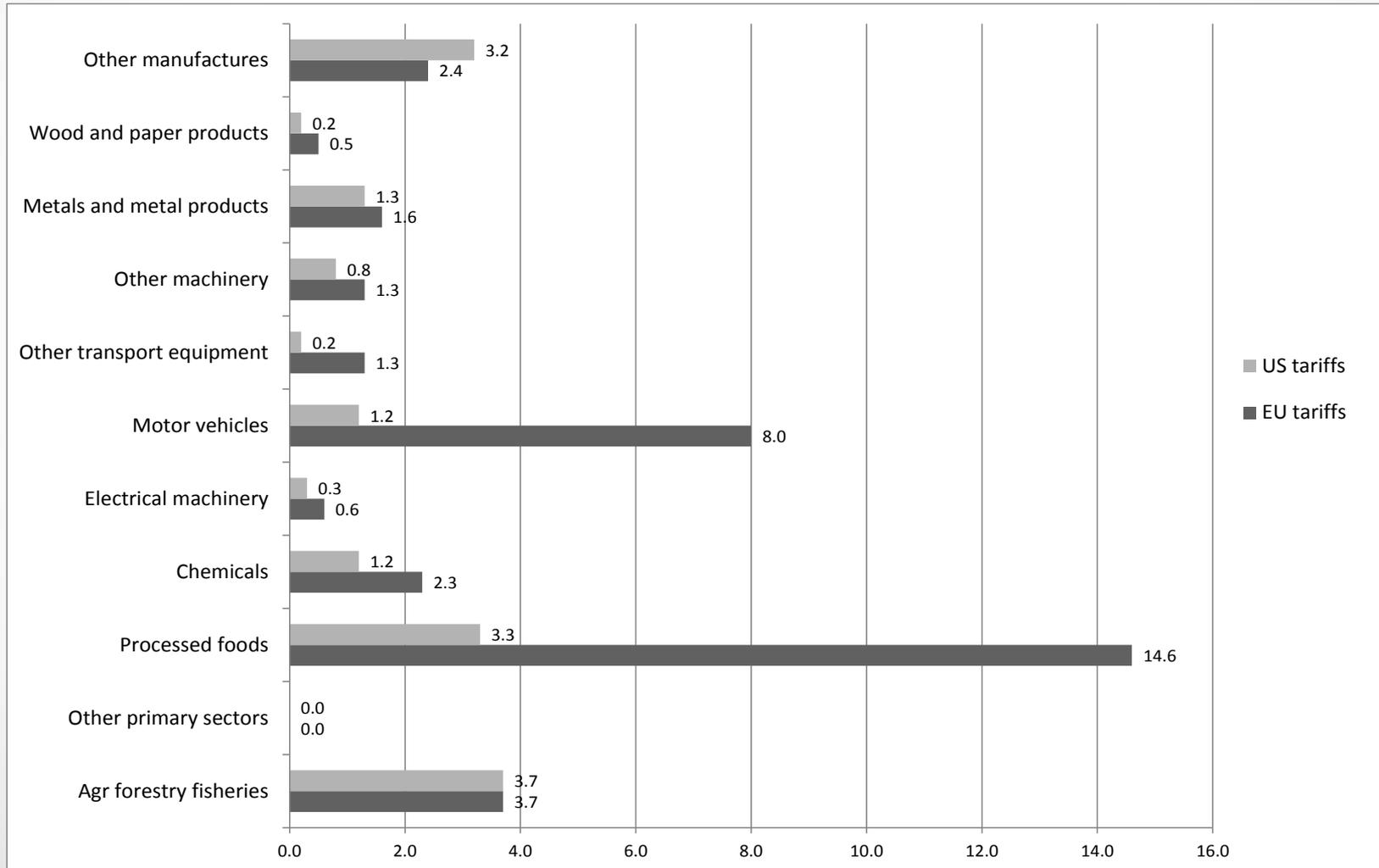
Size of circle indicates mean 2007-2009 FDI income



source:NTM surveys and Eurostat FATS statistics as explained in text, excluding intra-EU FDI.

Benchmarking barriers: bilateral tariffs

Current tariff barriers



Benchmarking barriers: non-tariff trade barriers

Sector	Total trade barriers: EU barriers against US exports	Total trade barriers: US barriers against EU exports
Food and beverages	56.8	73.3
Chemicals	13.6	19.1
Electrical machinery	12.8	14.7
Motor vehicles	25.5	26.8
Other transport equipment	18.8	19.1
Metals and metal products	11.9	17.0
Wood and paper products	11.3	7.7
Other manufactures	N/A	N/A
<i>average goods</i>	21.5	25.4
Transport		
Air	2.0	2.0
Water	8.0	8.0
Finance	11.3	31.7
Insurance	10.8	19.1
Business and ICT	14.9	3.9
Communications	11.7	1.7
Construction	4.6	2.5
Personal, cultural, other services	4.4	2.5
<i>average services</i>	8.5	8.9

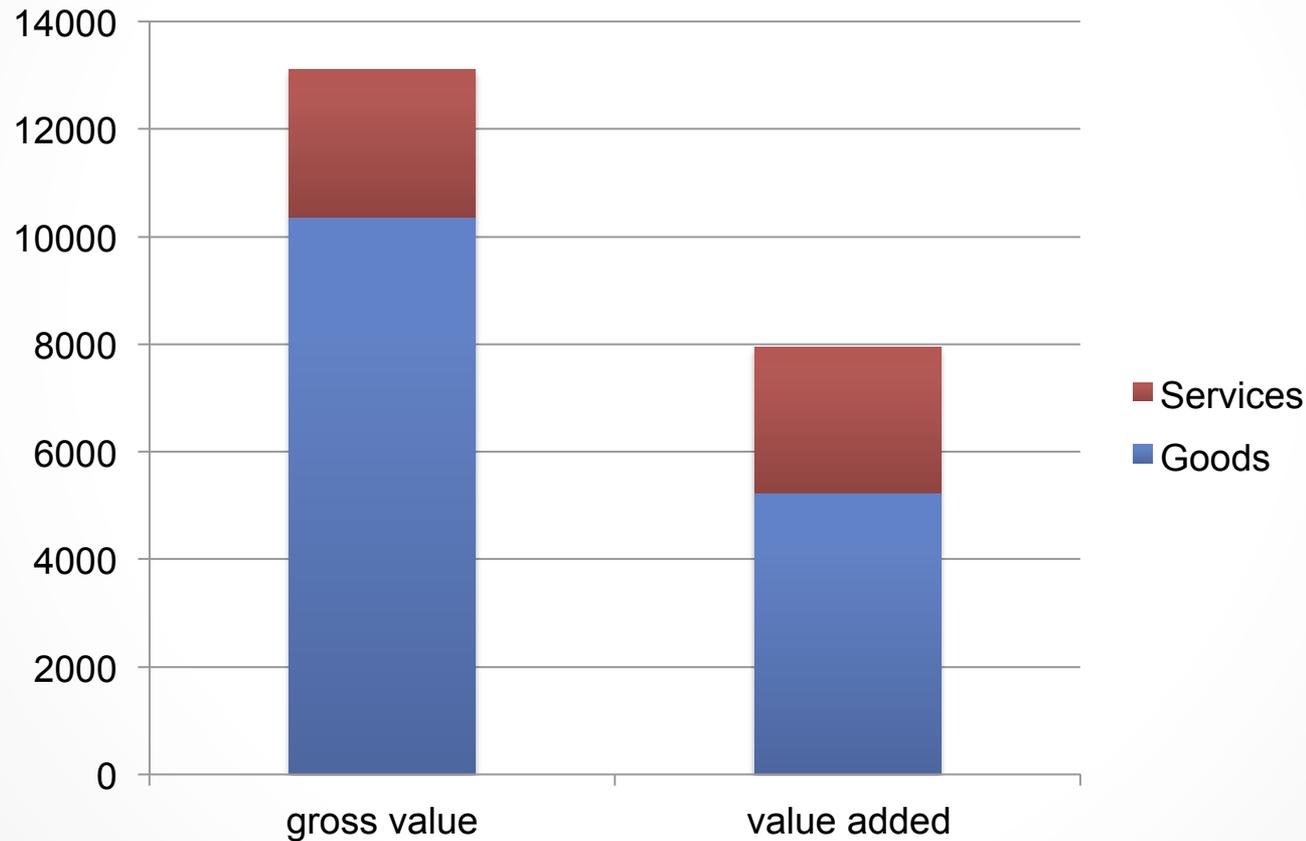
Source: ECORYS (2009), Annex Table III.1

Benchmarking Expectations

- The impact of improved market access for the EU hinges on several things.
 - Underlying barriers
 - Sector level EU value added shares of exports to the US
 - Price elasticities
 - Linkages to production (value chains and integrated production processes)
 - Importance of particular goods and services for consumers
- We will look at the first 3 of these in the next two slides, introducing the concept of value added in trade, and moving to summary indexes.
- The full assessment follows based on a model of the global economy

Benchmarking expectations value added vs. gross trade

Example: Austrian exports to the US 2007, mill euro



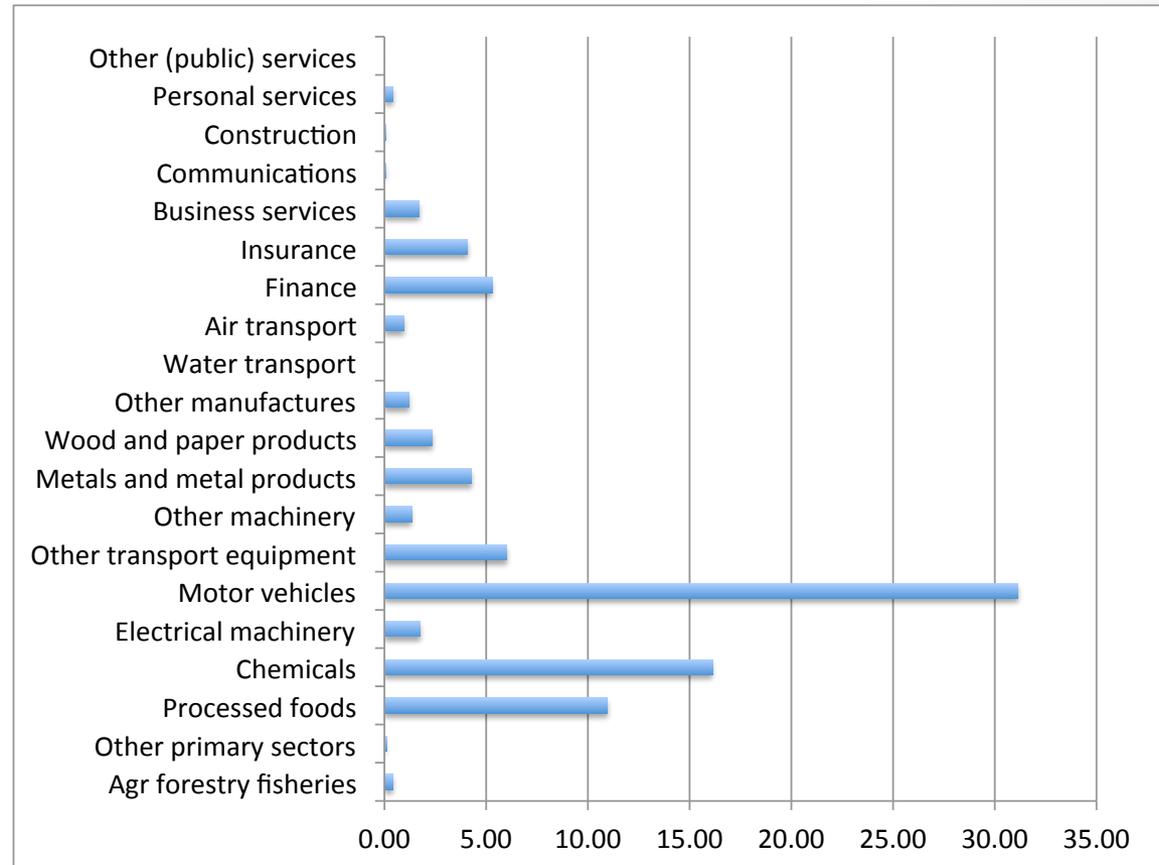
Source: Modeling the Effects of Free Trade Agreements between the EU and Canada, USA and Moldova/Georgia/Armenia on the Austrian Economy, FIW – Research Centre International Economics, 2012.

Benchmarking expectations market access indexes for the EU

Improved Market Access Scores

Agr forestry fisheries	0.40
Other primary sectors	0.10
Processed foods	10.96
Chemicals	16.12
Electrical machinery	1.76
Motor vehicles	31.13
Other transport equipment	6.00
Other machinery	1.34
Metals and metal products	4.29
Wood and paper products	2.37
Other manufactures	1.22
Water transport	0.00
Air transport	0.95
Finance	5.29
Insurance	4.10
Business services	1.72
Communications	0.09
Construction	0.06
Personal services	0.42
Other (public) services	0.00

note: this index combines level of tariffs and NTBs with shares of Value added in exports, and elasticities of demand.



Source: own calculations from model database, barrier estimates.

Modeling the impact of liberalization

overview of the model

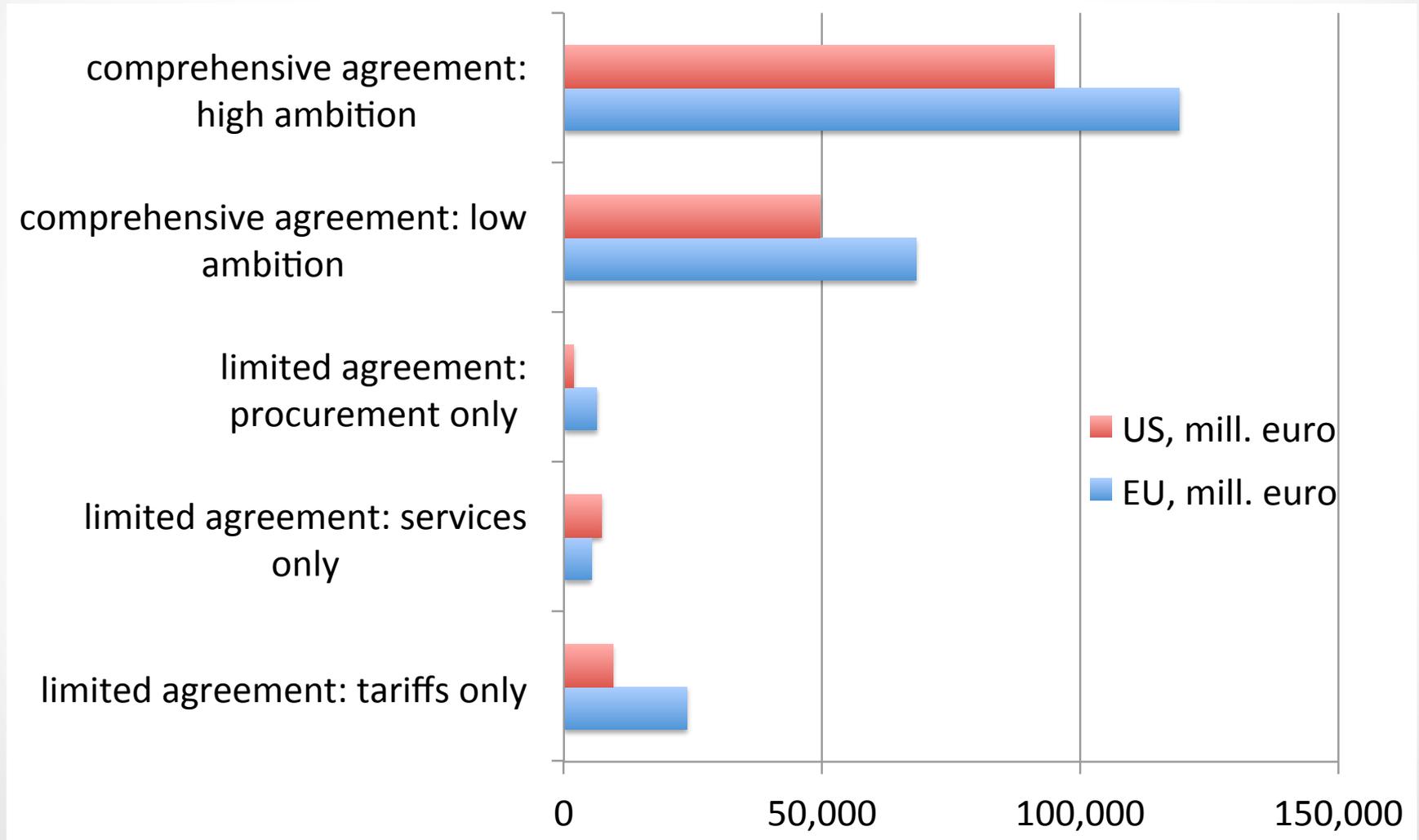
- Multi-region global model of production, trade, and final demand
- Benchmarked to GTAP8 data, but projected to year 2027
 - Includes intermediate linkages between sectors (like motor vehicles buying steel)
 - Includes cross-border linkages between sectors (like German motor vehicles using US parts and components)
 - Includes tariff barriers
 - Includes both cost raising NTBs and rent generating NTBs.
 - 11 regions, 20 sectors (same sectors as ECORYS 2009).
- Tariffs are based on current applied rates, NTBs are based on ECORYS (2009)

Modeling the impact of liberalization

summary of scenarios

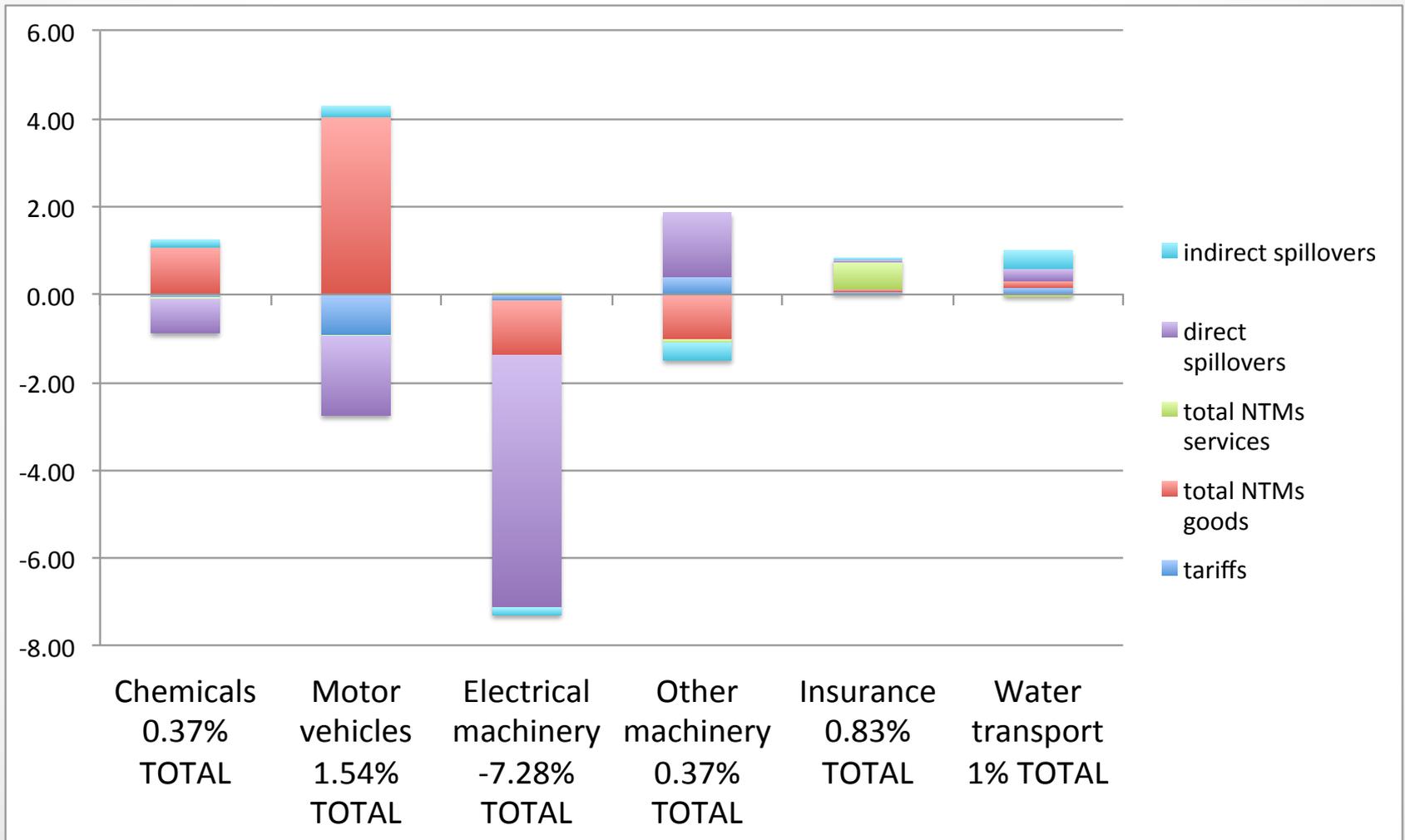
- Different levels of ambition
 - Most vs. all tariffs
 - Half of actionable NTBs vs 20% of actionable NTBs
 - Different levels of spillovers
- Spillovers
 - Follows from insights in Copenhagen Economics (2009, 2011)
 - Not all barriers are inherently discriminatory. Reducing regulatory barriers bilaterally might also improve access for 3rd countries. These are direct spillovers from NTB reduction.
 - In addition, common EU:US standards and cross-recognition may lead to NTB reductions in third countries if they converge on the same standards. This means improved EU:US access to third markets, but also lowered costs between third countries if we have regulatory convergence. These are indirect spillovers.
 - Direct spillovers are modeled at 10 to 20% of direct NTB reductions. Indirect spillovers are modeled as half of the direct spillover reductions.
- Piecemeal vs. comprehensive liberalization

Modeling the impact of liberalization changes in GDP, million euro in 2027



Modeling the impact of liberalization

output effects hinge on spillovers



Closing comments

- The old Quad is pursuing regional initiatives outside of the multilateral framework
- These are not our father's FTAs. The new Trade-Investment initiatives are deeper, and reflect regional production by global firms.
- To a large extent, the welfare calculus is very different
 - Triangles vs rectangles
 - Possible productivity gains
 - Tied into global standards setting
- Scope for spillovers is also important. In the EU-US case it contributes to overall gains, but raises questions about adjustment in particular sectors.
- The potential benefits are substantial, but hinge on difficult areas (like chemicals regulation, product standards and safety in motor vehicles, regulatory differences in services).