

Chapter 11

Asia's Rise and the Transatlantic Economic Response

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The second half of the 20th century was a period of transatlantic economic hegemony. The United States helped rebuild war-torn economies and was a main driver of the dynamic growth in trade in the postwar era. The United States was the *demandeur* of all eight rounds of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT); U.S.-European collaboration set the agenda for and led to the successful conclusion of each of those rounds. This leadership contributed to the strengthening of the trade architecture and the establishment of the World Trade Organization (WTO) in 1995. But unlike the GATT era where a transatlantic compact was sufficient to produce global trade pacts, in the WTO era U.S.-EU agreement is still necessary but no longer sufficient to achieve success.

In the 21st century, many developing countries now play an active role in global economic initiatives. The rise of Asia combined with the new institutional structure of the WTO have been important factors in this regard.

Asia's success story—driven by steady expansion of trade and investment and increasing integration in global value chains—has led some observers to proclaim this new era as the “Asian Century.”¹ Projections of Asian economic growth show sharp increases in developing Asia's aggregate share of global GDP: in the first decade of the 21st century, the dynamic growth of China and India, along with the mem-

¹See for example, the speech by Former WTO Director General, Pascal Lamy, “‘Asian Century’ Means Shared Prosperity, Responsibility and Multilateral Agreements, Lamy Tells Conference,” WTO news (speech, Geneva, March 11, 2013), http://www.wto.org/english/news_e/sppl_e/sppl269_e.htm.

bers of the Association of Southeast Asian Nations (ASEAN), more than doubled their combined share of global output and exports, as shown in Table 1. Projections for 2025 suggest that China's GDP will rise to \$17 trillion, accounting for 17% of global GDP, compared with GDP of \$1.2 trillion and 4% global share in 2000; while India's GDP will reach \$5.2 trillion, about the same as Japan. Similarly, China, India and the large ASEAN economies are projected to increase their combined share of world exports from 18% in 2010 to 25% in 2025, while the US and EU combined share will drop from around 43% to 36%. The Asian Development Bank projects that by 2050, Asia could account for more than half of world GDP, trade and investment.²

What are the economic consequences of Asia's rise for the transatlantic partners? Do they face a new "Défi Asiatique?" Asia is undoubtedly on the rise. But predictions that the aggregate growth of the region portends the advent of an "Asian Century" seem to exaggerate the potential "défi" for the transatlantic powers, in at least three respects:

First, in an era of accelerating globalization, it is hard to talk about a country or continent dominating the global scene. Interdependence is a fact of economic life; at the same time, it both drives and constrains political action by major economic powers around the globe.

Second, while these economies will become bigger and richer in terms of aggregate GDP, with the exception of Japan, South Korea, and Singapore, they are not "rich." As Table 2 demonstrates, the United Nation's Human Development Index (HDI) ranks China 101 out of 186 countries, India ranks 136, and Indonesia ranks 121—even after decades of rapid growth. Moreover, the inequality-adjusted HDI reveals that income disparities within these societies remain high: taking this factor into account, China's index falls from 0.70 to 0.54 and India's index falls from 0.55 to 0.39 on a scale of 0 to a high of 1, compared to a drop of 0.94 to 0.84 for the United States. To be sure, there has been measured progress of convergence in the developing world

²Asian Development Bank (ADB) *Asia 2050: Realizing the Asian Century* (Washington, D.C., August 2011), <http://www.adb.org/publications/asia-2050-realizing-asian-century>.

³United Nations Development Programme, *Human Development Report 2013: The Rise of the South Human Progress in a Diverse World* (New York: United Nations, 2013), p. 2, http://hdr.undp.org/sites/default/files/reports/14/hdr2013_en_complete.pdf.

Table 1. Predicted GDP and trade growth in the next decades for select countries (\$ billions)

Real GDP	2000		2010		Est. 2025	
	Billions (2000 US\$)	% of world GDP	Billions (2007 US\$)	% of world GDP	Billions (2007 US\$)	% of world GDP
European Union ^a	8,131	26	16,629	29	22,714	22
China	1,198	4	4,850	8	17,249	17
India	460	1	1,559	3	5,233	5
Indonesia	165	0	550	0	1,549	0
Japan	4,667	14	4,250	7	5,338	5
Korea	553	2	1,135	2	2,117	2
Malaysia	93	0	207	0	431	0
Singapore	95	0	202	0	415	0
Thailand	122	0	266	0	558	0
United States	9,898	31	14,049	24	20,237	20

Exports	Value	% of world		Value	% of world	
		exports	Value		exports	Value
European Union ^a	2,785	35	4,753	33	7,431	26
China	279	3	1,622	11	4,579	16
India	60	1	207	1	869	3
Indonesia	67	1	172	1	501	2
Japan	512	6	833	6	1,252	4
Korea	205	3	386	3	718	3
Malaysia	112	1	189	1	328	1
Singapore	184	2	210	1	263	1
Thailand	81	1	203	1	476	2
United States	1,093	14	1,536	11	2,813	10

Imports	Value	% of world		Value	% of world	
		imports	Value		imports	Value
European Union ^a	2,992	37	5,039	33	8,094	27
China	201	3	1,332	9	4,253	14
India	63	1	267	2	916	3
Indonesia	40	0	161	1	483	2
Japan	407	5	738	5	1,238	4
Korea	159	2	403	3	792	3
Malaysia	76	1	162	1	315	1
Singapore	n.a.	n.a.	194	1	281	1
Thailand	56	1	191	1	468	2
United States	1,304	16	2,209	15	3,577	12

^aFigures for the European Union include the EU-25 countries and in addition, Iceland and Switzerland. EU trade with the world includes intra-EU trade in addition to extra-EU trade, which overestimates the percentage of world trade represented by these countries.

Note: Data for 2000 uses 2000 dollars for base year. Data for 2010 and 2025 estimates use 2007 dollars.

Source: Peter A. Petri, Michael Plummer and Fan Zhai, *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment* (Washington, DC: Peterson Institute for International Economics, 2012); World Bank World Development Indicators database, <http://data.worldbank.org/indicator>.

Table 2. Human Development Index (HDI) for select countries, 2012

Country	HDI ^a		Inequality-adjusted HDI ^b	
	Value	Rank	Value	Rank
China	0.699	101	0.543	67
India	0.554	136	0.392	91
Indonesia	0.629	121	0.514	78
Japan	0.912	10	-	-
Korea	0.909	12	0.758	28
Malaysia	0.769	64	-	-
Singapore	0.895	18	-	-
Thailand	0.69	103	0.543	67
United States	0.937	3	0.821	16

^aThe HDI is based on three dimensions (health, education, and income) and four related indicators. The HDI sets a minimum and a maximum for each dimension and calculates where each country stands in relation to these "goalposts," expressed as a value on a scale of 0 to a high of 1.

^bIHDI is measured as HDI adjusted for inequalities in the distribution of achievements in health, education, and income.

Note: A dash indicates index not available.

Source: UNDP (2013).

toward higher levels of human development.³ But persistent development challenges also means that political priorities in these societies will have to continue to focus on managing domestic adjustment through income redistribution, leaving less political capital and resources to devote to economic objectives abroad.⁴

Third, the evolution of powerful Asian economies does not mean that Asia will become a powerful region. While the major economies are integrating, intra-Asian economic integration still lags behind Asia-Pacific and North American arrangements, namely the Trans-Pacific Partnership (TPP) and North American Free Trade Agreement (NAFTA). The Regional Comprehensive Economic Partnership (RCEP)—led by ASEAN plus Australia, China, Japan, South Korea, India, New Zealand—would set a precedent in the region, but it is not the functional equivalent of the TPP. Important challenges remain from accommodating least developed economies like Myanmar and foot-draggers to liberalization like India. Moreover, increasing competition for global investment and export market share has already incited political tensions and protectionist measures directed against

³Jeffrey J. Schott, "The Asian Century: Reality or Hype?" *The International Economy*, Summer 2013a, pp. 17–18, http://www.international-economy.com/TIE_Su13_Asia_CenturySymposium.pdf.

erstwhile RCEP negotiating partners.⁵ Structural shifts in the major Asian economies, in particular the growth of the service sector in India and China, may create additional frictions.⁶ This growing friction between regional powers means these countries will continue to depend importantly on trade with the United States and the European Union, and will hesitate to assume major global leadership roles. Combined, these factors will likely place a constraint on the pace of economic growth and intra-Asian integration.

Within this context, this chapter assesses the transatlantic response to Asia's growing economic importance. First, we provide an overview of U.S. and EU trade and investment and the importance of their commercial ties with Asia. Second, we examine the evolving U.S. and European responses to Asia's rise and their differing strategies of economic engagement. The U.S. economic "pivot" to Asia began more than a decade ago and has been amplified by the TPP initiative. The European Union's response has been more limited, but deepening trade ties with Asia became a growing priority during the mid-2000s. Third, we assess the recent convergence of U.S. and EU policy initiatives toward Asia: the transatlantic partners have gone from competitive regionalism in Asia to cooperative transatlantic regionalism through the launch of negotiations on a Transatlantic Trade and Investment Partnership (TTIP). TTIP has the potential to improve U.S. and European competitiveness in the global economy, and thus is an integral component of the transatlantic strategy to address the new commercial challenge from emerging Asian countries. But to achieve that result, both sides will have to revise specific regulatory policies to either align or harmonize with the other TTIP partner.⁷ Fourth, we

⁵For example, a growing proportion of India's trade defense measures, including antidumping and countervailing measures, have targeted China. Analysis by Tovar (2011) shows that in 1997, 53% of India's total antidumping measures affected developed countries, another 22% affected China, and the rest affected other developing countries. By contrast, by 2009 only 25% of the total stock of Indian measures was imposed against developed countries, 36% against developing countries, namely Malaysia, Thailand, and Japan, while almost 40% were imposed against China alone. Patricia Tovar, "India: The Use of Temporary Trade Barriers," in *The Great Recession and Import Protection: The Role of Temporary Trade Barriers* Chad Bown ed., (London: Centre for Economic Policy Research and World Bank, 2011).

⁶Schott, *op. cit.*, pp. 17–18.

⁷This stands in contrast to most of the Asian initiatives by both sides which focused on enhancing market share and elaborating new trade rules based on U.S. or EU practice.

Table 3. U.S. trade with select partners in Asia (\$ billions)

Partner	2002			2012		
	Exports	Imports	Total two-way trade	Exports	Imports	Total two-way trade
ASEAN countries	39	80	119	71	124	196
Indonesia	3	10	13	8	19	27
Malaysia	9	25	34	11	27	38
Philippines	7	11	18	8	10	18
Singapore	15	15	30	31	20	51
Thailand	4	16	20	10	27	37
Vietnam	1	3	3	4	21	26
China	21	133	154	104	444	548
India	4	12	16	19	42	61
Japan	48	125	173	65	150	215
Korea	21	37	58	40	61	101
Total U.S. trade with select Asia partners	132	387	520	298	822	1,120
Total U.S. global trade	693	1,202	1,896	1,353	2,334	3,687

ASEAN = Association of Southeast Asian Nations

Note: Figures rounded to nearest \$ billion.

Source: World Bank World Integrated Solutions (WITS) Database, <http://wits.worldbank.org/wits/>.

summarize the findings of key studies to date that have estimated the prospective quantitative impact of the TTIP on trade and income as well as the precedential impact of TTIP on Asia and the world trading system.

Transatlantic Trade and Investment in Asia

Transatlantic trade and investment in Asia has expanded dramatically over the past decade. U.S. trade with its top partners in Asia—namely, China, Japan, South Korea, India, and the major ASEAN countries (Indonesia, Malaysia, Philippines, Thailand, Vietnam and Singapore)—comprised about 30% of total U.S. global trade on average during the past decade, as outlined in Table 3. From 2002 to 2012, two-way trade (imports plus exports) with these Asian partners more than doubled. U.S.-China and U.S.-India trade has driven this trend with two-way trade expanding more than four times since 2002.

Table 4 shows that U.S. foreign direct investment (FDI) in Asia accounts for about 12% of total U.S. global FDI. Singapore and Japan remain the most important destination markets for U.S. FDI, while Japan accounts for the majority share of Asian FDI in the United States.

Table 4. U.S. foreign direct investment (FDI) stock for select Asian countries, 2012 (\$ billions)

Country	Outward FDI stock	Inward FDI stock
ASEAN countries	189.6	27.5
Indonesia	13.5	0.1
Malaysia	15.0	0.7
Singapore	138.6	26.2
Philippines	4.6	0.2
Thailand	16.9	0.2
Vietnam	1.1	0.0
China	51.4	5.2
India	28.4	5.2
Japan	134.0	308.3
Korea	35.1	24.5
Subtotal	438.5	370.5
% of U.S. global FDI	9.8	14.0
Total U.S. global FDI	4,453.3	2,650.8

ASEAN = Association of Southeast Asian Nations

Source: U.S. Bureau of Economic Analysis, Direct Investment & Multinational Companies (MNCs) database, http://www.bea.gov/ITable/index_MNC.cfm.

Table 5 indicates that the European Union's two-way trade with top trading partners in Asia averaged about 25% of total EU global trade over the past decade. Trade with Vietnam, China, and India in particular has seen the largest expansion of two-way trade, and the EU is now China's largest trading partner. Notably, EU two-way trade with China, South Korea, India and the ASEAN countries exceeds that of the United States; and in 2012, the EU was the top trading partner of China and India. The European Union is an important source of FDI in Asia with an accumulated total of \$620 billion invested in select Asian countries as of 2012. However, Asian investment in Europe remains small. Table 6 shows that the EU's major trading partners only account for 7% of total FDI in the EU, with more than half from Japan. The amount of Asian FDI in the EU is similar to Asian FDI in the United States, namely \$377 compared to \$371 billion. However, Asia accounts for 14% of total U.S. FDI worldwide (table 4) but only 7% of total EU FDI worldwide (table 6).

As dynamic drivers of the global economy, it is no surprise that trading partners in Asia comprise a growing share of U.S. and EU trade and investment. However, the transatlantic partners still remain each other's most important market for trade and cross-border investment.

Table 5. EU trade with select partners in Asia (\$ billions)

Partner	2002			2012		
	Exports	Imports	Total two-way trade	Exports	Imports	Total two-way trade
ASEAN countries	37	62	99	96	128	224
Indonesia	4	10	15	11	20	31
Malaysia	8	15	23	17	26	43
Philippines	3	8	11	6	7	13
Singapore	14	13	27	39	28	67
Thailand	6	11	18	17	24	41
Vietnam	2	4	6	6	24	30
China	33	83	116	173	381	555
India	12	13	25	45	47	92
Japan	40	68	108	64	98	161
Korea	16	23	39	44	53	97
Total EU trade with select Asia partners	139	248	387	422	708	1,130
Total EU-27 global trade	843	885	1,727	2,166	2,301	4,468

ASEAN = Association of Southeast Asian Nations

Note: Figures rounded to nearest \$ billion.

Source: World Bank World Integrated Solutions (WITS) Database, <http://wits.worldbank.org/wits/>.

Table 6. EU foreign direct investment (FDI) stock for select Asian countries, 2012 (\$ billions)

Country	Outward FDI stock	Inward FDI stock
ASEAN countries	236.3	99.5
Indonesia	31.9	-2.4
Malaysia	23.4	8.8
Philippines	9.7	1.8
Singapore	152.5	88.1
Thailand	18.8	3.2
Vietnam	n.a.	n.a.
China	151.8	34.4
India	53.8	11.3
Japan	127.0	207.5
Korea	50.7	23.7
Subtotal	619.5	376.5
% of extra-EU FDI	9.3	7.4
Total extra-EU FDI	6,685.5	5,068.5

n.a. = not available

Notes: Original data in billions of euros converted to U.S. dollars using annualized exchange rate of 1.284 for 2012 according to the European Central Bank (ECB), <http://sdw.ecb.europa.eu/browse.do?node=2018794>.

Source: Eurostat, EU direct investment - main indicators, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=bop_fdi_main&lang=en.

Table 7. US–EU bilateral trade in goods and services, 2006–2012 (\$ billions)

Year	US exports to the EU					US imports from the EU					Two-way goods and services trade ^a	Goods and services trade balance
	Total exports			% of U.S. global exports		Total imports			% of U.S. global imports			
	Goods	Services	Billions \$	Goods	Services	Goods	Services	Billions \$	Goods	Services		
2006	216	146	362	24.8	333	128	461	20.8	822.8	-99.8		
2007	249	176	425	25.7	359	142	501	21.3	926.0	-75.9		
2008	277	194	471	25.6	372	153	526	20.7	996.9	-54.2		
2009	225	175	400	25.3	284	137	420	21.5	820.2	-20.4		
2010	243	175	418	22.7	322	139	461	19.7	878.8	-43.2		
2011	273	190	463	22.0	373	150	523	19.6	986.2	-59.8		
2012	269	200	470	21.3	387	154	541	19.7	1,010.4	-70.6		

^aTwo-way trade calculated as the sum of exports and imports of goods and services.

Note: Trade figures are revised as of September 2013 and not seasonally adjusted.

Source: U.S. Bureau of Economic Analysis, International Transactions database, http://www.bea.gov/ITTable/index_ita.cfm.

**Table 8 Foreign direct investment (FDI) stock by industry, 2012
(\$ billions and percent)**

Industry	Stock of U.S. FDI in EU-27		Stock of EU-27 in U.S.	
	% of global US FDI \$ billion	by sector	% of FDI in US \$ billion	by sector
Mining	16	7	n.a.	n.a.
Manufacturing	275	43	605	67
Food	22	38	9	29
Chemicals	67	50	188	80
Primary and fabricated metals	10	43	29	62
Machinery	21	41	72	83
Computers and electronic products	39	39	20	33
Electrical equipment, appliances, and components	14	63	31	80
Transportation equipment	25	38	56	52
Other manufacturing	78	43	200	69
Wholesale	69	34	125	43
Retail trade	n.a.	n.a.	32	62
Information	88	60	103	83
Depository institutions	65	54	120	60
Finance (except depository) and insurance	343	44	237	65
Real estate and rental leasing	n.a.	n.a.	24	47
Professional, scientific, and technical services	51	54	75	70
Holding companies (nonbank)	1,184	61	n.a.	n.a.
Other industries	150	49	327	58
All industries total	2,240	50	1,648	62

n.a. = not applicable

Notes: U.S. direct investment position reported on a historical-cost basis. 2012 preliminary figures revised as of September 2013.

Source: U.S. Bureau of Economic Analysis, Direct Investment & Multinational Companies (MNCs) database, http://www.bea.gov/iTable/index_MNC.cfm.

Tables 7 and 8 show that in 2012, U.S.-EU trade in goods and services totaled about \$1 trillion annually and the stock of two-way FDI was valued at nearly \$4 trillion. The transatlantic markets remain each other's top source and destination for FDI: the United States invests 50% of its global FDI in the European Union, while the European Union invests more than 62% of its global FDI in the United States. While Asia has steadily increased its share of U.S. and EU trade to the extent that the magnitude of trade is comparable to transatlantic levels, Asia's share of transatlantic investment continues to be significantly outpaced by U.S. and EU investment in each other's markets.

Economic engagement with their Asian partners has been to the benefit of the transatlantic economies. But TTIP now represents an opportunity to improve U.S. and European competitiveness vis-à-vis

Asia. Further deepening bilateral trade ties and the integration of U.S.-EU economies through the TTIP comprises an important component of both sides' response to Asia's rise. The following section summarizes the progression of U.S. and EU trade responses to Asia and the potential role of TTIP.

U.S.-EU Trade Response

The United States and European Union's deepening economic ties in Asia have become a significant driver of the trade policies of both sides. As argued here, TTIP is an important component of U.S.-EU global strategies in the wake of Asia's rise. The progression of economic engagement in Asia by both sides offers an important historical context.

The rise of dynamic Asian economies fundamentally changed the landscape of multilateral trade negotiations. During the latter decades of the GATT era, the "Quad" countries—the United States, European Union, Canada, and Japan—formed the *de facto* steering committee of multilateral trade initiatives, although in most cases the important decisions were crafted by the transatlantic G-2. But the transatlantic leadership of the global trading system was predictably diluted with the inauguration of the WTO in 1995 and further still as the institution's agenda evolved over nearly two decades. The rise of emerging markets, including the BRICS countries—Brazil, Russia, India, China, and South Africa—among others, and expanded WTO membership meant that achieving consensus on new trade agreements became more complex as WTO initiatives had to balance the interests and priorities of the broader membership: it was not that all members participated actively in WTO deliberations, but their views needed to be represented in the talks and their priorities accommodated in WTO decisions. And the management of the WTO negotiations process has become more cumbersome since more countries now have a vested interest in the negotiating outcomes. The Quad passed into the ether a long time ago and now at least 10–15 countries have to be engaged in the WTO's inside steering group. With increasing economic leverage, China and India became part of informal caucuses that steered

⁸No one group of countries is to blame for the current Doha impasse, but as Craig Van Grassek reflects, "The stalemate in the Doha Round negotiations shows that members

the WTO talks into serious roadblocks.⁸ To be sure, this shift undermined the prospects for successful completion of the Doha Round; transatlantic positions in the WTO did not quickly adjust to that new reality.

Difficulties from the start of the Doha Round diverted attention from comprehensive multilateral initiatives to complementary or alternative regional trade initiatives as means of pursuing more meaningful commitments on trade issues both old and new.⁹ In recent years, the United States and the European Union turned to mega-regional pacts like the TPP and TTIP. Many other WTO members, especially developing countries, also turned to bilateral and regional trade agreements (RTAs) to address trade problems that were not being fixed through the sluggish Geneva process.¹⁰

In economic terms, the US “pivot” to Asia started more than 15 years ago when the United States responded to Asia’s rise by deepening its economic engagement in the Asia-Pacific region. A crucial component of this policy shift was the intensification of U.S. efforts to negotiate China’s WTO accession, which required China to commit to a level of trade liberalization well above that of other developing

have yet to work out the proper division of the burdens, with developed countries and emerging economies having very different views of how much each of them should bear.” See Craig Van Grassek, *The History and Future of the World Trade Organization*, (Geneva: World Trade Organization, 2013), p. 561.

⁹The debate over the relationship of regional trade agreements (RTAs) and multilateralism has a rich history that dates well before Jacob Viner’s classic tome. See Jacob Viner, *The Customs Union Issue* (New York: Carnegie Endowment for International Peace, 1950). Some emphasize the constructive nature of RTAs as setting useful precedents which can complement and incentivize progress within multilateral trade talks; while others emphasize the growing network of RTAs as substituting or undermining multilateral trade talks. See Washington Trade Report (WTR), “RTAs: From Building Blocks to Stumbling Blocks,” *Washington Trade Report* 39.37 (September 2013), pp. 1-7 and Van Grassek, *op. cit.* The outlook for the relevance of each path could crystallize following the critical outcome of the ninth WTO Ministerial in December 2013. Still, it remains unclear how the major trading partners of mega-regional pacts will attempt, if at all, to find a strategy for using super-regional pacts to re-engage multilateral negotiations—or in other words, a strategy towards gradually “multilateralizing regionalism.” See Richard Baldwin and Patrick Low, eds. *Multilateralizing Regionalism: Challenges for the Global Trading System* (Geneva: Cambridge University Press for the World Trade Organization, 2009).

¹⁰For analysis of these trends see WTR, *op. cit.*

countries in the WTO. Soon after, the United States pursued its most significant integration effort to date, enshrined in the Korea-U.S. or KORUS FTA, which is considered the “gold standard” of FTAs and has established important precedents for U.S. trade talks both with Europe and the Asia-Pacific. U.S. strategic interests regarding the rise of China and North Korea’s militarism played an explicit role in pursuing such initiatives. However, U.S. efforts to expand markets have not been confined to Northeast Asia. In 2002, the United States initiated the Enterprise for ASEAN Initiative, which led to the signing of the U.S.-ASEAN Trade and Investment Framework Agreement (TIFA) in 2006—a pre-requisite for U.S. FTA negotiations. The United States concluded an FTA with Singapore in 2004, but U.S. bilateral trade negotiations with Thailand and Malaysia were suspended in 2006 and 2008 respectively; subsequently, talks with individual ASEAN countries were or likely will be restarted under the umbrella of the TPP.¹¹ Current TPP negotiations comprise 12 countries, including four ASEAN countries (Brunei, Malaysia, Singapore, and Vietnam), Japan, and other important U.S. trading partners (Australia, Canada, Chile, Mexico, New Zealand, and Peru).

The TPP talks represent the culmination of U.S. economic engagement in the region. The TPP-12 account for almost 40% of global GDP and 25% of global exports; when completed, which could take place in 2014 well before TTIP talks move into second gear, the TPP will represent the largest free trade zone in the world. The TPP seeks comprehensive trade liberalization covering goods and services and WTO-plus rulemaking on investment, competition policy, labor and environment, and disciplines on state-owned enterprises, among others.¹²

The TPP deal is important not just for the anticipated economic gains or setting a new standard for trade accords; the TPP also parallels regional integration efforts of the ASEAN+6 (Australia, China,

¹¹Whether the United States will pursue trade talks with ASEAN in the future is uncertain. But a U.S.-ASEAN FTA would be a prerequisite for U.S. participation in the RCEP.

¹²See Jeffrey J. Schott, Barbara Kotschwar, and Julia Muir, *Understanding the Trans-Pacific Partnership: Policy Analyses in International Economics* (Washington, D.C.: Peterson Institute for International Economics, January 2013).

India, Japan, South Korea, New Zealand) through RCEP launched in May 2013. The overlapping participation in the two integration efforts—7 of 16 RCEP members are in the TPP, plus 4 other interested countries (Indonesia, South Korea, Philippines, Thailand)—could make it easier to link the two in a hybrid arrangement that promotes free trade and investment across the region.^{13,14} This approach has also been considered a possible way of deepening the U.S.-China commercial relationship short of a bilateral FTA.¹⁵ To be sure, this long-term vision still faces severe constraints and challenges, and how the United States will manage the relations between the concurrent initiatives will be important. But it indicates a likely foundation for achieving further meaningful economic integration in the Asia-Pacific region.

While the United States pursued wide-ranging FTA initiatives in the Asia-Pacific as a complement and/or hedge against the increasingly evident drift in the Doha Round, the European Union resisted new FTA ventures and stuck to a singular focus on WTO talks in the early years of the Doha Round. The EU began to emulate U.S. initiatives in

¹³*Ibid.*, p. 62.

¹⁴To illustrate the potential economic impact, Petri, Plummer, and Zhai calculate that the TPP and RCEP tracks pursued separately would achieve collective GDP gains of approximately \$770 billion and export gains of \$1 trillion; however, the consolidation of the two tracks would offer the most significant outcome, with GDP gains of nearly \$2 trillion and export gains of \$3 trillion. See Peter A. Petri, Michael G. Plummer, and Fan Zhai, *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment: Policy Analyses 98* (Washington, D.C.: Peterson Institute for International Economics, November 2012).

¹⁵A “hybrid” approach linking the two agreements may be less essential should China eventually join the TPP. Some viewed the TPP talks as deliberately excluding China from integration efforts via “containment” policy of the United States. Schott, Kotschwar, and Muir (p. 58) argue that three reasons undermine this claim: a trade agreement cannot effectively “contain” an economically and politically large and influential country like China; the US benefits from cooperation with China to mutually address global and regional challenges in both of the realms of economics and security; and no country in Asia exclusively wants to contain China given the trade and investment integration in the region and larger incentives for improving competitiveness. Further, while the consensus is that China is not ready for a comprehensive accord like the TPP, China has indicated less wariness toward the TPP and closer interest in its provisions. Meanwhile, some Chinese political leaders have expressed initial interest in exploring a China-US FTA.

the Asia-Pacific in the mid-2000s when Brussels ended its self-imposed moratorium on new FTA negotiations.¹⁶ However, with the exception of South Korea, where EU policy largely matched the U.S. initiative, the EU has been unable to use its strong market share to achieve substantive trade agreements with ASEAN or China,¹⁷ or pursue broader regional initiatives like the TPP. But the EU is seeking to reverse this trend, especially to mitigate the pending preferential treatment that U.S. firms would enjoy from its TPP partners in Asia. Like the United States, EU efforts to engage ASEAN as a collective unit have been limited, and instead economic engagement has centered on separate bilateral agreements with the larger trading partners.¹⁸ In September 2013, the EU completed a draft FTA with Singapore and is currently in trade talks with Malaysia (initiated September 2010), Vietnam (June 2012) and Thailand (March 2013). By contrast, ongoing FTA talks with India have gone farther than U.S. initiatives, but are on the brink of failure due to intractable differences regarding agricultural subsidies, services, and government procurement, among other issues. Similar bilateral efforts with Indonesia have been unfruitful, suggesting that advancing a comprehensive trade and investment agenda in the region still faces significant obstacles in the medium-term.

To date, the Korea-EU or KOREU FTA remains the EU's most significant economic engagement effort in Asia, because it establishes

¹⁶This accompanied the release of the Global Europe Strategy in 2006, which outlined a vision for renewed FTA talks and trade strategy. See *Global Europe: Competing in the World*, European Commission (Brussels, 2006), http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130376.pdf.

¹⁷However, initiatives with these countries are ongoing. The EU and China began investment negotiations in November 2013. See "EU Investment Negotiations with China and ASEAN," European Commission, October 18, 2013, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=975>.

¹⁸The EU and ASEAN initiated FTA negotiations in 2007 but after seven negotiating rounds, the talks were suspended in 2009 "in order to reflect on the appropriate format of future negotiations." The EU blamed economic and political differences among the ASEAN members, namely Myanmar. EU opted to pursue bilateral agreements from which in the future could lead to consolidating into a broader ASEAN regional agreement. See "Free Trade Agreements," European Commission, last update May 2, 2013, <http://ec.europa.eu/enterprise/policies/international/facilitating-trade/free-trade/> (accessed on October 10, 2013).

similar comprehensive and high standards as the KORUS FTA as well as ample precedents for the transatlantic talks¹⁹ and possibly for EU trade talks with Japan, which launched in March 2013 but have seen limited progress. Indeed, the negotiations on the KOREU pact started from the KORUS baseline, though the final terms differ from the KORUS FTA in some notable respects.²⁰ The KOREU talks started when the KORUS talks ended, but because of political obstacles in both the U.S. and Korean legislatures, the KOREU FTA actually entered into force in July 2011 almost a year before the KORUS FTA.

The United States and European Union's deepening economic ties in Asia have become a significant driver of the trade policies of both sides. Just as each side pursued its own Asian strategy, competitive liberalization strategies in Asia have also helped to instigate regional trade integration in the Asia-Pacific as well as integration between Asia and Europe, as shown in Table 9. The transatlantic partners have gone from competitive regionalism in Asia to cooperative regionalism through the TTIP—in other words, to shared trade and investment objectives in Asia based on their high standard trade pacts with South Korea.

Through TTIP, United States and European leaders are now essentially seeking to achieve a transatlantic counterpart to the TPP. However, because membership in the TPP is also a key component of the U.S. strategic response, TTIP may hold an even higher profile in Europe's regional and global strategy. Nevertheless, unlike previous Asian initiatives of the transatlantic partners that focused on enhancing market share and elaborating new trading rules based on U.S. or EU practice, the TTIP may require changes in current U.S. or EU policies; neither has had to face such demands to change current domestic policies in previous FTAs to any great extent. Whether and if so how they conform domestic policies will have important implications for both the bilateral relationship and for the world trading system writ large.

¹⁹Jeffrey J. Schott and Cathleen Cimino, *Crafting a Transatlantic Trade and Investment Partnership: What Can Be Done*, Peterson Institute for International Economics Policy Brief 13-8, March 2013.

²⁰For a brief summary see Schott and Cimino, *op. cit.*, table 3.

Table 9. U.S. and EU bilateral and regional trade agreements in Asia

United States	
Partner country	Agreement ^a
<i>Entered into force</i>	
Korea	FTA (2012)
Singapore	FTA (2004)/TPP
<i>Under negotiation</i>	
Brunei	TPP (2010)
Japan	TPP (2013)
Malaysia	TPP (2010)
Vietnam	TPP (2010)
European Union	
Partner country	Agreement ^a
<i>Entered into force</i>	
Korea	FTA (2011)
<i>Under negotiation</i>	
India	FTA (2007) ^b
Japan	FTA (2013)
Malaysia	FTA (2010)
Singapore	FTA (2010) ^c
Thailand	FTA (2013)
Vietnam	FTA (2013)

FTA = free trade agreement; TPP = Trans-Pacific Partnership

^aAgreement status as of October 2013; date refers to either the agreements entry into force or the start of negotiations.

^bEU talks with India reportedly stalled in 2013.

^cEU talks with Singapore concluded in 2012, but the agreement has not yet entered into force.

Sources: U.S. Trade Representative, <http://www.ustr.gov/trade-agreements/free-trade-agreements>; European Commission, <http://ec.europa.eu/trade/policy/countries-and-regions/agreements/>.

Implications of TTIP²¹

Can TTIP give the United States and European Union a competitive edge over China and the rest of Asia? Some argue yes, by setting rules based on transatlantic standards that others would follow. There are reasons to be skeptical as to what extent TTIP can jointly achieve global standards, discussed in more detail below. But doing so should help contribute to better efficiency and productivity growth in the U.S. and EU economies, which in so doing should enhance the competitiveness of transatlantic firms. This section introduces the initial ambitions and potential limitations of the agreement.

²¹This section draws heavily on Schott and Cimino, *op. cit.*

Like the TPP, TTIP is a mega-regional initiative involving countries that account for about 46% of global GDP (versus almost 40% for the TPP). The TTIP aims to deepen the world's largest commercial relationship, laying the foundation for greater economic and job growth. Transatlantic leaders also hope to use the bilateral deal to revive stalled WTO talks and contribute to creating a template for global commercial rules that can strengthen the multilateral trading system.²²

TTIP negotiations were officially launched in July 2013 with an agenda based on the preliminary work of the U.S.-EU High Level Working Group (HLWG) on Jobs and Growth. The HLWG recommended "a comprehensive agreement that addresses a broad range of bilateral trade and investment issues, including regulatory issues" and called for ambitious market access reform beyond what the two sides have achieved in previous trade agreements.²³ Specifically, the TTIP aims to cover commitments in three major areas: (1) market access, including the elimination of tariffs and limited phase-outs for sensitive products, in addition to services commitments, investment reforms and protections, and expanding coverage of government procurement at the federal and sub-federal levels; (2) regulatory issues and non-tariff "behind the border" barriers, such as WTO-plus rules on sanitary and phyto-sanitary measures, technical barriers to trade, and new efforts toward regulatory harmonization or mutual recognition; and (3) new or "WTO-plus" rulemaking in areas like intellectual property rights (IPR), trade facilitation, competition policy, environment and labor, among others.

By endorsing this ambitious agenda, both sides implicitly committed to address basic differences in key policies and regulatory approaches in several difficult areas, from agriculture to cross-border rules on services, investment, and food and health safety regulations. Disagreements over these issues have confounded transatlantic offi-

²²"US, EU Announce Decision to Launch Negotiations on a Transatlantic Trade and Investment Partnership," Office of the United States Trade Representative, February 13, 2013, <http://www.ustr.gov/about-us/press-office/press-releases/2013/february/statement-US-EU-Presidents> (accessed on October 9, 2013).

²³"Final Report: High Level Working Group on Jobs and Growth," European Commission, February 11, 2013, http://trade.ec.europa.eu/doclib/docs/2013/february/tradoc_150519.pdf.

cial for decades. However, previous attempts focused on limited “mutual recognition” deals on specific products or sectors, which ultimately failed due to resistance from independent regulatory agencies pressing their own disparate agendas in response to political pressures.²⁴ U.S. and EU negotiators recognize that trying to reach a more comprehensive deal offers the best prospects for obtaining sufficient political support, and thus have kept almost everything “on the table” at the start of the TTIP talks.²⁵ This means that hot-button issues like genetically-modified organisms (GMOs), financial services and cross-border data flows—which raise concerns about data access and related privacy issues in light of revelations of NSA collection methods—will be discussed; however in practice, negotiations in these areas will more likely be restricted to regulatory cooperation related to procedures and processes, rather than the formation of common standards. Five rounds of negotiations as of May 2014 have begun to address some of these issues, but as the talks progress, other products or services may not make the final cut or only be subject to partial reforms.

Given the large volume of transatlantic trade and investment flows, it is true that even small cuts in protection can yield significant benefits to both sides. But the more important gains lie in the potential for substantially reducing high cost, non-tariff barriers (NTBs). Indeed, the high end projections of TTIP gains depend on ambitious results in services and on reducing “unnecessary” regulatory costs. But such outcomes will likely be scaled back as the negotiations proceed and both sides’ commitments crystallize, lowering the overall economic gains and moderating the precedential impact of the TTIP on the world trading system. The next section contextualizes the prospective impact of TTIP on the transatlantic economies.

²⁴Schott and Cimino, *op. cit.*

²⁵Despite this commitment, EU negotiators excluded the area of audiovisual services up front, while U.S. officials have indicated maritime and air services may to some extent be off limits. See “Froman Pledges to Preserve Jones Act, Criticizes EU Clean Fuel Directive,” *Inside US Trade*, September 19, 2013, www.insidetrade.com (accessed on November 15, 2013).

TTIP's Economic Potential: Understanding the Numbers²⁶

U.S. and European officials launched the TTIP negotiations to bolster economic growth and jobs. The objective is to remove barriers to trade and investment and unnecessary regulatory measures that significantly raise production costs, and thereby improve the competitiveness of firms and workers on each side of the Atlantic. Officials understandably want to cite numbers about what their efforts will yield in terms of increased output and jobs. Several studies have already been published on the prospective economic payoff from the TTIP. Those with the most optimistic projections—based on the most tenuous economic assumptions—seem to be cited the most frequently in the policy debate.

Estimates of the potential TTIP impact vary significantly, owing in large measure to their estimation techniques and the underlying assumptions about what the TTIP negotiators will achieve. In some cases, the assumptions essentially predetermine the results. While we can reasonably assume that almost all tariffs will be phased out, the handling of so-called “behind the border” barriers to trade is much more difficult to quantify. This is particularly important in the case of TTIP, as a substantial part of the effort will seek to align or coordinate domestic regulatory policies that have an impact on trade and investment. Indeed, we would expect the gains from removing tariffs to be far smaller than the gains from regulatory harmonization.

We recognize that the estimates are constrained by the nature of the econometric tools available to the researcher, but these efforts provide useful information about the potential overall trade and output effects. We should add a note of caution, however. The more disaggregated the analysis, the more tenuous the findings—so sectoral results from big computable general equilibrium (CGE) models should be viewed with many grains of salt. Estimates that project the TTIP's aggregate effect on U.S.-EU trade are much more robust than those that seek to parse out the aggregate gains sector by sector.

In order to give meaningful estimates, a study must indicate a benchmark scenario with which to compare their FTA scenario. For example, if TTIP were to be signed into law today, it would be several

²⁶This section was drafted by Peterson Institute research analyst Tyler Moran.

Table 10. Comparison of gains from TTIP based on four studies

	ECORYS	EC (CEPR)	BIS (CEPR)	ECIPE
Benchmark year	2018	2027	2027	2015
Change in U.S. GDP	0.3%	0.4%	0.4%	1.3%
Change in EU GDP	0.7%	0.5%	0.7%	0.5%
Change in total U.S. exports	6.1%	8.0%	7.5%	n.a.
Change in total EU exports	2.1%	5.9%	n.a.	n.a.

n.a. = not applicable

EC = European Commission; CEPR = Center for Economic Policy and Research; BIS = UK Department for Business, Innovation and Skills; ECIPE = European Center for International Policy Economy.

Sources: ECORYS (2009); CEPR (2013a); CEPR (2013b); and ECIPE (2010).

years (perhaps 10 or more) before all of the provisions were implemented, and even longer before markets fully adjusted to the changes. To capture this, authors choose a time horizon, generally 10 or more years in the future, and project the values of the relevant indicators based on current trends and policy. New estimates are then produced which assume that the relevant policy changes have been fully implemented. Comparing the two scenarios provides estimates of the gains from the proposed policy changes.²⁷

This section attempts to shed some light on the projections of TTIP's effect on U.S.-EU trade, so that readers might better understand what the results really show. We summarize the main TTIP studies to date and assess their basic assumptions and findings in Table 10. The studies come from ECORYS; the European Commission; the British Department for Business, Innovation and Skills (BIS); and the European Centre for International Political Economy (ECIPE). We then conclude this section with commentary on which studies provide the most useful and reliable estimates.

²⁷Comparing the estimated gains between studies involves some important factors. First, the TTIP studies report the gains in a variety of currencies and timeframes, so all gains have been converted to 2007 U.S. dollars, although this does not completely harmonize them. Even after converting the gains to a constant unit of currency, it should be expected that, all else equal, a model of bilateral trade in 2015 will produce smaller dollar gains than a model of bilateral trade in 2027. However, an important note is that it is generally better to compare percent of GDP gains rather than compare gains expressed in units of currency in order to fully capture the relative change from a baseline.

ECORYS Study

The 2009 ECORYS study, titled “Non-Tariff Measures in EU-US Trade and Investment—An Economic Analysis,” is the oldest of the studies discussed here and perhaps the most detailed.²⁸ The study uses a baseline of 2018 projected from 2008 data. ECORYS focuses on the impact of removing trade-chilling non-tariff measures (NTMs) and has little to say on the effects of tariff removal. The most notable contribution of the study is its attempt to list and quantify the costs of NTMs effecting individual sectors for both trade and FDI. In this context, an actionable barrier is one that is “on the table” for negotiators and could potentially be resolved as a part of TTIP. To make this determination for individual NTMs, the authors relied on expert opinion, a literature review, and a business survey. The data also distinguish between sector-specific NTMs, such as differing technical specifications in the automotive industry, and cross-cutting barriers which effect trade in multiple sectors, such as “Buy American” provisions, which hurt non-U.S. businesses across the board. Overall, about half of total NTMs are considered actionable by the study. Separately, the study also analyzes the specific NTMs that expert and members of the business community most strongly want addressed based on survey data.²⁹

The estimates cover nine goods sectors and nine services sectors, examining U.S. barriers and EU barriers individually.³⁰ In the case of differing regulatory structures and specifications, the study does not attempt to address which of the two is “correct:” U.S. automobile standards represent a barrier to EU exporters, while EU automobile standards represent a barrier to U.S. exporters (insofar as the standards are different). Overall, the simple average of trade cost equivalents for U.S. barriers on EU exports was 25.4% for goods and 8.9% for services; EU barriers averaged 21.5% for goods and 8.5% for serv-

²⁸ECORYS Nederland BV, *Non-Tariff Measures in EU-US Trade and Investment—An Economic Analysis* (Rotterdam: ECORYS, 2009), OJ 2007/S180-219493, http://trade.ec.europa.eu/doclib/docs/2009/december/tradoc_145613.pdf.

²⁹The data from the surveys are used to estimate an NTM variable for a gravity model, giving the trade cost estimates that are then used in the CGE model estimates.

³⁰The trade cost equivalents are quite high relative to the corresponding tariffs, exceeding 50 percent in some sectors (chemicals, cosmetics, and biotechnology for U.S. exports to the EU, and machinery for EU exports to the United States).

ices. The estimates also cover barriers to FDI in each sector in a similar manner.

Based on these estimates, the study examines several possible agreements with varying levels of liberalization. The broadest of these, dubbed the “ambitious scenario,” delivers the largest gains: a 0.3% increase in U.S. GDP and a 0.7% increase in EU GDP. The scenario assumes that all actionable NTMs are removed, corresponding to a decline in bilateral trade costs on the order of 10% for goods and 4% for services. Achieving such cuts would be highly ambitious, but possible. Of course average percent cuts are an imperfect surrogate for NTM and regulatory reform, but at least are instructive in how reduced transaction costs could boost output and trade. The numbers may seem small, but as a practical matter, they entail a lot of extra savings that could be invested in productive activity and creating good jobs.

European Commission Study

The European Commission study³¹ uses a baseline of 2027 projected from GTAP (Global Trade Analysis Project) 2007 data. The study examines the effects of tariff removal, regulatory harmonization between the United States and European Union, as well as their expected “spillover” effects. The study uses the 2009 ECORYS estimates to quantify the tariff equivalent barriers of NTBs, as well as ECORYS determination of actionability in examining how far an agreement might go.

As mentioned, the study assumes that there will be some spillover effects that apply to countries not directly involved in the agreement. These effects come in two flavors: direct and indirect. The direct spillovers reflect benefits to firms in countries that export to both the United States and to the EU. If the United States and the EU were to harmonize their regulatory standards in a given industry, then exporters outside the EU and the United States would find it simpler to meet one joint standard than two disparate ones. These effects reduce one-way trade costs—it becomes easier for Honda to sell in the

³¹Joseph Francois, Miriam Manchinm, Hanna Norberg, Olga Pindyuk, and Patrick Tomberger, *Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment*, Center for Economic Policy Research (CEPR), (London: CEPR, 2013a), http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf.

United States and in the EU, but Ford and BMW don't get any corresponding benefit in the Japanese market. Indirect spillovers reflect the assumption that other countries might unilaterally adopt some of the standards set out in TTIP. Because the TTIP would cover the world's largest trading bloc, third countries might feel compelled to adopt some of TTIP's standards in order to make it easier for their firms to sell in the U.S. and EU markets. Unlike the direct spillovers, this effect would be reciprocated and trade costs would fall in both directions.

The broadest potential agreement examined by the study, again called the "ambitious" scenario, entails the removal of all tariffs, the removal of half of all actionable NTMs (one quarter of total NTMs), and the removal of half of all NTMs pertaining to government procurement. In that scenario, the United States gains roughly 0.39% of GDP, while the EU gains 0.48% of GDP. The U.S. gains are broken down further in a 2013 study by the Atlantic Council, the Bertelsmann Foundation, and the British Embassy, through CGE modeling using exports on the state level. The study finds that every U.S. state will make gains in terms of exports and jobs based on the EC study's version of TTIP outlined above.³² Every state is expected see its exports to the EU rise, relative to the baseline scenario, and to see between 0.5% and 0.75% of total overall employment attributed to TTIP.

Overall, we view the EC study to be quite strong from a methodological standpoint. The use of the ECORYS estimates for NTMs adds credibility, and the assumption that half of these NTMs will be removed seems to be well within the realm of possibility. One could, perhaps, dispute the inclusion of the spillover term (particularly indirect spillovers), but the disaggregation of the estimates shows that the spillover effects were not the driving force behind the results. In fact, the United States actually saw a modest negative impact from the direct spillovers in the ambitious scenario.

³²The impact of TTIP on employment assumes the "ambitious" scenario established in the CEPR study, however the Atlantic Council, Bertelsmann Foundation, and British Embassy (2013) estimates do not similarly assume long-run full employment in the baseline year 2027. This was to reflect baseline forecasts by Moody's of "soft" labor markets in 2027 and higher unemployment (Francois et al., p. 58). Further, the study distributes TTIP's employment impact on the national level to the state level based on Moody's baseline projections of both state and sector-level labor forces.

BIS Study

The BIS study was also done by the CEPR and is similar to the EC study, although there are notable differences.³³ First, the United Kingdom is not aggregated into the European Union, so the study reports results for the United States, UK, and EU separately. Second, the spillover assumption from the EC study is dropped. Third, the study takes a somewhat different approach in structuring the scenarios examined. In particular, government procurement is not given special treatment, but the study assumes that certain sectors could be subject to more reform than others.

The strongest agreement examined by the study is the “modified ambitious” scenario, in which all tariffs are removed, 50% of all actionable NTMs are removed, except for the chemicals, motor vehicles, and business services sectors, where 75% of actionable NTMs are removed. These sectors are singled out as being targets for greater liberalization because they are particularly important exports for the UK. In that scenario, the United States gains 0.4% of GDP while the EU (including the UK) gains 0.7% of GDP.

The methodological differences between these two studies do not, in our opinion, create a sharp divide between the two in terms of credibility. A more optimistic observer might find this study more credible than the EC study, given its reliance on modestly higher growth projections. However, we wouldn't expect these differences to have a strong impact on the relative effects we have cited here. The spillover effects included in the EC model, while novel, could be seen as overly optimistic by some observers.

ECIPE Study

The 2010 study from the ECIPE draws from GTAP 7. The authors extrapolate their data to 2010 and then project those estimates to 2015, which they use as their baseline. Unlike ECORYS and the two CEPR studies which use its estimates, the ECIPE study does not

³³Center for Economic Policy Research (CEPR), *Estimating the Economic Impact on the UK of a Transatlantic Trade and Investment Partnership (TTIP) Agreement between the European Union and the United States*, Report prepared for the Department for Business, Innovation and Skills (BIS), Reference P2BIS120020 (London, 2013b), http://www.mbsportal.bl.uk/taster/subjareas/interbusin/bis/14733213_869_impact_ttip.pdf.

attempt to directly estimate the costs associated with NTMs or the effects of their removal. Instead, the study assumes that NTM reductions will be captured by an increase in labor productivity and a decrease in trade facilitation costs.

In the most optimistic scenario, all tariffs are eliminated, trade costs fall by 3% of the value of trade in non-commodity goods, and labor productivity increased by 3.5% in sectors with high levels of intra-industry trade, and 2% in all other sectors. In this scenario, and in contrast to the other studies, U.S. gains are up to 3 times larger and significantly higher than EU gains than in other models; U.S. GDP increases by 1.33%, while EU GDP increases by 0.47%.

Assessment of TTIP Studies

In terms of estimating the level of NTMs, ECORYS (2009) is certainly the most thorough and reliable. The distinction between “actionable” and “inactionable” NTMs is also clearly an important one, and estimating the trend of certain NTMs provides valuable nuance. However, the two CEPR studies piggyback off of this strength by using the tariff equivalent estimates in their own studies, as well as the actionability estimates. The ECIPE study takes a less rigorous approach in capturing the NTM liberalization. The exact calculation of estimates for increases in labor productivity and fall in trade facilitation costs is not explicitly justified. While it is clear that TTIP will have some impact on both of these, the methodology behind their estimates would be a valuable tool in interpreting their results.

With that in mind, we believe that the two CEPR studies are generally the most reliable overall. The differences between the two are not insubstantial, but do not make one significantly better than the other in our view. In the EC study (Francois et al.), the assumption that other countries will adopt some fraction of the harmonized regulations arising from TTIP could be seen as generous. In particular, large Asian economies, which represent the largest block of GDP outside of TTIP, might instead move towards adopting their own standards under RCEP. However, the indirect spillovers represent a small fraction of the overall gains. The direct spillovers, which do not

assume any harmonization by non TTIP members, are a larger share of gains and stand on firmer theoretical ground. The modified ambitious scenario in the BIS study (CEPR 2013b) relies on greater liberalization in sectors which are prominent in the transatlantic economy, particularly for the UK. However, if one believes this assumption is too generous, the standard version of the ambitious scenario doesn't include differing treatment between sectors.

Though the final estimates vary depending on the assumptions, this section illustrates that the bilateral impact of TTIP will hinge critically on the potential for reducing behind-the-border NTBs and associated regulatory changes that explore, where possible, the potential integration of existing and future regulations. The key question is whether this effort will facilitate new global standards and to what extent TTIP could contribute to strengthening multilateral trade negotiations. The next section explores the prospects and limitations of TTIP's global impact, drawing out implications for Asia.

TTIP and the World Trading System

One of the avowed goals of TTIP leaders is to reinvigorate multilateral trade negotiations that have drifted for many years.³⁴ Past FTAs have served as negotiating laboratories producing new trading rights and obligations in areas like services that then became precedents for multilateral initiatives. TTIP architects expect similar developments from their efforts to align regulatory policies, since the transatlantic standard would apply to a market representing almost half of global output and third countries would be compelled to adopt some of TTIP's high standards. Thus, per this rationale, the TTIP provisions would become the *de facto* global standards.

But whether the U.S.-EU compact can set global standards for new trade rules and regulatory policies will likely be limited for three reasons. First, to do so would require buy-in from the major Asian economies, which together also represent a significant share of global

³⁴“Final Report of the U.S.-EU High Level Working Group on Jobs and Growth,” Office of the US Trade Representative, February 11, 2013, <http://www.ustr.gov/about-us/press-office/reports-and-publications/2013/final-report-us-eu-hlwg>.

GDP (the RCEP countries total about 30%) and are developing their own rulemaking in WTO-plus areas that differs in terms of coverage and enforcement from the transatlantic standard. By the time TTIP rules are embedded in U.S. and EU laws and regulations, the transatlantic economies weight in global output will likely have been reduced to about 40%, while Asian countries will represent increasingly important and rapidly growing new markets. Likewise, parallel intra-Asian integration initiatives have the potential to both complement, but also limit transatlantic efforts to set the global standard.

Second, it assumes that the United States and European Union will agree on common regulatory requirements across a range of issues on which they hold sharply different positions. But early indications from the TTIP talks suggest that there are different expectations of how TTIP should approach regulatory issues as well as sharp substantive differences over regulatory policies in specific areas.³⁵ EU Commissioner for Trade Karel De Gucht has argued that from the EU perspective, regulations in TTIP should be based on three key components: cooperating on future regulations; making existing regulations more compatible, in areas like automotive, chemicals, health, and financial services; and creating new institutions, namely the Regulatory Cooperation Council, to “monitor the commitments made and consider new priorities for regulatory cooperation.”³⁶ But transatlantic regulatory cooperation over sectoral issues has been less emphasized by the United States. According to recent statements by U.S. Trade Representative Michael Froman, the U.S. envisions that TTIP should focus on procedural improvements to the rule-making system; in other words, horizontal disciplines related to transparency, stakeholder participation on rulemaking, and accountability should take

³⁵For example, see Johnson and Schott, *Financial Services in the Transatlantic Trade and Investment Partnership*, Peterson Institute for International Economics, Policy Brief 13-26 (Washington, D.C.: Peterson Institute for International Economics, 2013); See also “Lew Resolute On Excluding Financial Services Regulations From TTIP Talks,” *Inside US Trade*, December 19, 2013, www.insidetrade.com (accessed on January 1, 2014).

³⁶For detail, see Karel De Gucht, “Transatlantic Trade and Investment Partnership (TTIP)—Solving the Regulatory Puzzle,” Speech given at the Aspen Institute Prague Annual Conference, Prague, Czech Republic, October 10, 2013, http://europa.eu/rapid/press-release_SPEECH-13-801_en.htm (accessed on October 11, 2013).

precedent over the compatibility of sectoral standards.³⁷ We believe TTIP should be able to make progress toward establishing cooperation on future standards and regulations in specific areas, such as the automobile sector, while negotiations in areas like SPS and financial services that involve existing standards will likely remain centered on procedural cooperation.

Third, the likelihood that TTIP will by default set new global standards fails to recognize that in most instances U.S. FTAs establish rulemaking precedents in WTO-plus areas but they don't set new standards; instead, they incorporate standards that have been established by specialized international institutions, such as in the areas of environment and labor, and supplement the enforcement of those obligations by linking them with the FTA's dispute settlement procedures. In many areas, the TTIP result will likely follow this well-worn path. That said, TTIP could break from this common practice in new areas where enhanced multilateral rules and international standards are lacking, such as competition policy and rules on state-owned enterprise, energy and the environment, local content rules, and possibly even exchange rates. Within these areas, TTIP could set precedents that inform new plurilateral agreements that could take shape as part of the WTO trade agenda moving forward from the Doha Round.³⁸

In addition to these new issues, TTIP could contribute to several important issues that have long been on the drawing board of multilateral talks, such as GATS-plus services liberalization and disciplines on farm subsidies. In services, transatlantic progress on new market access opportunities and harmonized regulatory policies could help guide ongoing negotiations on the Trade in Services Agreement

³⁷De Gucht Proposal for TTIP Regulatory Effort Contrasts With Froman," *Inside US Trade*, October 9, 2013, www.insidetrade.com (accessed on November 28, 2013); and "Froman Calls on EU Regulators to Be More Like Their US Counterparts," *Inside US Trade*, September 30, 2013 www.insidetrade.com (accessed on November 28, 2013).

³⁸The Bali Ministerial in December 2013 did facilitate a modest package that salvaged some initiatives from the Doha Round, but stand-alone plurilateral agreements on discrete issues should be the focus of future WTO initiatives. For examples of such plurilaterals, see Simon J. Evenett and Alejandro Jara, eds., *Building on Bali: A Work Programme for the WTO*, VoxEU.org eBook (London: Center for Economic Policy Research, 2013).

(TISA).³⁹ But it is the area of farm subsidies in particular that suffers from a deficit of transatlantic leadership. U.S. and EU trade officials have been proponents of the conventional wisdom that disciplines on domestic agricultural support can only be pursued through multilateral pacts. However, such a conclusion need not hold when the prospective deal involves the two biggest farm subsidizers in the world. Indeed a U.S.-EU deal on farm subsidies could serve two important goals: mitigate pressures on domestic budgets and set an important benchmark that could help reinvigorate multilateral talks. A transatlantic commitment to cap those subsidies at or near current levels for several years could help encourage other WTO members to work out a comprehensive package of farm reforms. The U.S.-EU cap would not be bound in WTO schedules until that broader deal was done and could “snap back” if WTO talks don’t advance. At present, such commitments would not require significant changes in current policies because subsidy disbursements are very low due to high commodity prices. Regrettably, there is little indication the transatlantic partners will seek to make ambitious commitments in this area.

One of the key objectives put forward in the HLWG report and confirmed by transatlantic leaders in launching the TTIP talks, is to use TTIP to create precedents for and reinvigorate WTO negotiations. To date, however, there has been little indication that either side has mapped out strategies for achieving those goals. Rather the current transatlantic strategy seems to be based on the hope and prayer that competitive liberalization pressures will encourage other countries to come to the table for fear of being left behind. To be sure, other countries, and surely the WTO, have been compelled to reassess their own progress relative to the ambitious efforts of mega-regionals to establish “21st century” trade and investment rules. In that regard, managing TTIP’s relationship with the current integration efforts of TPP and RCEP will be an important factor. We believe that the successful conclusion of TTIP, along with TPP and RCEP, could establish channels for linking or converging these mega-regional pacts back onto the multilateral stage.

³⁹To this end, for example, we have already seen the United States and EU facilitate TISA’s adoption of a “hybrid approach” to scheduling services commitments, i.e., a positive list approach for market access commitments and a negative list approach for national treatment commitments.

A number of important features distinguishing the mega-regionals will affect this pathway. Those that promote convergence include the overlapping membership between the mega-regionals, coupled with the pacts being interlinked by bilateral FTAs, namely between the United States, European Union, South Korea and Japan on the one hand and China, Japan, and South Korea on the other. But it is worth noting that in practice, membership restrictions etched into these pacts will need to be overcome: currently, the TPP is limited to the Asian-Pacific Economic Cooperation (APEC) countries;⁴⁰ RCEP to ASEAN FTA partners; and TTIP to the United States and European Union, pending an “open enrollment” for third parties—which might be extended first to the NAFTA countries and Turkey. Unlike TPP, however, TTIP does not envision increasing membership prior to conclusion, though each side will continue to deepen its own bilateral and regional pacts. Other important challenges to convergence involve both the substance and timeline of the respective initiatives. The mega-regional pacts will have complementary coverage of trade and investment issues, but not common content, and their negotiating timelines for completing the pacts are not aligned. Whether or not this broad vision can be realized will depend on the uncertain progression of the talks and the sequencing of outcomes in regional and multilateral negotiations. In that regard, the TPP—which is likely to conclude in 2014—will have a big advantage over TTIP and WTO initiatives, and thus could have a stronger precedential impact than TTIP on Asia and the world trading system.

Conclusions

Asia is on the rise but the potential “défi” for the transatlantic powers has been exaggerated in the public debate. Nonetheless, the United States and the European Union have recognized that the growing economic footprint of the Asian countries requires them, for both political and commercial reasons, to deepen their engagement in the region.

⁴⁰For more detail on the implications of these issues on economic integration in the Asia-Pacific and the construction of a broader APEC-wide pact, see Jeffrey Schott, “Revisiting APEC’s Membership Freeze,” *Boao Review*, November 21, 2013, <http://www.boaoreview.com/economy/2013/1121/300.html> (accessed on December 2, 2013).

The United States and European Union have pursued separate but comparable responses to Asia's economic rise. U.S. economic policy toward Asia focuses heavily on the TPP and its prospective enlargement to the major economies of the Asia-Pacific region; Europe had a later start but has pursued parallel bilateral agreements with South Korea and other Asian countries. These efforts have in large measure helped advance regional trade integration, as well as integration between Asia and Europe. TTIP provides the opportunity to align U.S. and EU policies on trade and investment in goods and services and to shift the strategy from competitive regionalism in Asia to cooperative regionalism—based on their similar and high standard trade pacts with South Korea.

The TTIP thus represents an important component of the transatlantic economic response to the emerging economic powers of Asia. Estimates of the potential economic gains of TTIP are significant, but they depend importantly on the willingness of both sides to make changes to existing regulatory policies. The successful negotiation of the TTIP would enhance the already robust transatlantic partnership, bolster the competitiveness of the transatlantic economies, and provide a common platform for engaging Asia in both regional and multilateral economic institutions.

To facilitate TTIP's precedential impact on Asia and the world trading system, the United States and the European Union need to have a concrete strategy for using TTIP to strengthen multilateral talks; to date, neither side has done so. Properly crafted, TTIP provisions could help advance new initiatives in areas like services, information technology, and energy and the environment where plurilateral negotiations are paving the way toward broader multilateral accords.

The ability to use the TTIP as a template for deeper integration with the Asia region and for new rules for the multilateral trading system will depend heavily on the willingness of both sides to dismantle their own non-tariff barriers, reduce other burdensome transactions costs, and cooperate more closely on regulatory policies. However, as argued here, the TTIP's potential to set global standards for new trade rules and regulatory policies may be limited not only because of the difficulty of crafting U.S.-EU compromises in sensitive areas, but also because doing so will require buy-in from the major Asian economies

who are developing their own rules that differ substantially both in coverage and enforcement from the transatlantic standard.

Recommendations

- 1. The United States and the European Union should conclude a comprehensive agreement on a Transatlantic Trade and Investment Partnership or TTIP** to propel economic growth in the two regions and to enhance the competitiveness of U.S. and European firms and workers vis-à-vis their counterparts in Asian and other countries,
- 2. As part of the TTIP negotiations, U.S. and EU officials should give special attention to the coordination of policies that promote the liberalization of trade and investment of services, and develop a common approach to services reforms** that could provide precedents for the plurilateral Trade in Services Agreement, or TISA, being negotiated in parallel with the TTIP.
- 3. The transatlantic partners should consult each other frequently on progress in other trade negotiations with Asian partners and draw on the best practices from those experiences in crafting the TTIP** to ensure the complementarity of each other's bilateral and regional initiatives in Asia and elsewhere,
- 4. Both sides should develop a framework for extending TTIP membership to third countries to help facilitate the convergence of the mega-regional agreements.**