[HPS] LEADING THINKING

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TTIP And The Engine Of The German Economy

Reducing Non-Tariff Barriers Is Core Growth Opportunity

Findings:

- **While critics continue to dominate the TTIP conversation, especially in Germany, the data suggests Germany stands to benefit from a robust agreement.**
- **By addressing non-tariff barriers in motor vehicles and advanced manufacturing, Germany can grow high-value sectors.**
- **Germany has global banks and insurers, but US incentives to fight for a financial services chapter in TTIP are weak.**

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Monday, April 25, 2016 marks the beginning of the next round of talks on the proposed Transatlantic Trade and Investment Partnership (TTIP). It comes the day after US President Barack Obama spoke in Germany at the Hannover Messe, the world's largest industrial technology trade show. Obama's visit underscores the strong (and ever-growing) trade relationship between Germany and the US. Germany in particular stands to benefit from a robust TTIP. Its economy is more export-driven than other EU countries, alone accounting for nearly one-quarter of all EU trade with the US (Fig. 1).

Meanwhile overall, TTIP presents a strong opportunity for the EU and US to forge even closer ties, setting the standard for transnational cooperation during a time when populism across the globe is challenging transnational relationships.

However, talks over the TTIP agreement between the EU and US lack strong support within Europe's largest economy. President Obama's latest trip to Germany comes as opposition to the deal within the EU continues to dominate the conversation and news cycle on TTIP.

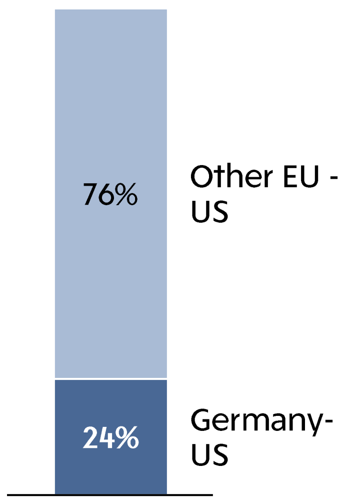
Obama's visit underscores the strong (and ever growing) trade relationship between Germany and the United States.

As an example, in late March, 54 percent of media coverage featured solely negative commentary on TTIP. Comparatively, just 12 percent of media coverage only featured supporting commentary.

Opponents used various mediums to attack what they believe to be opaque negotiations, predicting doom for Europe if an agreement were reached.

Fig. 1 Germany Accounts For 24% Of All EU-US Trade

EU-US Trade (%)



Source: Bureau Of Economic Analysis

TTIP And German Advanced Manufacturing

Yet, analysis by the Centre for Economic Policy Research, a leading independent pan-European economic research organization, found the deal would increase the size of the EU economy by 0.5 percent of GDP and the US economy by 0.4 percent of GDP. While estimates vary, this forecast is roughly in the middle of the range.[1]

This finding is not surprising.

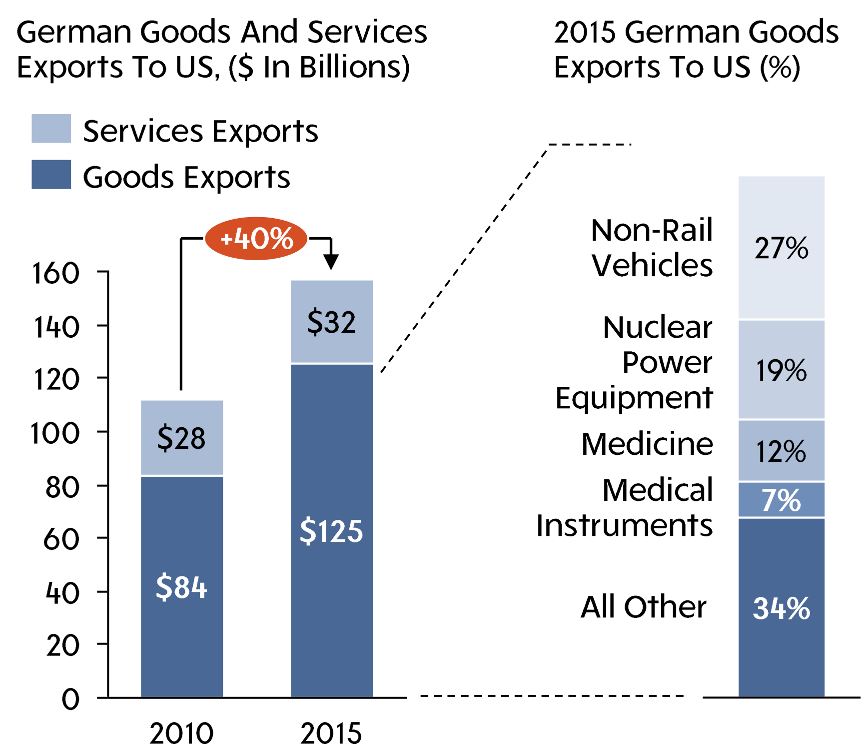
The US is the EU's principal trading partner and the main buyer of its exports. In terms of selling goods, for example, data shows that since 2010 the EU has maintained a positive trade balance with the US, and it has been trending upward – going from €69.3 billion to €123.34 billion by 2015, a 78 percent increase.

The US is also the leading non-EU destination for German exports.[2] Germany exported goods worth $125 billion to the US in 2015, compared to just $84 billion in 2010 (Fig. 2). Total trade in goods and services between the EU and US came to $878 billion last year, of which Germany's share was 24 percent, or $207 billion.

In fast-growing sectors such as advanced technology, a trade-boosting agreement like TTIP would help Europe better compete with Asia, Canada, and Mexico in selling to the US. Recent US Department of Commerce data shows that Europe only shipped $6.3 billion in advanced tech to the US. In comparison, the countries in the Asia-Pacific region exported $16.5 billion of advanced tech to the US (Fig. 3).

For Germany, this discussion specifically refers to autos, a leading German export. Additionally, Germany is competing with the US and others in the effort to develop and deploy self-driving vehicles. In a speech last January, EU Commissioner for Trade Cecilia Malmström asked, "Do we want more jobs in Germany's fabled car industry? In the TTIP we want to make EU and US car safety regulation more compatible.

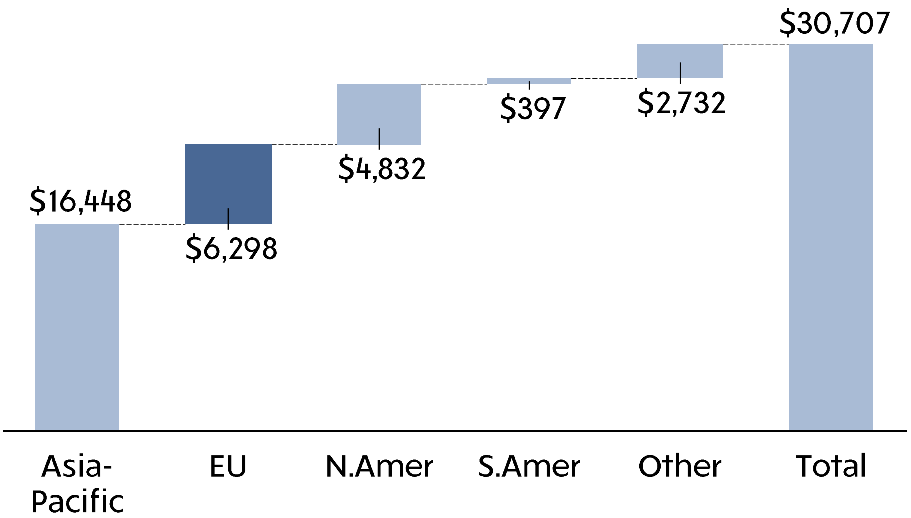
Fig. 2 German-US Trade Has Increased 40% Since 2010; Non-Rail Vehicles Lead All Sectors In Exports



Source: EU Commission Director General For Trade; International Trade Administration

Fig. 3 Europe Lags The Asia-Pacific Region In Exporting Advanced Technology To The US

Feb. 2016 Advanced Tech Imports To US ($ In Millions)



Source: US Census Bureau, US International Trade in Goods and Services Report

That is not easy to do, but it's made easier by the fact that our approach to car safety is actually very similar."[3]

The issue Is Non-Tariff Barriers, Not Tariffs

Trade deals traditionally focus on reducing tariffs, which are already quite low between the EU and US; however, Malmström here is referring to non-tariff barriers to trade (NTB).

Caixa Bank estimates "ad valorem equivalent of NTBs is estimated at an 8.5 percent increase on average for services and 21.5 percent for goods." For food and beverages, motor vehicles, and chemicals, NTBs are considerably higher.[4] Export costs for EU food and beverage industries due to NTBs are estimated to be more than 70 percent of production costs. For motor vehicles, US NTBs raise costs for German exporters by nearly 30 percent of production costs.

It is therefore no surprise that President Obama chose to attend an industrial technology fair.

The Politics Of A Financial Regulation Chapter In TTIP

Unfortunately, this analysis partly explains the challenge of including financial services in TTIP – even though trade deals normally have a financial services chapter. The main challenge for including a financial services chapter in TTIP is the inevitable political battle with financial services critics like Sen. Elizabeth Warren. At the same time, US financial institutions face one-third the costs of exporting services to the EU as compared to their EU competitors. These factors combined reduces the incentive for the US to include a financial services chapter in the TTIP.

For motor vehicles, US NTBs raise costs for German exporters by nearly 30 percent of production costs.

However, NTBs for financial services companies in Europe are high relative to other industries. Germany has six of the largest 100 banks in the world, tied for first among EU countries.[5] Meanwhile, the Insurance Information Institute notes that Germany has two of the top 10 insurance companies in the world by revenue.[6] Keeping it out of the deal reduces TTIP's potential growth impact.

TTIP And Foreign Direct Investment

Ranked 11 in attracting FDI from the US, Germany currently lags behind countries such as Ireland (5) and the Netherlands (1). TTIP could be just the catalyst needed to attract more capital from US investors.

President Obama, as part of his stop in Germany, will also tout the attractiveness of investing in the US. In 2014, the US received €11.1 billion in foreign direct investment (FDI) from the EU, making it the primary destination for European investors. The US was also the leading source of FDI in the EU, injecting €29.4 billion into the EU in 2014, six times the level of Chinese and Russian FDI (Fig. 4).

Conclusion

Despite the evidence that underlines the importance of a trade agreement between the EU and the US, the lack of vocal business and trade voices has skewed opinions of TTIP in Europe. This imbalance in public discourse poses a risk to the likelihood of an agreement being reached. Businesses, trade associations, and other private sector leaders must actively engage in the TTIP debate by making a fact-based case that shows how the already-strong relationship between both sides could advance to an even higher level, with immense benefits for all. []

About Us

Hamilton Place Strategies is a consulting firm founded on the philosophy that a better understanding of business and economics leads to more effective communications and ultimately better outcomes for the global economy and its participants.

Endnotes

1 "Transatlantic Trade and Investment Partnership September 2013 The Economic Analysis Explained," EU Commission, 9/13

2 Trade Flow, Bloomberg, Accessed 4/22/16

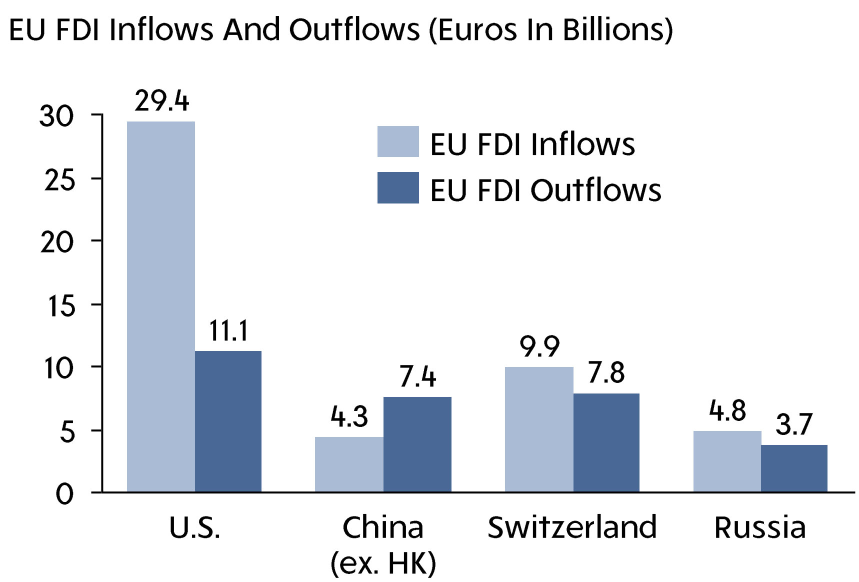
3 Cecilia Malmström, " Why TTIP is good for Germany," Commission For Trade, 1/15

4 "The Economic Impact Of The TTIP," Caixa Bank, 7/9/15

5 Top 100 Banks, SNL Financial, 8/3/15

6 World Rankings, Insurance Information Institute

Fig. 4 FDI Inflows To The EU From US Are 6X Those Of China And Russia



Source: EU Commission Director General For Trade 2016 Stat Guide