

# Impact of reducing EU-US Trade and Investment Barriers

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Based on: Reducing Transatlantic Barriers to Trade and Investment  
An Economic Assessment, CEPR 2013.

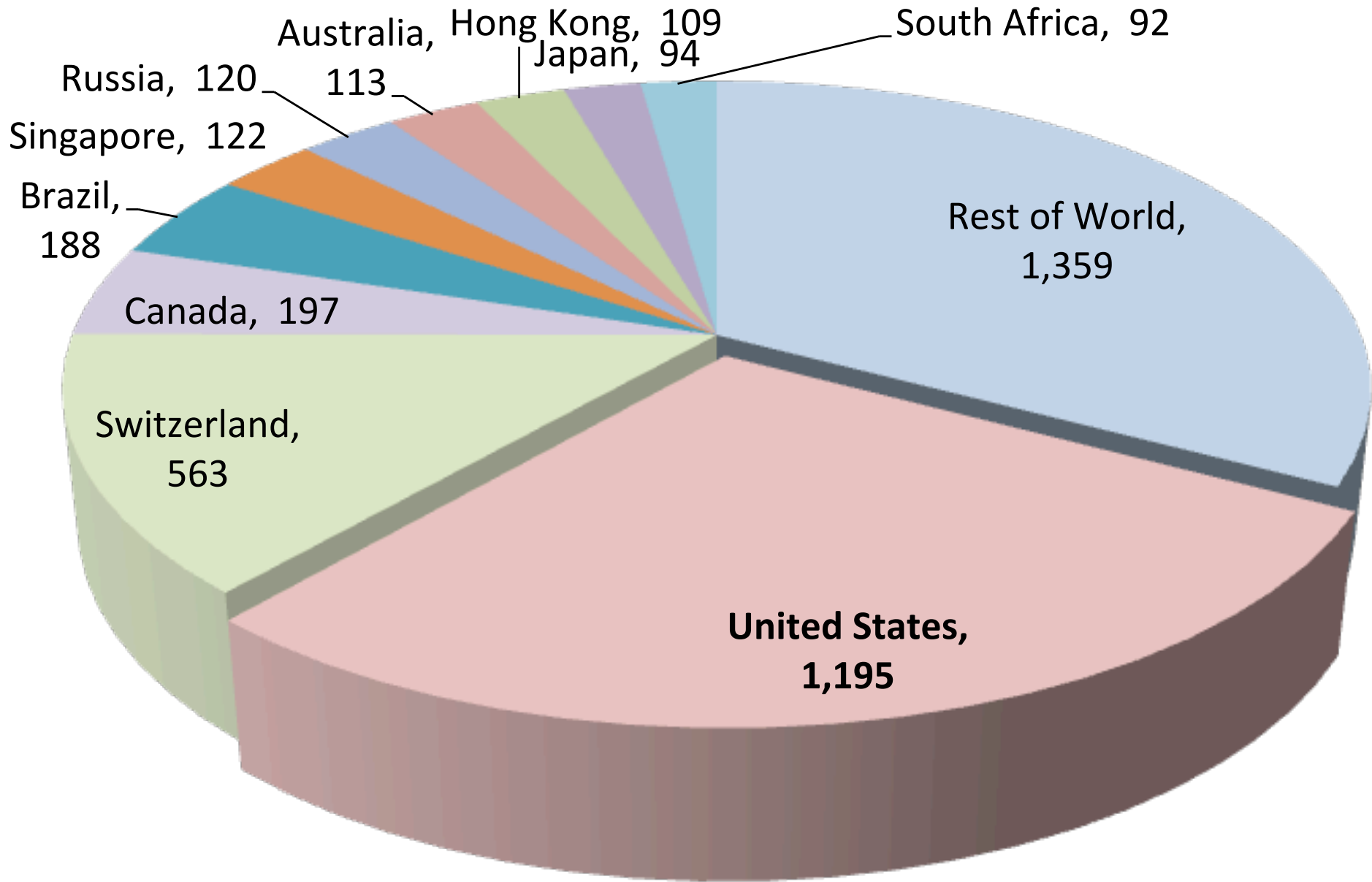
# Overview

- The case for an agreement – the transatlantic relationship
  - Several recent national studies: France, Germany, Austria, UK, for example
  - Not new
    - NAFTA = North Atlantic Free Trade Area in 1960s
    - Baldwin/Francois study in 1990s for the EC on same topic.
  - How we trade and produce has changed. About 20% of EU and US trade is with each other. Most of this goes into production.
- Benchmarking barriers affecting EU-US trade and investment: econometric estimates of NTBs
  - Tariffs, ECORYS 2009 on NTBs, examples, surveys, econometrics
  - Stylized facts: index scores, stylized facts about barriers
- Benchmarking expectations
  - Ranking priority sectors
- Modeling the impact of liberalization: integrated CGE & Econometrics assessment
- Closing comments
-

The TTIP

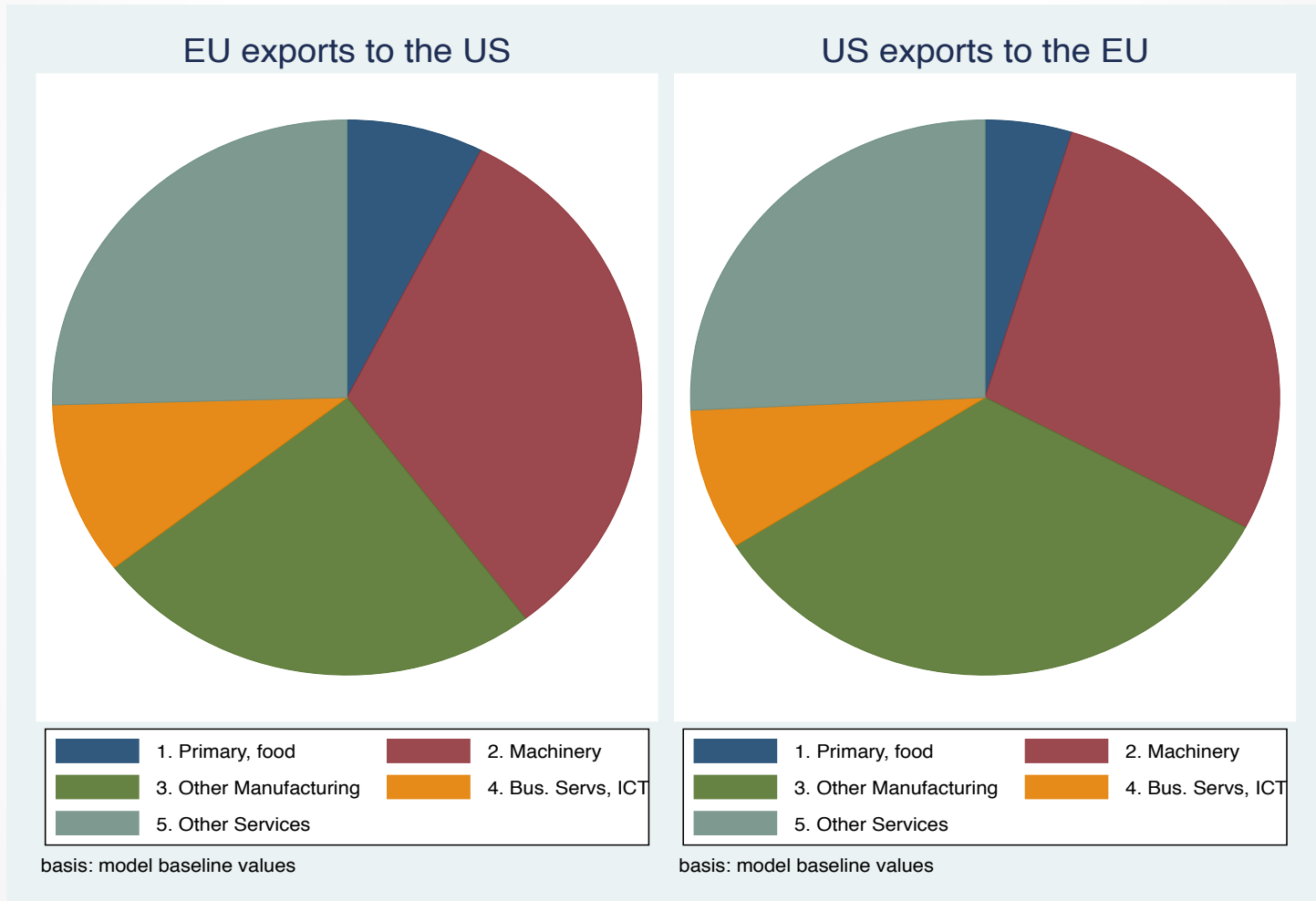
Trans-Atlantic  
Relationship

# Outward EU FDI



# The Trans-Atlantic Relationship

## trade in goods and services



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

The TTIP

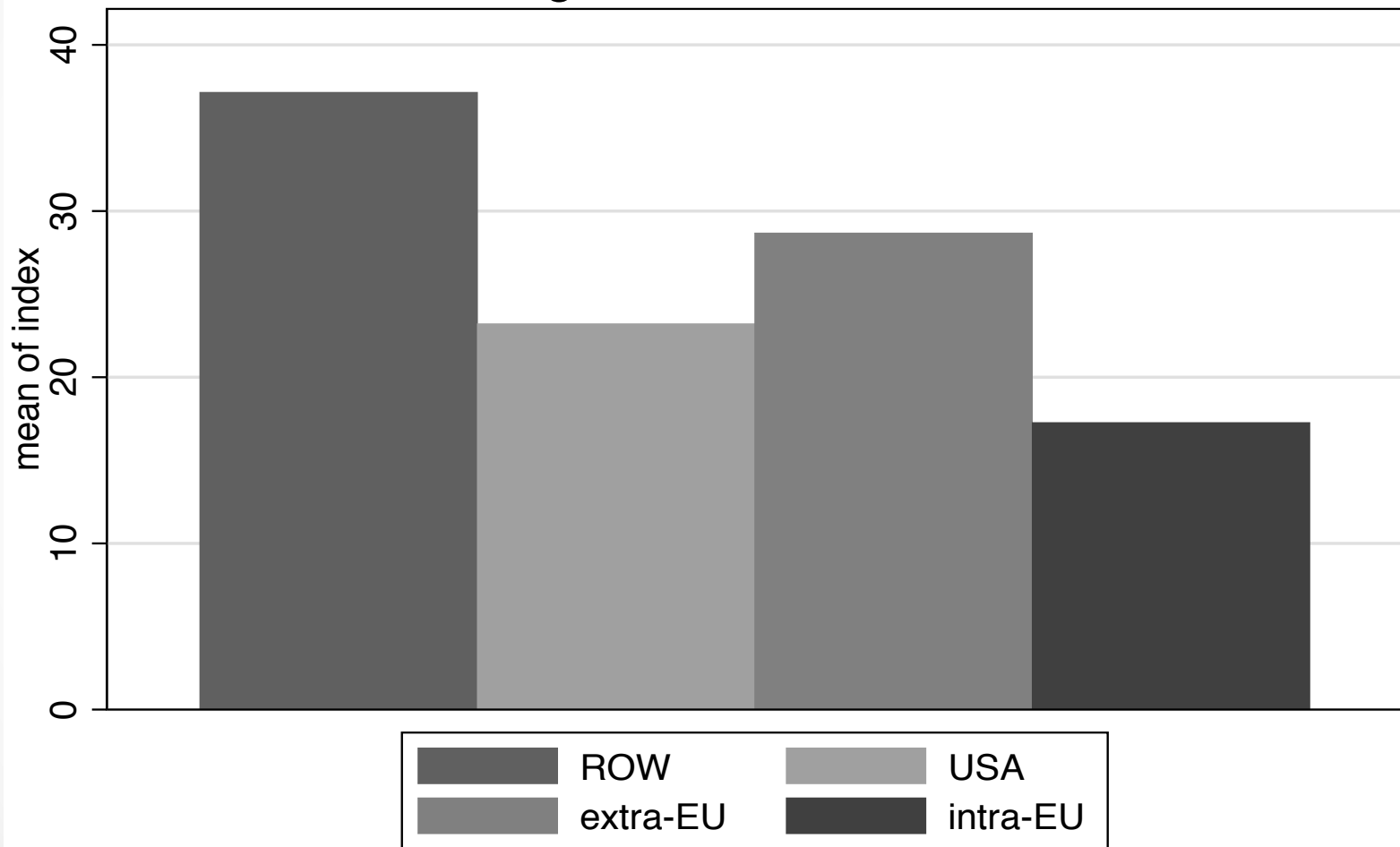
Benchmarking NTBs

# Benchmarking barriers: non-tariff barriers

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

# Benchmarking barriers: investment barriers

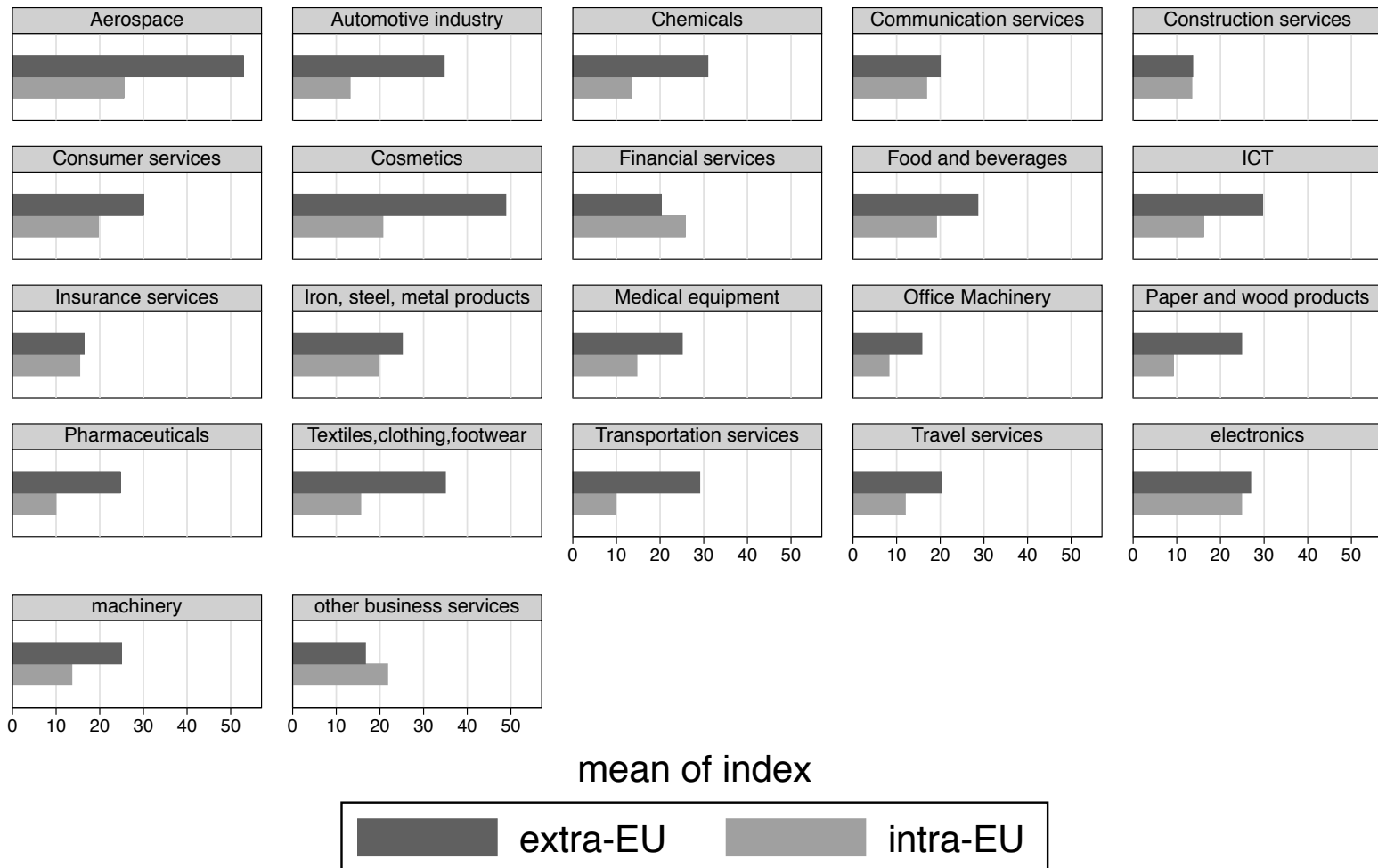
Average NTM indexes for FDI



source: See text. Extra-EU/Intra-EU refers to NTMs faced by non-EU/EU firms operating in EU  
NTB survey data.



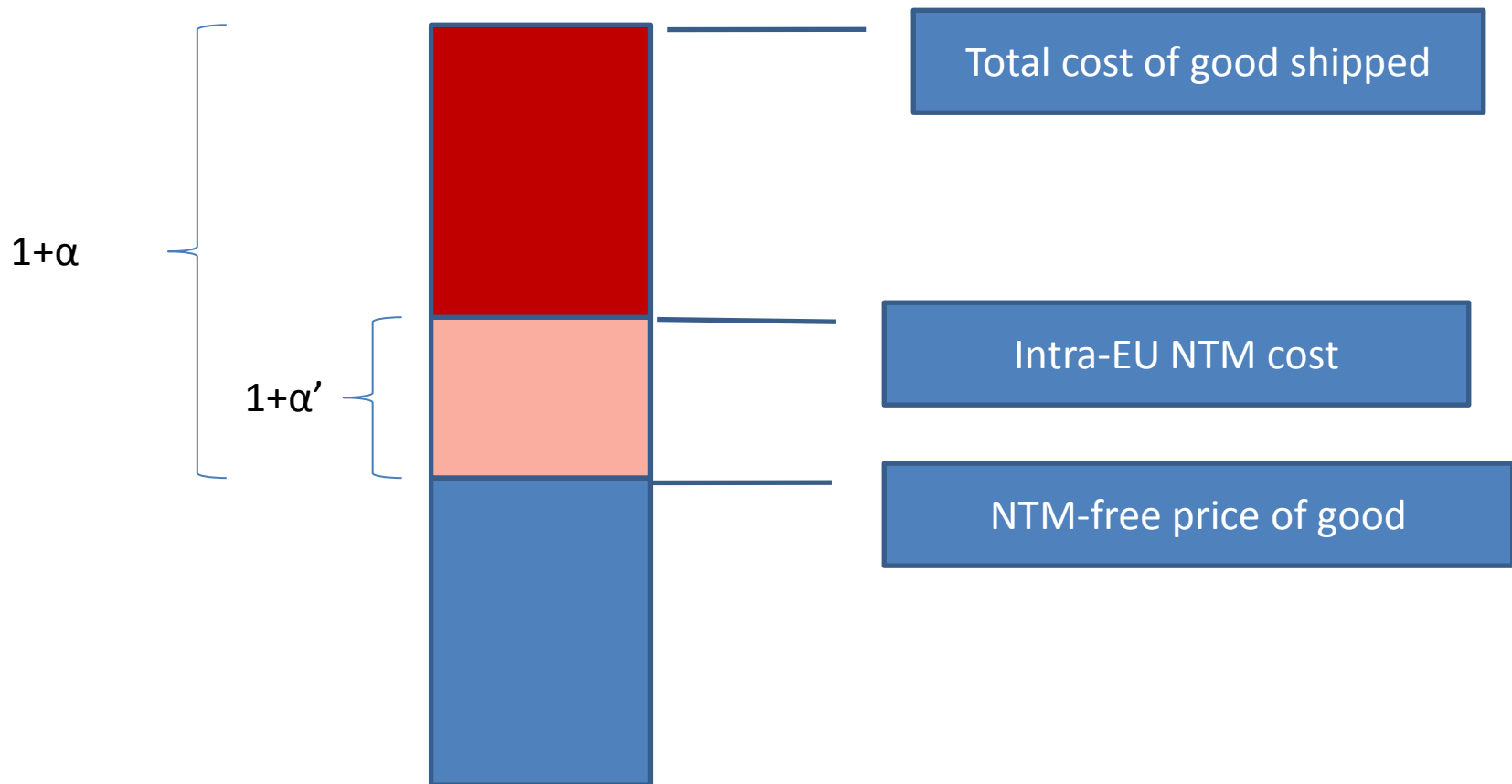
# Intra- vs Extra-EU market access



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

# NTB estimates

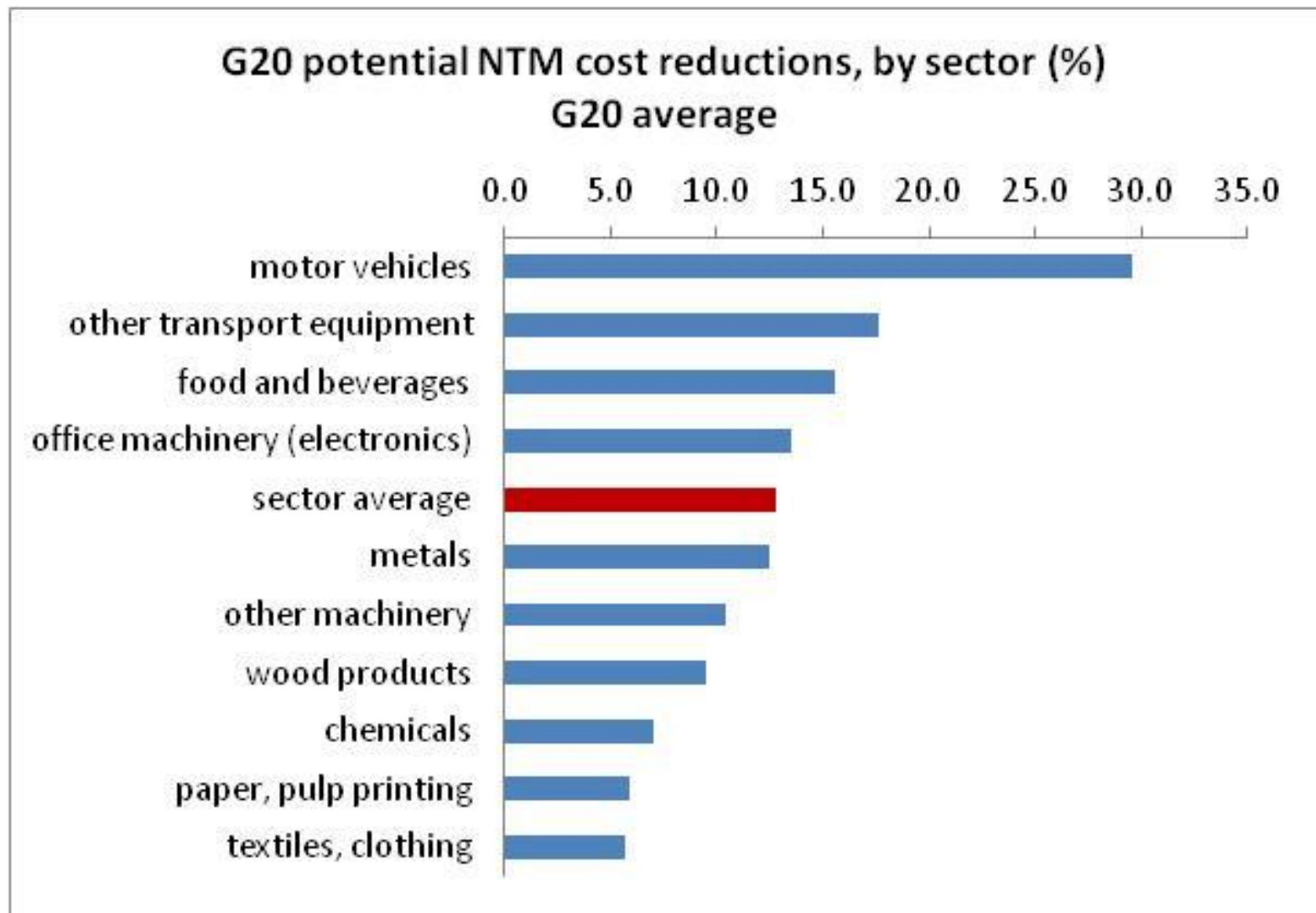
## Feasible reductions



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

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

# Estimates of “feasible” cost savings



# The TTIP

empirical assessment

# Modeling the impact of liberalization

## overview of the framework

- TRADE: Econometric estimates integrated into a multi-region global model of production, trade, and final demand
  - Benchmarked to GTAP8 data, but projected to year 2027
  - Includes intermediate linkages between sectors (like motor vehicles buying steel)
  - Includes cross-border linkages between sectors (like German motor vehicles using US parts and components)
  - Includes tariff barriers
  - Includes both cost raising NTBs and rent generating NTBs.
  - 11 regions, 20 sectors (same sectors as ECORYS 2009).
  - Integrates Econometric estimates of elasticities and NTBs
- MNEs: gravity model of FDI income and employment

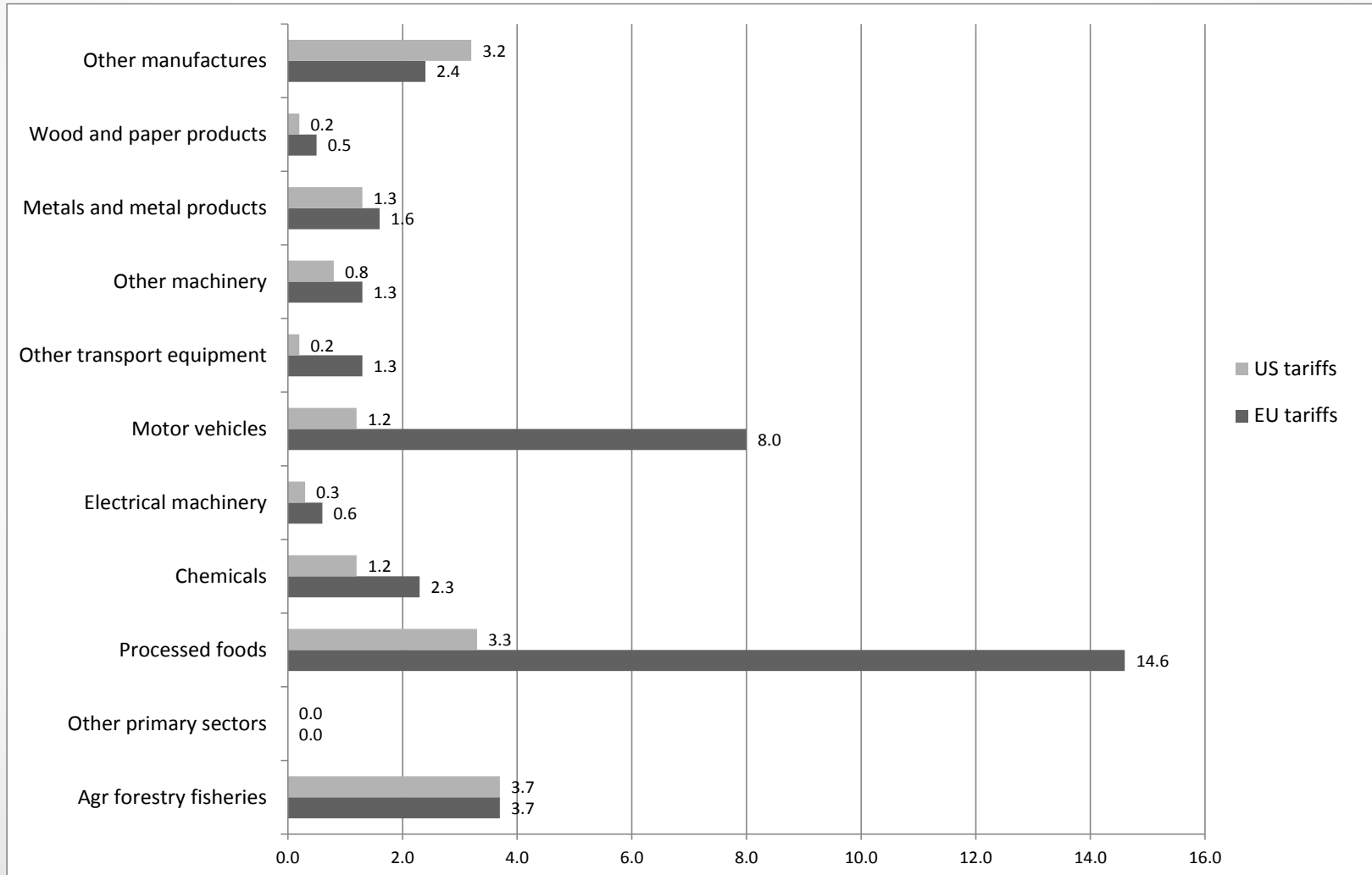
# Modeling the impact of liberalization

## summary of CGE scenarios

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

# Benchmarking barriers: bilateral tariffs

## Current tariff barriers



# Benchmarking barriers: non-tariff trade barriers

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

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

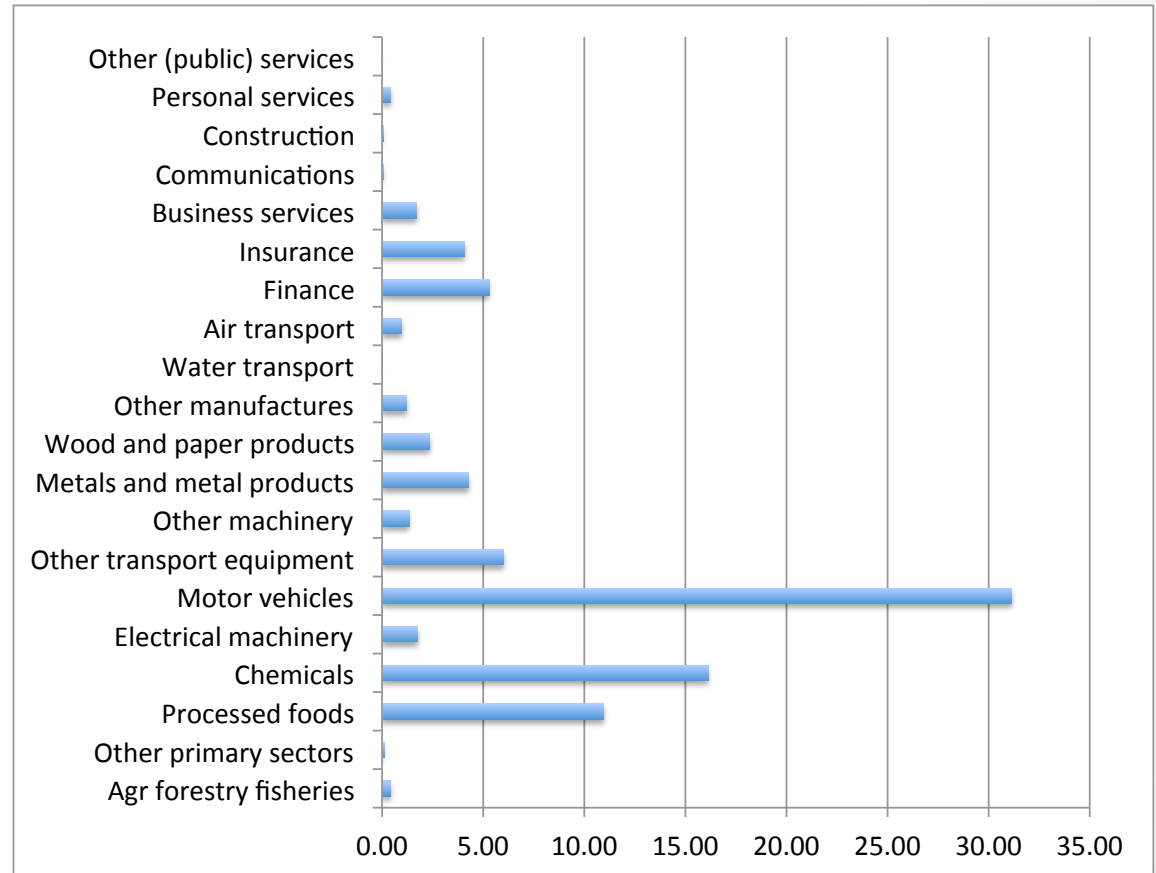


# Benchmarking expectations market access indexes for the EU

## Improved Market Access Scores

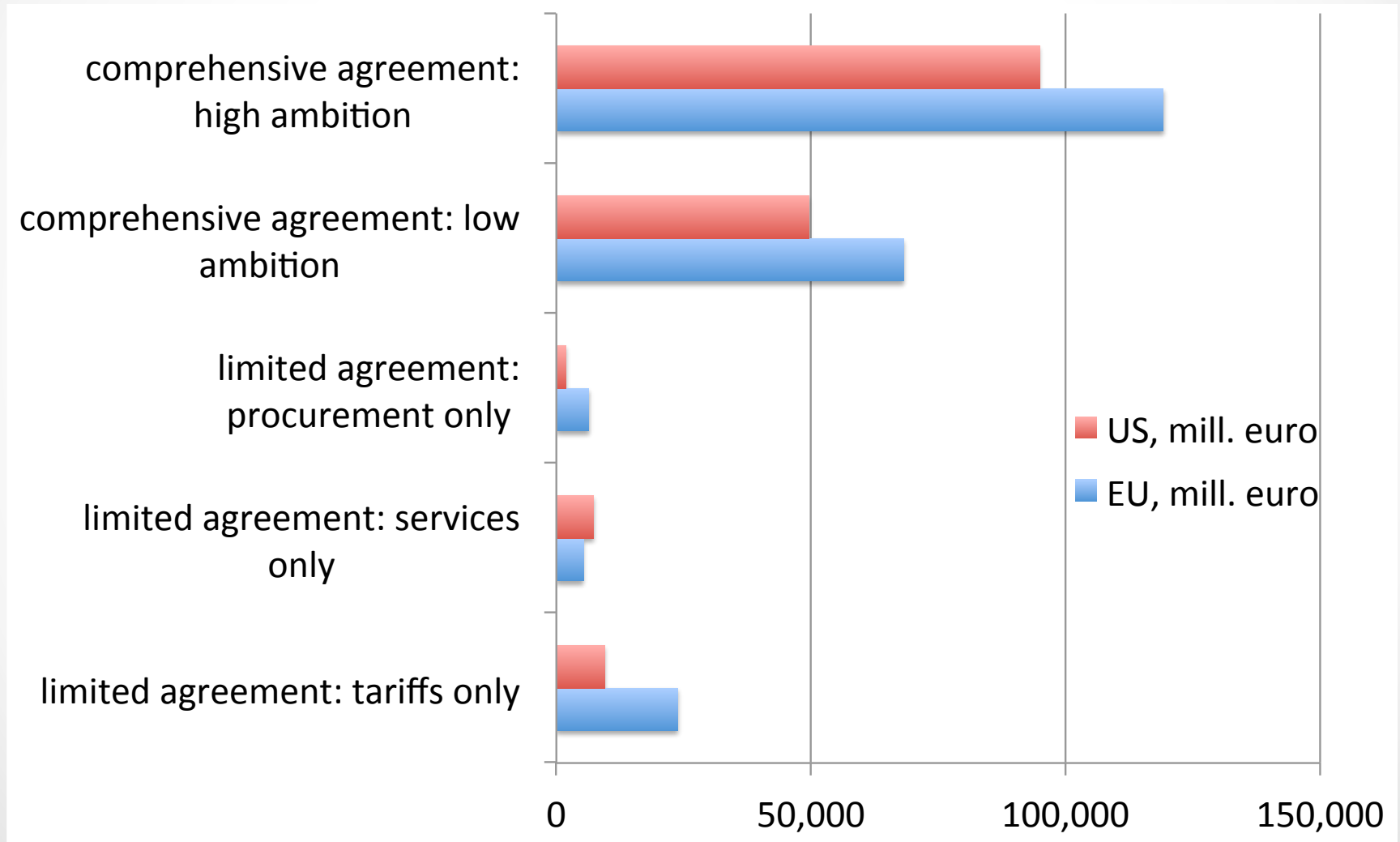
Agr forestry fisheries	0.40
Other primary sectors	0.10
Processed foods	10.96
Chemicals	16.12
Electrical machinery	1.76
Motor vehicles	31.13
Other transport equipment	6.00
Other machinery	1.34
Metals and metal products	4.29
Wood and paper products	2.37
Other manufactures	1.22
Water transport	0.00
Air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

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



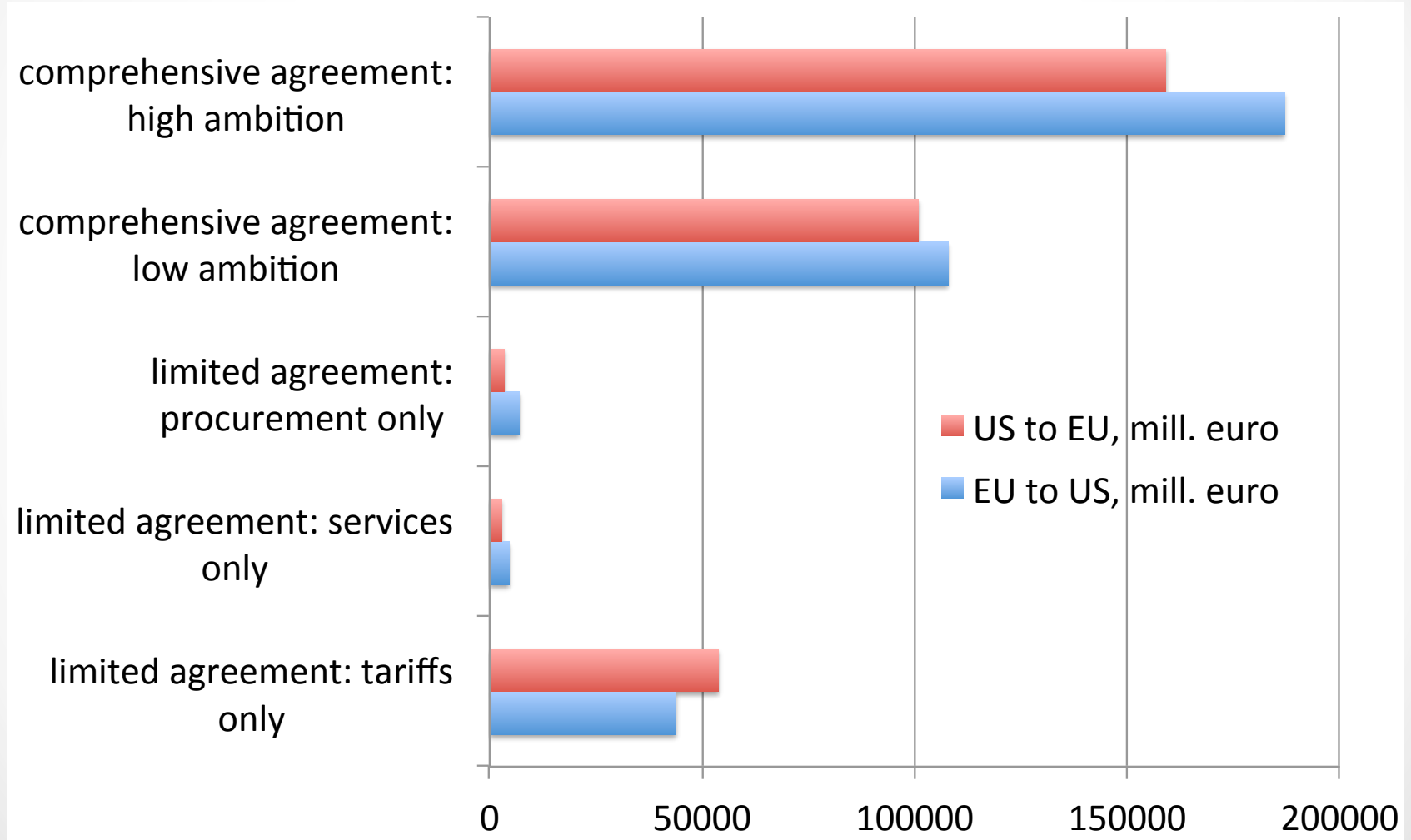
Source: own calculations from model database, barrier estimates.

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



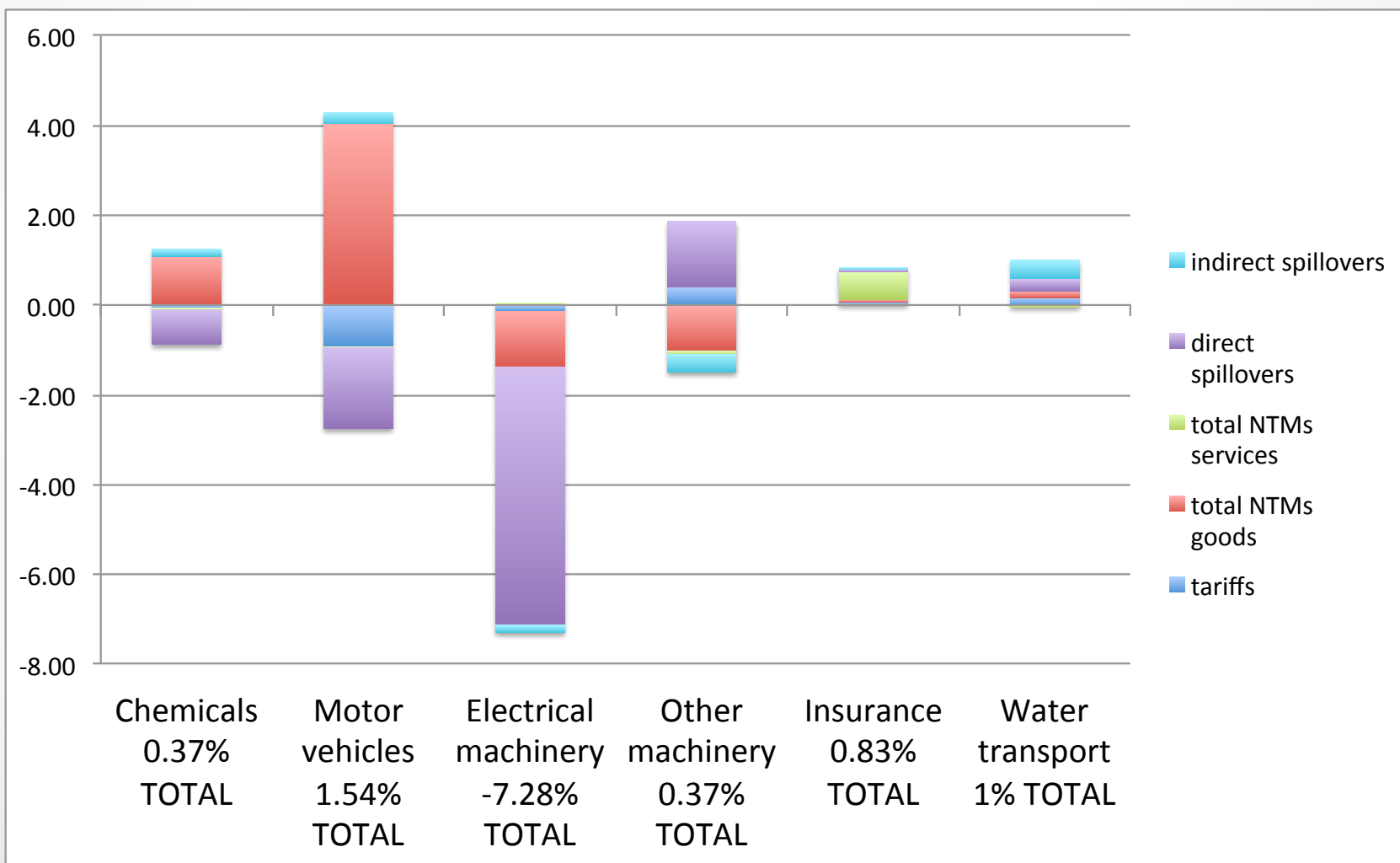
# Modeling the impact of liberalization

## changes in bilateral trade, million euro in 2027



# Modeling the impact of liberalization

## output effects hinge on spillovers



# Modeling the impact of liberalization

## changes in intra-EU trade, million euro in 2027

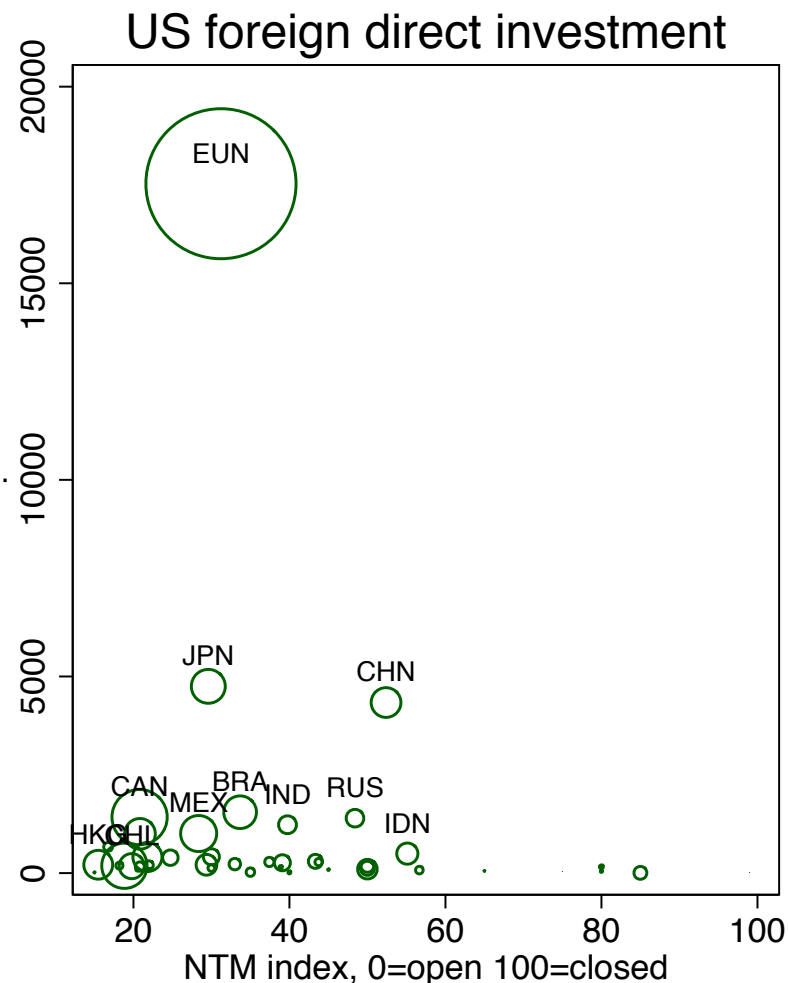
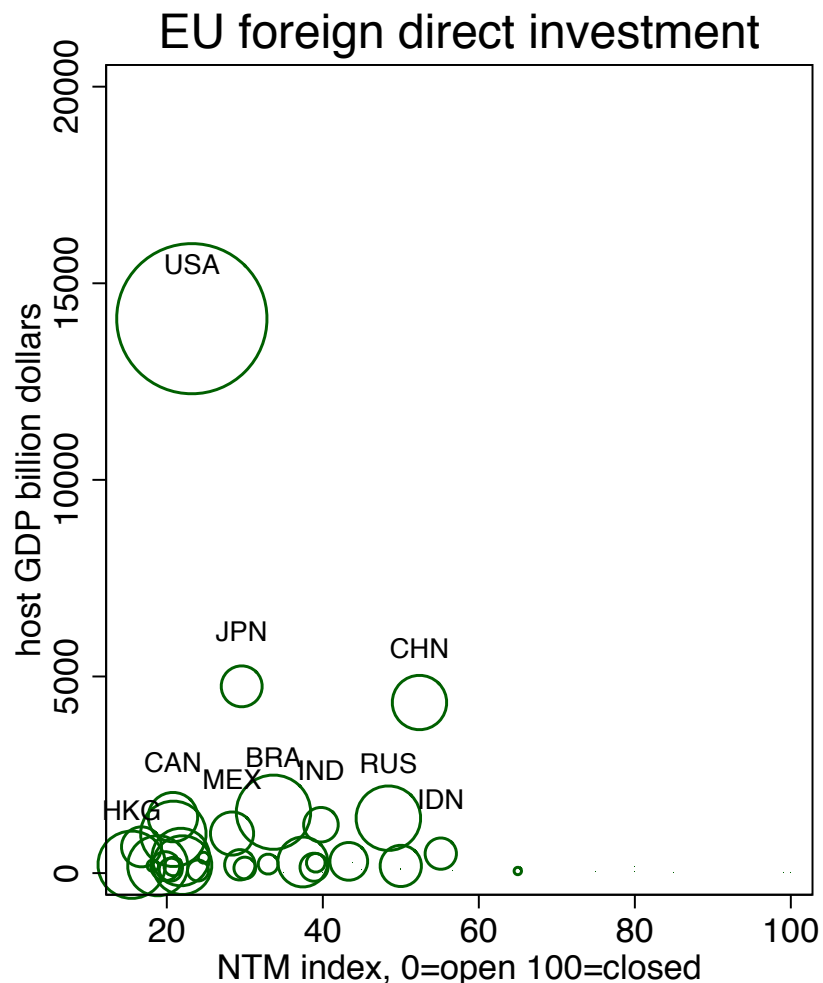
Trade diverted from intra-EU trade, Ambitious experiment, 20% spillovers, 2027 benchmark

	A=B+C+D+E+F	B	C	D	E	F
	total	tariffs	total NTMs goods	total NTMs services	direct spillovers	indirect spillovers
Agr forestry fisheries	269	-101	319	17	-50	84
Other primary sectors	345	234	-89	0	278	-78
Processed foods	-425	-164	425	65	-851	98
Chemicals	-13,208	-3,641	-2,356	-214	-7,282	286
Electrical machinery	-12,829	-376	-2,847	61	-9,073	-594
Motor vehicles	-36,517	-13,423	-10,551	-59	-12,016	-469
Other transport equipment	-2,468	-583	-1,572	-8	-262	-42
Other machinery	492	-431	-3,692	-308	6,583	-1,661
Metals and metal products	-11,464	-1,196	-4,185	-176	-4,642	-1,266
Wood and paper products	-799	183	-365	23	-685	46
Other manufactures	2,087	1,131	-261	-43	2,174	-913
Water transport	-35	41	26	-19	-118	35
Air transport	76	97	35	-62	14	-7
Finance	129	60	103	0	-51	17
Insurance	84	18	36	20	5	5
Business services	1,068	276	827	0	-138	103
Communications	53	25	53	-25	-8	8
Construction	131	36	77	8	0	11
Personal services	124	39	79	-28	17	17
Other services	795	179	308	26	154	128
Total	-72,092	-17,596	-23,631	-722	-25,952	-4,192

# FDI and market access

## Foreign Direct Investment by Host Country

Size of circle indicates mean 2007-2009 FDI income



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

# NTBs and MNE activity

**Table 43** Regression estimates for NTMs and FDI

	Poisson ML estimates		
	FDI income	Number of enterprises	Number of employees
log distance	-0.5381*** -(0.0011)	-0.9525*** -(.0049)	-0.9773*** -(0.0006)
log NTB index for FDI (based on EU margin)	-0.5057*** -(0.0034)	-0.3463*** -(0.0095)	-0.3136*** -(0.0039)
log Network index	0.2188*** (0.0154)	1.1177*** (0.6058)	0.6728*** (0.0065)
Obs	11,140	8,304	7,253
chi2,Pr>chi2	2.41e+06,0.00	1.81e+04,0.00	2.14e+07,0.00
Pseudo-R2	.8915	.8969	.8945
conditional fixed effects			

Moving access to intra-EU levels implies a 25% reduction in NTB levels:

- Approximate €10.3 bill increase in EU income from FDI in the US
- Approximate 9.44% increase in employment at EU firms in the US.

# Closing comments

- Other results in the model:
  - Sustainability indicators point to minimal impacts
    - Global CO2 emissions increase by roughly .02 to .07 percent
    - Third country wage effects are between 0.0% and +0.2% (except ASEAN, larger effects that hinge on indirect spillovers)
- NTBs for goods dominate the impact estimates.
  - This holds for the simple priority ranking exercise
  - This also holds with the CGE exercise
- Scope for spillovers is also important to the results. It contributes to overall gains, but raises questions about adjustment in particular sectors.
- The potential benefits are substantial, but hinge on difficult areas (like chemicals regulation, product standards and safety in motor vehicles, regulatory differences in services).