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Wishful thinking instead of timely analysis

A critique of the Ifo study *Potential impacts of the Transatlantic Trade and Investment Partnership (TTIP) on developing and emerging economies*

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Democracy versus business © *Campact, CClicense*

The controversial negotiations on a Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US will have an impact on the rest of the world, if they are ever successfully concluded. Most developing countries oppose the liberalisation agenda pursued by the EU and the US in the multilateral trade negotiations because they believe it is not in their interests. TTIP and many other bilateral, regional and sectoral agreements are attempts by the EU and the US to bypass this developing country opposition. TTIP proponents contradict themselves when they simultaneously affirm that TTIP is not directed against anybody else, and that it is a project to set a global "gold standard" for trade agreements. Global standards have to be negotiated in global negotiations, not bilaterally between the EU and the US.

Amid mounting opposition to TTIP, Germany's Ministry for Economic Cooperation and Development (BMZ) commissioned a study entitled *Potential impacts of the Transatlantic Trade and Investment Partnership (TTIP) on developing and emerging economies*, published in January 2015.

Flaws and contradictions

The study *Potential impacts of the Transatlantic Trade and Investment Partnership (TTIP) on developing and emerging economies*[1] was commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ) and conducted by a project team led by Professor Gabriel Felbermayr from the Ifo Institute, Munich, and Professor Wilhelm Kohler from the Institute for Applied Economic Research (IAW), Tübingen. It was published in late January 2015.

The study's objective, according to the authors, is to look "at whether and how TTIP could become the basis for an equitable and revised multilateral world trading system"[2]. The European Commission and the US Government are currently negotiating TTIP amid mounting public opposition. According to the project overview: "The sheer size of the transatlantic economy means that TTIP will have an impact on developing and emerging economies. On the one hand, higher income in the EU and the USA will increase demand for goods and services in third countries, which should benefit them. On the other hand, the agreement can be expected to divert trade flows from TTIP partners away from third countries, which will be detrimental to them. On balance, there will be both winners and losers among the developing countries. However, the effects on both groups will be small; and several parameters can be adjusted to make the winner group as large as possible."[3] Lead author Felbermayr thus revises the findings of an earlier study, in which he wrote: "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."[4]

We believe that the Ifo study presents a biased view and turns the possible negative impacts of the proposed TTIP into positives, based on little more than speculation. The study does not provide a comprehensive development policy analysis of TTIP. Agriculture is a major blind spot, for example: in order to assess the impacts of an EU-US free trade agreement on global agriculture, it is not enough simply to analyse the changes in tariff policy. Furthermore, the study reinforces the increasingly discredited view that global growth is the primary solution to the world's problems. In short, on a wide array of topics such as development policy, sustainability and investment protection, the study has serious flaws.

Overrated global growth

The broad theoretical premise for the Ifo and IAW researchers' analysis is that more trade will lead to higher growth and automatically increase prosperity for everyone. However, this impact chain is now being called into question in numerous studies, notably the new Oxfam report[5] on the extreme global polarisation of income and assets between rich and poor, and Thomas Piketty's book *Capital in the Twenty-First Century*[6]. These and other research studies show that overall prosperity growth often benefits only a tiny elite and bypasses the majority of the population. One of the hallmarks of a good growth policy should therefore always be its inclusive effect – in other words, it should ensure that the benefits of growth are shared equitably among all population groups.

The Ifo study also ignores the environmental impacts of growth. This is particularly worrying, given that in January 2015, these impacts were clearly identified yet again: "Four of nine planetary boundaries have now been crossed as a result of human activity. The four are: climate change, loss of biosphere integrity, land-system change [and] altered biogeochemical cycles,"[7] according to the Potsdam Institute for Climate Impact Research.

Double standards

Most models indicate that GDP in the European Union and the US will grow by less than 1.0 per cent in the long term as a result of TTIP. Even this very modest growth is apparently reason enough for the world's two largest economic blocs to push for a successful conclusion to the TTIP negotiations.

For the developing and emerging economies, however, different standards seem to apply. The authors mention that some lower-income countries "would be headed for long-term losses in real income of up to approximately 2 per cent", but argue that "even this is a small figure if seen in relation to annual trend growth rates of 4 per cent" in the Global South. This judgement is cynical in the extreme, ignoring the devastating impacts on suffering publics in some developing countries.

Agriculture: a blind spot

The Ifo researchers largely ignore the agricultural sector in the developing and emerging economies. One of the most striking weaknesses of the study is that the rankings of reviewed products do not factor in their development significance for poor producers. The reader is given very little information about the possible implications for Kenya, for example, if new TTIP rules meant that green beans could no longer be exported easily to the EU. For poor farmers, the loss of the EU market could result in drastic falls in income.

While small farmers in developing countries are increasingly being integrated into the international food industry's value chains, their opportunity to export fruit and vegetables to the EU all year round could be lost as a consequence of TTIP. There are two reasons for this. Firstly, if tariffs on US products are abolished, goods from the US will squeeze out products from the Global South. And secondly, mutual recognition of standards between the EU and the US would cut certification costs for US agricultural producers, enabling them to boost their exports to the high-price and lucrative EU market.

The authors have also ignored another negative effect on the developing countries. If reciprocal import tariffs are abolished, this is likely to trigger a ruthless competition for market share between European and North American food and agriculture corporations, particularly affecting dairy and meat production, where tariffs are still relatively high. In order to maintain their market position, these competitors would then reduce their prices. With domestic subsidies making goods

Does free trade bring prosperity, and if so, for whom?
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even cheaper, producers could then export to developing and emerging countries, squeezing out local food production, especially by smallholder farmers.

Tourism is not the answer

The authors assume that tourism in six of the nine countries reviewed – Indonesia, Kenya, Mexico, Morocco, South Africa and Turkey – will increase, offsetting negative effects elsewhere. This assumption is based on the expectation of rising incomes for European and US citizens as a result of TTIP.

However, there is good reason to cast doubt on this assumption, for according to the Centre for Economic Policy Research (CEPR), the predicted economic gains from TTIP translate to an extra €500[8] to €545[9] in disposable income each year for a family of four in the EU – not enough to fund a bargain break for four persons in Turkey, let alone long-haul travel to Indonesia or Mexico.

It should be borne in mind that the economic gains hoped for in the EU and the US are themselves based on assumptions which are contested, particularly by European and American trade unions. Experience with the North American Free Trade Agreement has shown that US workers in low-wage groups actually count among the losers and many jobs have been outsourced to low-wage country Mexico. What's more, gains in the tourism industry often bring no benefits for the host countries and their populations; instead, due to the growing trend towards all-inclusive arrangements, they are retained in the economic cycle dominated by the major tourism companies in the EU and the US.

Do small farmers have a future?
© Manfred Schütze, pixelio.de: Taking a break

Obstructing development

In its assessment of possible export losses for the developing and emerging economies, the study focuses solely on existing export structures. As many developing countries currently export raw materials and therefore do not compete with the EU or the US, poorer countries – it is argued – would benefit to a greater extent than those which have reached intermediate development status. However, many low-income regions are attempting to reduce their dependency on raw materials exports and move into other areas of processing and wealth creation, resulting in growing competition with European and North American companies. The study makes no mention of the fact that TTIP will pose a significant obstacle to the pursuit of such strategies.

Policies out of context

Given that the study was commissioned by the Ministry responsible for economic cooperation and development, it is surely reasonable to expect that the development policies espoused by the Ministry itself and by the European Union should form the basis for the analysis. However, the authors have ignored this key policy framework. The Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs) do not feature in the study, and the development policy coherence that is one of the obligations established in Articles 208-211 of the Treaty on the Functioning of the European Union (TFEU)[10] is absent as well. For example, the issue of widening social inequality is not addressed, although in the years since the 2008 financial crisis, the benefits of growth have mainly accrued to those with above-average levels of wealth and lower-income groups have lost out. An assessment of the development effects of a free trade agreement must therefore include a balanced analysis of potential social welfare gains and losses.

Human rights? Or human wrongs?

Another remarkable gap, tying in with the lack of coherence, is that not one of the 10 policy recommendations made by the authors makes any mention of respect for human rights, a principle which the Ministry itself espouses. In the Treaties, the European Union states its commitment to respect and promote universally applicable and indivisible human rights, also in its external policies. The UN Guiding Principles on Business and Human Rights reaffirm the state duty to protect against human rights abuse by business enterprises and the corporate responsibility to respect human rights. For European trade policy, this means that the EU must subject all its trade and investment agreements to independent human rights impact assessments on a regular basis. These impact assessments must be conducted systematically, prior to the start of negotiations and the conclusion

Developing countries = eternal raw materials suppliers? *© Fairphone: Washing copper ore, CClicense*

of trade agreements, so that provisions which may be problematical from a human rights perspective can be identified and excluded at an early stage. However, the study does not call for, or provide, any such assessment.

Instead, the growing demand for raw materials in the EU and the US is identified as one of the possible positive impacts of TTIP, as it may result in more intensive natural resource extraction in the Global South. From a development perspective, this is problematical, for resource extraction projects in the Global South are frequently linked to massive human rights abuses and environmental degradation.

In our view, it is essential, therefore, to ensure that third countries are included in the human rights impact assessments as well. Furthermore, TTIP should provide for the establishment of an independent and transparent complaint mechanism, enabling developing and emerging economies to take action in cases of trade-related human rights abuse.

The hazards of investment protection

The EU and US negotiators intend to give overseas companies the opportunity, within the TTIP framework, to seek redress through separate legal channels which bypass ordinary jurisdiction. Companies will be able to initiate proceedings in special courts in order to claim compensation from governments in the other economic area if they believe that planned or adopted legislation restricts their economic freedom of movement. The failure to mention this proposed mechanism for investor-to-state dispute settlement (ISDS) in the study is bewildering, especially given that it will be reinforced in bilateral trade agreements between industrialised and developed countries.

Private dispute settlement already forms part of many bilateral investment treaties (BITs) – and is generally deployed against developing countries. The majority of these cases – 85 per cent – have been brought by companies from developed countries. Together, claimants from the EU and the United States account for 75 per cent of all disputes. Of the 98 states which have been respondents, more than three quarters are developing and emerging economies. Argentina is the most frequent respondent, with 53 cases against it, followed by Venezuela (36), Egypt (23), Ecuador (22) and Mexico (21)[11]. We are concerned that establishing special courts within the TTIP framework will entrench bad practice, creating a negative standard for global trade relations.

A new instrument of control

Germany's Economics Minister Sigmar Gabriel and the European Commission claim that TTIP should serve as

Do local producers still serve local markets? *© Doozi, pixelio.de: A street market in India*

the benchmark for new international rules. They state that TTIP could operate as a new "gold standard" with which other countries, economic blocs and developing economies must align themselves. The possible negative impacts on lower-income countries are not addressed in the study, however.

Nor do the authors discuss multilateral standards such as those already adopted for agriculture by the World Trade Organization's Committee on Sanitary and Phytosanitary Measures or the Codex Alimentarius Commission. The biased TTIP standards are the only benchmark considered in the study. We regard this as a retrograde shift towards the development aid policies prevalent in the 1970s, which frequently prioritised the interests of donor countries and ignored the recipients' real needs. This conflicts with the modern, partnership-based approaches that are now well-established in German and European development cooperation.

Participation in the wrong bodies

The authors propose giving developing countries access to TTIP governance mechanisms – an offer which, on the face of it, sounds tempting. But how serious is this proposal, and what form might such an initiative take? Should all 134 developing countries participate in the bilateral negotiations between the EU and the US? If not, who makes the selection? Would the lower-income countries be invited to attend the meetings of the controversial Regulatory Cooperation Body (former Council), or is participation in all the bodies established under TTIP envisaged?

These questions are still unanswered. We are concerned that this is merely a token gesture to third countries, not an offer of full and equal participation, and is simply a way for the negotiators to assuage concerns. A better option would be to strengthen international governance processes in which all countries have equal rights. Efforts are currently under way in various international organisations, such as UNCTAD, to develop balanced standards. However, the EU and the US often stonewall these initiatives. By shifting the focus of the "standards" debate towards a bilateral agreement, existing global governance structures are being eroded.

We say: the study is not fit for purpose

The Ifo study focuses solely on isolated trade impacts of the EU-US agreement and fails to provide a comprehensive assessment from a development policy perspective. It therefore offers little or no insight into the real impacts of a free trade agreement on emerging and especially developing economies. We urge the BMZ and other institutions responsible for development cooperation in the EU to commission a further study which provides a comprehensive assessment that is genuinely oriented towards the BMZ's goals and agenda.

1 Gabriel Felbermayr, Wilhelm Kohler, Rahel Aichele, Günther Klee, Erdal Yalcin: Mögliche Auswirkungen der Transatlantischen Handels- und Investitionspartnerschaft (TTIP) auf Entwicklungs- und Schwellenländer. ifo Institut, München, 2015, 250 pages. Download: http://www.cesifo-group.de/portal/page/portal/DocBase_Service/studien/studie-2015-ttip-felbermayr.pdf (German)
English executive summary: http://www.cesifo-group.de/portal/page/portal/DocBase_Service/studien/studie-summary-2015-ttip-felbermayr.pdf

2 http://www.cesifo-group.de/de/ifoHome/infoservice/News/2015/01/news-20150123-TTIP-entw-laender.html

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4 Gabriel Felbermayr, Benedikt Heid & Sybille Lehwald: Die Transatlantische Handels- und Investitionspartnerschaft (THIP). Wem nutzt ein transatlantisches Freihandelsabkommen? Teil 1: Makroökonomische Effekte. Gütersloh 2013: Bertelsmann Stiftung, S. 28. http://www.ged-shorts.de/wp-content/uploads/2013/12/Studie_TransatlFreihandel_final_DE.pdf

5 “Even It Up – Time To End Extreme Inequality“ Oxfam International 2014, http://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/cr-even-it-up-extreme-inequality-291014-en.pdf

6 http://piketty.pse.ens.fr/en/

7 https://www.pik-potsdam.de/aktuelles/pressemitteilungen/vier-von-neun-planetaren-grenzen201d-bereits-ueberschritten

8 “Consumers will also benefit from cheaper products. The study estimates that in total the average European household of four will see its disposable income increase by something in the region of €500 per year, as a result of the combined effect of wage increases and price reductions“. See http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151787.pdf

9 “An ambitious and comprehensive transatlantic trade and investment agreement could bring significant economic gains as a whole for the EU (€119 billion a year) and US (€95 billion a year). This translates to an extra €545 in disposable income each year for a family of 4 in the EU, on average...”. Cf. http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf
While this quote was taken from the “Key Findings” of the study “Centre for Economic Policy Research, London: Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment. Final Project Report, March 2013”, the Executive Summary of the same study includes a table called “Summary of Macroeconomic Effect” where the same figures €119 billion resp. €95 billion are shown, not as annual figures but as aggregated data until 2027 (Note under the table: “estimates to be interpreted as changes relative to a projected 2027 global economy”). This means the annual effect might be only a tenth of the €545 for a family of four people!

10 http://www.bmz.de/de/was_wir_machen/ziele/politikkohaerenz/index.html

11 See UNCTAD (2014): RECENT DEVELOPMENTS IN INVESTOR-STATE DISPUTE SETTLEMENT (ISDS). IIA Issue Notes No. 1/2014. http://unctad.org/en/PublicationsLibrary/webdiaepcb2014d3_en.pdf

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