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Externalities of the Transatlantic Trade and Investment Partnership: Effects on Emerging Economies and the Developing World

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Externalities of the Transatlantic Trade and Investment Partnership:

Effects on Emerging Economies and the Developing World

By Eric Stroiman

Spring 2013

SIT Switzerland: International Studies and Multilateral Diplomacy

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Abstract

The process of globalization and the liberalization of the global trade regime has become an integral part of the modern political and economic landscape. The Transatlantic Trade and Investment Partnership (TTIP) currently being negotiated between the United States and the European Union has the potential to be the most impactful free trade agreement of the 21st century as these blocks represent the two largest economies in the world. This paper analyzes the conceivable effects of this agreement on the uninvolved emerging economies and developing countries of the world. The two main theories on the outcome heavily involve the fate of the WTO as a central tool for multilateral trade negotiation or just another forgotten organization in Geneva grasping to hold on to its former influence. The rise of the BRIC countries (Brazil, Russia, India, and China) has led many experts to speculate on the creation of a dueling system of trade agreements outside of the WTO in response to TTIP, while others believe that the agreement will set a new standard for trade agreements and rekindle world interest in multilateral negotiations through the World Trade Organization. This paper finds that the outcome heavily depends on the final outcome of the agreement and whether it meets the comprehensive goals it set on. This will largely determine whether or not the WTO remains at the center of the global trade regime as well as whether or not TTIP contains an accessible accession clause for third parties to join the agreement.

Preface

Economic policy plays an enormous role in today's globalized political climate. As a Public Policy Studies Major with a policy track in international economic policy, I find it fascinating how much agreements and policies that so many people know little to nothing about can have a tremendous impact on the world around them. The Transatlantic Trade and Investment Partnership piqued my interest from the first time I learned about its tremendous scope. With the rise of emerging economies and the relative decline of western economic domination, TTIP proves to be an intriguing development for the global trade regime. The beautiful setting of Geneva, Switzerland with its countless international organizations and resources served as a perfect place to delve further into this topic that only a select group of people have an in-depth knowledge of at this point. I look forward to seeing the outcomes of this agreement as well as how it is perceived by the general public as negotiations come to a close and ratification begins.

Acknowledgments

I would like to take a moment to recognize all of the individuals who made this research possible and supported me in my endeavor. The numerous speakers and organizations that I encountered during this program inspired me to take up this topic and were paramount to helping me narrow down a broad interest into a single topic. I would like to thank the SIT Geneva Academic Directors for advising me in my pursuit and helping me to create the final shape of my paper. I would also like to recognize my Vanderbilt professors for piquing my interest in international political economy and world economic development. Finally, I would like to thank my friends and family for listening as I waxed on about the WTO and free trade agreements while they remained supportive and encouraging of my pursuits.

Table of Contents

<i>Abstract</i>	2
<i>Preface</i>	3
<i>Acknowledgements</i>	4
<i>I. Introduction</i>	6
<i>a. Background and Thesis</i>	
<i>b. Literature Review</i>	
<i>c. Research Methodology</i>	
<i>II. Why Now?</i>	11
<i>a. Standstill of Doha and Global Trade Liberalization</i>	
<i>b. The Rise of the Rest</i>	
<i>c. Natural Progression</i>	
<i>III. Perspectives on TTIP from Third Parties</i>	15
<i>a. Tariff Removal</i>	
<i>b. NTB Removal and Regulatory Convergence</i>	
<i>IV. EU-US Historical Trade Relations and the Elimination of NTBs</i>	20
<i>a. Historic Trade Proposals</i>	
<i>b. Dispute History</i>	
<i>c. Different Regulatory Approaches</i>	
<i>V. TTIP and the Future of the Multilateral Trading System</i>	23
<i>a. BRIC and LDC Reliance on the WTO</i>	
<i>b. Completion of Doha</i>	
<i>c. Dueling Regulatory Regimes</i>	
<i>VI. Accession Clause or Multilateralization?</i>	28
<i>VII. Conclusion</i>	29

I. Introduction

The processes of globalization and economic liberalization go hand in hand as they integrate the countries and citizens of the world into a post-westphalian society. The General Agreement on Trade and Tariffs and its successor the WTO served as valuable vehicles for the liberalization of world trade in the last half of the 20th century. The multilateral negotiating rounds sponsored by these organizations have come to a grinding halt since the beginning of the Doha Development Round in 2001. The beginning of the Doha Development Round took place in the months following the September 11th terrorist attacks against the United States at the WTO's 4th Ministerial Conference and consequently took on a historically ambitious negotiating agenda. The round has effectively come to a standstill, aside from some recent developments at the Bali conference, as the member states seem unable to reach their goals and end the round. This lack of development on the multilateral trade negotiation front has led to a resurgence of bilateral free trade agreements and regional trade agreements between countries to further the process of economic integration and bolster their respective economies. Coupled with the development of the emerging economies of the BRIC countries as global economic contenders, the lack of WTO leadership has fostered an environment that encourages development of so-called 'super RTAs' both between developed countries and with emerging economies. These RTAs, including TPP and TTIP, have the potential to change the global trade regime but there are widely differing opinions on how exactly this will occur.

Together, the United States and European union account for approximately 50% of global output; thus if concluded, the Transatlantic Trade and Investment partnership

would be the largest FTA to ever come to fruition.¹ The agreement was announced in US President Obama's 2013 State of the Union Address with little gusto but aims to eliminate all tariffs on trade, cut down on costly NTBs, promote greater compatibility between US and EU regulations and standards, and create a new standard on issues of global concern in a world based rules systems for future trade agreements.² While the idea of a US-EU FTA is not new, TTIP differs from past proposals in that it is being negotiated outside of the WTO and 80% of projected gains come from measures other than tariff elimination.³ These measures include the likes of cutting bureaucracy and regulation costs as well as liberalizing trade in services and public procurement. This unprecedented agreement has the potential to alter the global trade regime as a step towards international trade liberalization. The immense scale of TTIP has an enormous potential with both economic and political implications for third parties. Emerging economies and developing countries are not taking part in the negotiating process for TTIP even though it will have major effects on the world market. This paper aims to explore the effect that TTIP will have on these emerging economies and developing countries both from a trade perspective and from a policy perspective as these countries heavily rely on the potentially now obsolete WTO for trade negotiations.

¹ OECD. "The Transatlantic Trade and Investment Partnership: Why Does it Matter?." Organization for Economic Cooperation and Development. <http://www.oecd.org/trade/TTIP.pdf> (accessed May 6, 2014).

² Executive Office of the President of the United States of America. "White House Fact Sheet: Transatlantic Trade and Investment Partnership (T-TIP)." Office of the United States Trade Representative. <http://www.ustr.gov/about-us/press-office/fact-sheets/2013/june/wh-ttip> (accessed May 6, 2014).

³ Francois, Joseph. "Reducing Transatlantic Barriers to Trade and Investment: An Economic Assesment." Centre for Economic Policy Research. http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf (accessed May 6, 2014).

Before the analysis begins, this paper will present a brief literature review to give a basic frame of the current perspectives on TTIP as well as a short review of the research methods used. This paper will begin by addressing the factors that gave rise to TTIP and how they will affect its outcome. Next it will review the potential impacts on developing countries and emerging economies if the full extent of the proposed agreement is implemented. Part IV will examine historic trade relations between the EU and US while predicting their impact on the final agreement as it pertains to third parties. Part V will examine the affects of TTIP on the WTO system and the potential 'death knell' of the WTO versus a new life for the Doha Round. Part VI will discuss the potential for an accession clause as part of TTIP and how it will impact the international trade system. Finally, the conclusion will summarize and provide suggestions for using TTIP to further development goals and trade liberalization.

Literature Review

There is an extensive amount of literature on the potential outcomes of TTIP for the EU and US but the externalities of the agreement have not yet been fully explored. The first lens through which this topic is being studied is the agreements potential for altering trade flows in third party countries. Normally, traditional economic thought would dictate that an FTA would lead to trade diversion and creation because of relative and absolute changes in the cost of trading for third parties, but in this case EU and US argue that the elimination of measures including NTBs and the standardization of regulations will actually decrease

the cost of trade for other countries.⁴ A EU commissioned study by the London based Centre for Economic Policy Research goes so far as to say that the benefit will range from .07% to .14% of world GDP gain.⁵ On the other hand, a study commissioned by the Central Bank of the Republic of Turkey shows a .16% to .67% loss in GDP for the example country of China due to trade losses.⁶ While it is difficult to assess the impact of TTIP without knowing what the final product exactly entails, this shows the sizable disparity between hypothesized outcomes largely depending on the theorized liberalization covered by the agreement. The prospective positive benefit for third parties from TTIP relies chiefly on the extent to which the negotiations between the EU and US are able to agree upon common standards and NTB elimination, a topic that this paper will address later on.

The second lens through which past literature has attempted to examine the externalities of TTIP has been through the effect of the agreement on the existing global trade regime and the future of the WTO. Many developing countries rely on the WTO as their only tool for trade liberalization negotiations and thus its future is of paramount importance. With the stalling of the Doha round and the new surge in FTAs, many experts are divided on how other countries, especially emerging economies, will react to TTIP and how it will affect the current system. A US congressional research report echoes the EU and US voiced intention to use TTIP to create new 'globally relevant rules and standards,' a

⁴ European Commission Directorate-General for Trade. "European Commission Fires Starting Gun for EU-US Trade Talks." European Commission. <http://trade.ec.europa.eu/doclib/press/index.cfm?id=877&serie=587&langId=en> (accessed May 6, 2014).

⁵ Francois, Joseph. "Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment." Centre for Economic Policy Research. http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf (accessed May 6, 2014).

⁶ Aslan, Buhara, Merve Mavuş, and Arif Oduncu. "The Possible Effects of Transatlantic Trade and Investment Partnership and Trans-Pacific Partnership on Chinese Economy." (2014).

term that has become increasingly unclear in what exactly it implies about the agreements intentions.⁷ Proponents argue that the coordination of health, labor, environmental, safety, and intellectual property rights standards and regulations among others would advance the rules based world trade liberalization system and potentially jumpstart the Doha Round negotiations again.⁸ Leading scholar on the topic Suparna Karmakar argues that the new higher regulatory standards will not be accepted by emerging economies and developing countries due to the high costs, but rather will prompt them to create a dual regulatory regime to compete with the new 'super RTAs.'⁹ The possibility of an accession clause in TTIP would alter both of these potential situations, a topic that is largely unexplored and this paper aims to address as well.

Research Methodology

Given the topicality and ongoing development of TTIP, the availability of peer-reviewed literature on the subject is sparse. Academic research was conducted primarily through the examination of government commissioned studies, statements released by EU and US leaders and organizations, analysis from leading think tanks, and commentary by prominent political economy experts to provide both original data and interpretations of the potential outcomes. Research was conducted primarily at the UN Library in Geneva, Switzerland as well as in Nyon, Switzerland.

⁷ Akhtar, Shayerah Ilias, and Vivian C. Jones. "Proposed Transatlantic Trade and Investment Partnership (TTIP): In Brief." Congressional Service Report, July (2013).

⁸ Schott, Jeffrey J., and Cathleen Cimino. "Crafting a Transatlantic Trade and Investment Partnership: What Can Be Done." Peterson Institute for International Economics (2013): 13-8.

⁹ Karmakar, Suparna. "Rulemaking in Super-RTAs: Implications for China and India. Bruegel Working Paper 2014/03, March 2014." (2014).

In addition, academic interviews were conducted with leading trade officials from the US and EU as well as other third party countries and prominent think tank experts. Interviews with trade officials were conducted in person and in good faith while the interview with a think tank expert was done via video call. There were no ethical concerns with the research on this topic, but the confidentiality of trade officials was of the utmost importance. Interviewees included officials from the respective missions to the WTO of Switzerland, and Brazil as well as an official from the office of the USTR and an EU trade official. This combination of unique perspectives from interviews and academic research provided a healthy spectrum of stakeholders' views to allow a multi-faceted analysis of the externalities both direct and indirect of TTIP.

II. Why now?

Between the failure of the WTO's Doha Round to conclude, the rise of emerging economies, and the natural geopolitical and economic ties between the EU and US, the final product of the TTIP negotiations will reflect the current geopolitical atmosphere and goals of the signatories. Some point to TTIP as a product of the Doha Round's failure to advance global trade liberalization, others suggest TTIP is an attempt at an 'economic NATO' against emerging economies, while still some see it as a natural economic progression between geopolitical allies. While the actual reasoning may be a combination of all of these factors,

the outcome of the agreement and at least some of its effects on third parties likely stems from each of them.

Standstill of Doha and Global Trade Liberalization

One commonly agreed upon factor that prompted the TTIP negotiations is the failure of the Doha Round to produce meaningful results aside from the Bali Package. Initially, the EU was following the Lamy Doctrine of not negotiating further FTAs while the Doha Round was underway but this was quickly abandoned as Doha came to a standstill.¹⁰ The multilateral trading system though has been without a leader since the WTO negotiations came to a halt and the global will to continue trade liberalization has continued as we see its manifestation in TTIP.¹¹ There has been a clear shift in the trade agenda of major global trading nations towards bilateral and regional agreements due to the lack of progress in with Doha.¹² The EU perspective offers a strong belief in competitive liberalization and Domino Theory as a major motivation behind TTIP as it attempts to spurn progress.¹³ In this light TTIP can be seen as a way of moving forward with trade liberalization, at least for the nations involved. An expert from the Atlantic Council even suggested that these negotiations would be taking place inside of the WTO were it not for

¹⁰ Seshadri, V. S. "Transatlantic Trade and Investment Partnership." Research and Information System for Developing Countries Working Paper, November 2013. (2013).

¹¹ Erixon, Fredrik. "The Transatlantic Trade and Investment Partnership and the Shifting Structure of Global Trade Policy." In *CESifo Forum*, vol. 14, no. 4, pp. 18-22. Ifo Institute for Economic Research at the University of Munich, 2014.

¹² Karmakar, Suparna. "Life after Bali: Renewing the World Trade Negotiating Agenda." *Bruegel Policy Contribution* 2013/17 (2013).

¹³ EU Official, Interview by author. Personal interview. Geneva, April 14, 2014.

the recalcitrance of some members.¹⁴ The attempt to liberalize trade and create common standards between the EU and US would not have progressed in the current multilateral trade negotiation climate, but the parties do have the intent to create growth beyond just the EU and US.

The Rise of 'the Rest'

'The rise of the rest' is a commonly used term to describe the emergence of BRIC countries among others as compared to the major powers at the end of WWII that control many international systems. The EU and US are among the countries many are now arguing are overrepresented in post WWII institutions including GATT and its successor the WTO. Thus TTIP can be seen as an attempt by the western powers to maintain control of the international trading regime in the face of competition from emerging economies. Hillary Clinton is credited with calling a transatlantic FTA an 'economic NATO' in a rare reference by EU or US leaders to TTIP being a maneuver to consolidate economic power.¹⁵ Outside of official channels though TTIP is often discussed as a way for western powers to coordinate standards while they still have the ability as emerging economies are predicted to overtake them economically in the near future.¹⁶ The agreements negotiation goals do in fact mention the setting of global standards in arenas that are not especially of concern for the EU and US. An interviewed US trade official remarked that in an explicit way TTIP aims to serve as a model for other countries, specifically emerging economies, on topics such as

¹⁴ Workman, Garrett, Interview by author. Personal interview. Video Call, April 11, 2014.

¹⁵ Erixon, Fredrik. "The Transatlantic Trade and Investment Partnership and the Shifting Structure of Global Trade Policy." In CESifo Forum, vol. 14, no. 4, pp. 18-22. Ifo Institute for Economic Research at the University of Munich, 2014.

¹⁶ Workman, Garrett, Interview by author. Personal interview. Video Call, April 11, 2014.

state owned enterprises, manipulation, anti-trust regulations, and intellectual property rights among others.¹⁷ The heavy implication of Chinese regulation is clear in these goals as they have all been part of the popular western discourse on Chinese trade policy problems in the past. Using TTIP as an example for future trade agreements with the aforementioned topics as a non-traditional segment would not intentionally harm the economies of emerging economies or developing countries. For example, treatment of state owned enterprises can often create unfair competition for foreign firms but in the long term changing regulations to create a fair playing field would create growth that benefits both sides. Perhaps in the short run there would be negative effects to sectors that had previous regulations, but in the long run global trade liberalization would be more achievable, or at least that is the perceived intent.

Natural Progression

The US and EU are each others primary trade and investment partners and thus some see TTIP as a natural progression of their economic relationship to try to liberalize trade and create a template for other countries to do the same. In 2012, 44% of FDI inflows into the US came from the EU and 63% of US FDI went to the EU.¹⁸ This is just one example of the large level to which the EU and US are already economically integrated. An interviewed EU official offered the explanation that TTIP is a result of similar trading partners trying to bolster their economies after the 2008 financial crisis among other

¹⁷ US Trade Official, Interview by author. Personal interview. Geneva, April 28, 2014.

¹⁸ OECD. "The Transatlantic Trade and Investment Partnership: Why Does it Matter?." Organization for Economic Cooperation and Development. <http://www.oecd.org/trade/TTIP.pdf> (accessed May 6, 2014).

things.¹⁹ As already tightly integrated trading partners, an FTA offered the opportunity for a financial stimulus at little to no cost to either side all while setting global standards in the process.²⁰ In effect, TTIP could act as a global stimulus package if regulatory convergence and the elimination of NTBs are achieved. In fact, with the globalized economics of today's world it would be counterintuitive to liberalize trade with one market to try to limit exposure to another; economies are so integrated that it would have the reverse effect than desired.²¹ Deeper global trade liberalization through the adoption of TTIP example led agreements is intended to create growth but the short term drawbacks in cost are difficult for many to swallow. The implication here is that TTIP is more than just an attempt by western powers to stave off the growth of the BRIC countries or a Doha Round reach around, its intent is seemingly to bolster trade both between the US and EU as well as the rest of the world in the long term.

III. Perspectives on TTIP from third Parties

The potential impact of TTIP on emerging economies and developing countries would be extensive if the agreement comes to fruition addressing all of its current goals. Tariffs between the US and EU are already relatively low, right around 4% on average, but

¹⁹ EU Official, Interview by author. Personal interview. Geneva, April 14, 2014.

²⁰ Workman, Garrett, Interview by author. Personal interview. Video Call, April 11, 2014.

²¹ Erixon, Fredrik. "The Transatlantic Trade and Investment Partnership and the Shifting Structure of Global Trade Policy." In CESifo Forum, vol. 14, no. 4, pp. 18-22. Ifo Institute for Economic Research at the University of Munich, 2014.

the costs of bureaucracy, dueling standards, and regulations can add 10 to 20%.²² Nearly 80% of predicted economic gains from TTIP come from the elimination of these NTBs, but there is a distinct potential for discrimination with the elimination of NTBs as well as tariffs.²³ Overall, the outcome depends heavily on the specifics of the final agreement but the theoretical consequences given the full-proposed agreement can be examined.

Tariff Removal

As proposed, TTIP aims to remove virtually all tariffs between the EU and US. Though these tariffs are already relatively small their elimination can have a large global impact. A study by the Centre for the Analysis of Regional Integration at Sussex has shown enormous potential for trade discrimination from even these small tariffs being removed; the larger the MFN tariff, the more damage TTIP will cause to the respective countries' industry.²⁴ Tariff sheltered industries such as agriculture, textiles, and footwear are the most at risk for trade diversion as it may become less expensive for these products to be produced within the signatories of TTIP than to for the large internal markets to purchase them from developing countries.²⁵ Many LDCs already enjoy tariff free access to the EU and US through various arrangements like the Cotonou Agreement between the EU and 79 LDCs from Africa, the Caribbean and the Pacific though so the impact of tariff reductions will be limited. Many share the point of view that there is not much concern for trade

²² Karmakar, Suparna. "Rulemaking in Super-RTAs: Implications for China and India. Bruegel Working Paper 2014/03, March 2014." (2014).

²³ Ibid.,

²⁴ Rollo, Jim, Peter Holmes, Spencer Henson, M. Mendez Parra, Sarah Ollerenshaw, J. Lopez Gonzalez, Xavier Cirera, and Matteo Sandi. "Potential Effects of the Proposed Transatlantic Trade and Investment Partnership on Selected Developing Countries." Centre for the Analysis of Regional Integration, University of Sussex (2013).

²⁵ Ibid.,

diversion from tariff reduction as TTIP is about wealth creation and not trade diversion.²⁶

Table 1 shows the potential effects of only tariff elimination, on the example country of Germany and its trade with the BRIC countries. Under the 'tariff scenario' column the effects on both imports and exports between Germany and the BRIC countries can be seen. The predicted exports from Germany to BRICs actually rise because of increased price competitiveness due to the import of intermediate products from the US, all the while exports from the BRICs to Germany fall due to trade diversion.²⁷ The net effect is relatively minor but there is clearly potential for trade diversion even with the reduction of already low tariffs.

Table 1. Change in German Foreign Trade with BRIC countries²⁸

Exporter	Importer	2010* Trade volumes (in USD millions)	Comprehensive liberalization %	Tariff scenario %
GER	BRA	12,951	-7.58	2.41
BRA	GER	8,844	-7.92	-3.67
GER	RUS	32,512	-7.51	1.64
RUS	GER	20,362	-7.17	-1.20
GER	IND	10,866	-8.96	2.36
IND	GER	7,859	-9.26	-2.30
GER	CHN	67,728	-12.68	2.19
CHN	GER	92,536	-12.71	-2.94
GER	SAF	8,274	-3.96	1.24
SAF	GER	6,719	-3.73	-1.20
GER	BRICS	132,331	-10.06	2.03
BRICS	GER	136,320	-10.93	-2.61

GER = Germany, BRA = Brazil, CHN = China, RUS = Russia, IND = India, SAF = South Africa, BRICS = Brazil, Russia, India, China, South Africa.

²⁶ Workman, Garrett, Interview by author. Personal interview. Video Call, April 11, 2014.

²⁷ Felbermayr, G. J., Benedikt Heid, and Sybille Lehwald. "Transatlantic trade and investment partnership (TTIP): Who benefits from a free trade deal? Part 1: Macroeconomic Effects." *Bertelsmann Foundation* <http://www.bfna.org/sites/default/files/TTIPGED%20study%2017June202013> (2013).

²⁸ Ibid.,

NTB Removal and Regulatory Convergence

The majority of TTIP's impact stems from the elimination of NTBs through agreements on areas such as cutting red tape and increasing coordination between regulators. While more complicated, NTBs actually block more trade than traditional tariffs do.²⁹ An EU commission brief offers an excellent example of how this will work for the auto industry.³⁰ Safety regulations are different in the EU and the US and thus carmakers must build, test, and produce cars with different standards for each market. If regulators simply agreed that both systems produce safe and reliable cars while recognizing each other's standards, carmakers could save unnecessary expenditures by testing and producing only one model. Theoretically this benefits non-signatory countries that will be able to save time and money with the increased regulatory coordination that lowers the marginal or fixed costs of production.³¹ EU President Jose Manuel Barroso has called for the agreement to be a 'living document' with the potential to evolve as regulatory demands change to

²⁹ US Trade Official, Interview by author. Personal interview. Geneva, April 28, 2014.

³⁰ European Commission. "The Transatlantic Trade and Investment Partnership." European Commission: Trade. http://trade.ec.europa.eu/doclib/docs/2013/july/tradoc_151605.pdf (accessed May 6, 2014).

³¹ Felbermayr, Gabriel J., and Mario Larch. "The Transatlantic Trade and Investment Partnership (TTIP): Potentials, Problems and Perspectives." In *CESifo Forum*, vol. 14, no. 2, pp. 49-60. Ifo Institute for Economic Research at the University of Munich, 2013.

continually allow more enterprises easier access to the US-EU market.³² Thus the agreement intends to change to suit new technologies and changes in preferences for the benefit of both the signatories' producers and third party countries' producers.

On the other hand, many studies and political arguments fail to address the fact that NTB elimination and regulatory convergence also creates the potential for trade discrimination.³³ Some producers may not be able to afford the regulatory standards or it may be cheaper to produce something under one regulatory standard or another in a different country and thus trade diversion is entirely possible. The 'Comprehensive Liberalization' column of Table 1 shows how strong of an effect this can have on the example country of Germany and its trade relations with the BRIC countries. The results show a clearly negative impact on German-BRIC trade relations and substantially larger so than those of the 'tariff scenario' where only traditional tariffs are eliminated. Restructuring or fragmentation of global supply chains is highly possible, especially depending on the reactions of emerging markets.³⁴ There is potential for countries to either accept the new standards as global and with higher costs as China did when it joined the WTO in 2001 or create a dual regulatory regime the potential of which will be examined later in this paper.³⁵ From a Brazilian perspective, regulatory convergence will not actually

³² Barker, Tyson. "On the "Outs" An Early Economic Conundrum for the US-EU Trade Deal." German Council on Foreign Relations. <https://ip-journal.dgap.org/en/ip-journal/topics/outs> (accessed May 4, 2014).

³³ Swiss Trade Official, Interview by author. Personal interview. Geneva, April 11, 2014.

³⁴ Karmakar, Suparna. "Prospects for regulatory convergence under TTIP. Bruegel Policy Contribution 2013/15, October 2013." (2013).

³⁵ Ibid.,

create a benefit for countries outside the agreement as proponents of the agreement argue, but the potential for trade discrimination is still present with NTBs.³⁶

IV. EU-US Historical Trade Relations and the Elimination of NTBs

The elimination of NTBs and the convergence of regulations serve as the potential cornerstone of the TTIP agreement although many stakeholders are skeptical that the EU and US will be able to agree to the extent proposed. Others are extremely optimistic and see a strong political will behind TTIP that will push the agreement into fruition. Historic transatlantic trade proposals, trade dispute history between the EU and US, and a difference in regulatory approaches must be examined to determine the palpability of NTB elimination and regulatory convergence as they pertain to the agreements externalities. A recent survey of stakeholders by the Atlantic Council and Bertelsmann Foundation showed that only 29% of respondents believed a broad or comprehensive agreement would be reached between the EU and US, a 6% drop from the prior year.³⁷ This suggests that some of the more contentious issues will not be included in order to ensure an agreement.

³⁶ Brazilian Trade Official, Interview by author. Personal Interview. Geneva, May 5, 2014.

³⁷ Stanton, Joshua, Kara Sutton, and Garrett Workman. "The Transatlantic Trade and Investment Partnership: On Track but Off Message?" Atlantic Council & Bertelsmann Foundation, Washington DC (2014).

Historic Trade Proposals

TTIP is hardly the first time a transatlantic FTA has been proposed. Within the context of the Cold War, the US proposed the creation of a North Atlantic Free Trade Area in the 1960s that never came to be.³⁸ Then in the 1990s the EU pushed for a Transatlantic Free Trade area that was no more successful than its predecessor but it did lead to the creation of the New Transatlantic Agenda as a forum to promote transatlantic regulatory cooperation.³⁹ The New Transatlantic Economic Partnership replaced the New Transatlantic Agenda in 2007 through an initiative from US President Bush and German Chancellor Merkel with modest economic results.⁴⁰ If the history of EU-US attempted transatlantic trade proposals is any indication of how successful TTIP will be then chances of an ambitious elimination of NTBs and regulatory convergence are slim at best. There is a strong history of lobbied interests in NTBs in both the US and EU which may continue to prevent a comprehensive agreement and instead replace it with a much less impactful set of conditions.⁴¹ If this is the case, the developing countries and emerging economies do not need to worry about the potential impact of TTIP, as it will be relatively minor as past initiatives have been.

Dispute History

The EU and US have a long and storied history of trade disputes in GATT and the WTO over a wide range of issues that could reflect on the potential outcomes of TTIP.

³⁸ Sapir, André. "The Transatlantic Trade and Investment Initiative: Hope or Hype?." Bruegel . <http://www.bruegel.org/nc/blog/detail/article/1034-the-transatlantic-trade-and-investment-initiative-hope-or-hype/> (accessed May 6, 2014).

³⁹ Ibid.,

⁴⁰ Ibid.,

⁴¹ Swiss Trade Official, Interview by author. Personal interview. Geneva, April 11, 2014.

There have been disputes over chlorine treated poultry, hormone treated beef, and genetically modified crops, only the beef dispute having been resolved, just to name a few high profile ones.⁴² One perspective offered is that the abundance of trade disputes between the EU and US is unavoidable due to the higher prevalence of attorneys within these areas than in other areas of the world.⁴³ Others argue that there is sufficient political will to overcome these differences, though it will not be easy because of their political and economic sensitivity.⁴⁴ Either way there is a clear difference in regulation processes and ideas that have been a point of contention in the past, whether or not they spill over into the TTIP negotiations is yet to be seen but highly likely. Some areas of controversy are not even being included in negotiations such as agricultural and aircraft industry subsidies but negotiators must continue to tread lightly as contentious topics may ruin the entire negotiating process due to its 'single undertaking' nature.⁴⁵

Different Regulatory Approaches

The ambition of NTB elimination and regulatory convergence is widely considered to be extremely difficult especially when the difference in culture and regulatory approaches of the EU and US are taken into account. The EU and US are so culturally different in the ways they think about regulation and protectionism that their goals may

⁴² Seshadri, V. S. "Transatlantic Trade and Investment Partnership." Research and Information System for Developing Countries Working Paper, November 2013. (2013).

⁴³ Workman, Garrett, Interview by author. Personal interview. Video Call, April 11, 2014.

⁴⁴ US Trade Official, Interview by author. Personal interview. Geneva, April 28, 2014.

⁴⁵ Lester, Simon . "The Challenges of Negotiating a Transatlantic Trade and Investment Partnership." Cato Institute. <http://object.cato.org/publications/free-trade-bulletin/challenges-negotiating-transatlantic-trade-investment-partnership> (accessed May 6, 2014).

occur but not with the full force that they are proposing.⁴⁶ EU regulations generally rely on the precautionary principle while US ones insist on science-based determinations about safety and health.⁴⁷ An EU official compared EU-US trade relations to a marriage where the couple agrees on most things but the 5-10% that they disagree on causes all of the problems; in this case its that EU regulators prefer to regulate more before hand and US ones prefer to use science to get products to market quicker but with less testing in general.⁴⁸ Since the majority of TTIPs impact comes from cross cutting regulatory barriers and mutual recognition, this 'marital 5-10% difference' is crucial to resolve if the agreement is to be at all as ambitious as proposed. Some critics argue that while the ambition level of the proposed agreement is possible, the finished product will not be as comprehensive as imagined due to these differences.⁴⁹ There is no way of knowing until the final TTIP agreement is revealed how well negotiators are able to settle these differences.

V. TTIP and the Future of the Multilateral Trading System

The stagnancy of the WTO's Doha Development Round combined with the surge in bilateralism and RTAs has brought the future of the multilateral trading system into question. As the largest FTA ever attempted, TTIP is paving the way for the future trading

⁴⁶ Brazilian Trade Official, Interview by author. Personal Interview. Geneva, May 5, 2014.

⁴⁷ Seshadri, V. S. "Transatlantic Trade and Investment Partnership." Research and Information System for Developing Countries Working Paper, November 2013. (2013).

⁴⁸ EU Official, Interview by author. Personal interview. Geneva, April 14, 2014.

⁴⁹ Workman, Garrett, Interview by author. Personal interview. Video Call, April 11, 2014.

system but there is widespread debate on where it is going. Some see TTIP as sparking the international trade regime into a renewal of the Doha Round negotiations while others see TTIP as the death knell of the WTO and the beginning of bilateral and plurilateral agreements that spawn dueling regulatory systems. The distinction between these two futures would make an enormous difference on the trade policies of emerging economies and LDCs. These countries rely heavily on the multilateral negotiations of the WTO for trade liberalization agreements as they lack the clout or finances to negotiate themselves.

BRIC and LDC Reliance on the WTO

The WTO system, though with its own flaws, allows all members to actively participate in negotiations and while many do not have the means to negotiate on their own they often group together to at least have their opinions heard. Thus the continuation of this system with the conclusion of the Doha round is of utmost importance for LDCs and emerging economies. The loss of the Doha Round would create a tough and detrimental situation for LDCs and emerging economies in terms of their ability to compete with developed nations.⁵⁰ This is due to the fact that without the WTO, many countries will not be privy to negotiating the rules of trade agreements and will thus be forced to accept the possibly unfriendly terms of an agreement or risk being left out completely.⁵¹ Many

⁵⁰ Yeşilyurt, Serdar, and Amanda Paul. "Between a Rock and a Hard Place: What is Turkey's Place in the Transatlantic Market." *European Policy Centre* (2013).

⁵¹ Berger, Axel, and Clara Brandi. "The Global Trading System at a Turning Point." German Development Institute. <http://www.die-gdi.de/en/the-current-column/article/the-global-trading-system-at-a-turning-point/> (accessed May 5, 2014).

countries are hesitant to even sign agreements that they did not negotiate themselves so as to not risk becoming rule takers over rule makers.⁵²

Completion of Doha

The question of whether or not the bilateral TTIP negotiations will prompt a revitalization of multilateral negotiations is likely the single most important question for the global trade regime as a whole. Regional integration efforts can be seen as having a twofold effect on multilateral liberalization; they reduce incentives for signatory nations to make concessions in multilateral negotiations while simultaneously increasing the benefits for initially third party countries.⁵³ The conclusion of NAFTA in the 1990s served as a spark for the multilateral negotiations in the WTOs Uruguay round as many countries feared its trade diversion effects.⁵⁴ There is widespread speculation that the TTIP and TPP negotiations will serve as a similar spark for the Doha Round negotiations.⁵⁵ Other proponents argue that cross cutting regulatory processes and solving disagreements between the EU and US could become a new “golden standard” for trade agreements and thus serve as a template for talks in the stalled Doha Round.⁵⁶ China and India have shown a pragmatic acceptance of stricter regulations in the past as a cost of doing business in a global market so proponents are hoping they will do the same with the heightened

⁵² Brazilian Trade Official, Interview by author. Personal Interview. Geneva, May 5, 2014

⁵³ Zeneli, Valbona. "TTIP's Effects on the Global Economy." The Globalist. <http://www.theglobalist.com/ttips-effects-global-economy/> (accessed May 5, 2014).

⁵⁴ Bergsten, C. Fred. Competitive liberalization and global free trade: a vision for the early 21st century. Institute for International Economics, 1997.

⁵⁵ EU Official, Interview by author. Personal interview. Geneva, April 14, 2014.

⁵⁶ US Trade Official, Interview by author. Personal interview. Geneva, April 28, 2014.

standards of TTIP.⁵⁷ . At a recent speech to the US Chamber of Commerce German Chancellor Angela Merkel stated, "I am convinced that any progress we make in TTIP will create progress in Geneva at the WTO."⁵⁸ This statement clearly signals support for TTIP to spurn progress in the Doha Round and as it comes from the Chancellor of Germany it shows the strong political will backing it. Oppositional views though argue that given the aforementioned problems with eliminating NTBs and regulatory convergence there will not be anything solid to serve as a multilateral template. Doha clearly must be dealt with if the international trading system is to move anywhere but how it is concluded depends very much on the reactions of other countries to the emerging series of super RTAs of which TTIP is the largest.⁵⁹

Dueling Regulatory Regimes

TTIP is alternatively viewed by many as the death knell of the WTO on the assumption that the agreement will in turn spark the creation of more RTAs with dueling regulatory regimes to compete. There are several situations that could lead to the creation of dueling RTAs and regulatory regimes from TTIP. The first situation would be if emerging economies and developing countries do not accept the multilateralization of the new higher standards from TTIP out of sheer fear of exclusion. The pressure exerted by TTIP on emerging economies may not be enough to force them to adopt the new standards. An example of this can be seen in the 1996 Information Technology Agreement that China and

⁵⁷ Karmakar, Suparna. "Prospects for regulatory convergence under TTIP. Bruegel Policy Contribution 2013/15, October 2013." (2013).

⁵⁸ Merkel, Angela. "Chancellor Merkel on TTIP." Keynote speech, Chancellor Merkel Addresses US Chamber from US Chamber of Commerce, Washinton, DC, May 2, 2014.

⁵⁹ EU Official, Interview by author. Personal interview. Geneva, April 14, 2014.

India refused to join even in the face of export competition.⁶⁰ Domestic markets in these emerging economies already account for more than 40% of global economic activity thus future internal demand from the price sensitive growing middle class could prompt the creation of a dual regulatory regime to benefit these needs over accepting those of TTIP.⁶¹ Alternatively, emerging economies may choose to create dueling RTAs and thus regulatory regimes among themselves because they can create more beneficial terms than those of TTIP.⁶² If either of these scenarios play out, the WTO will be rendered ineffective as each RTA diminishes its ability to serve as a multilateral trade mediator. An anonymous trade official even pointed out that within the confines of a FTA, article XXIV of GATT basically allows countries to do whatever they please in terms of trade discrimination and regulations as these agreements override the WTO's MFN principle. This outcome is much more likely if TTIP comes to fruition as the full comprehensive agreement that is currently proposed but again many stakeholders do not believe the proposed agreement to be possible in its entirety.

The effects of these dual regulatory regimes would be detrimental for those not involved in the new RTAs. If uninformed, countries would be subject to not only trade discrimination in the form of tariffs, but in the form of unfair standards and NTBs.⁶³ Emerging economies could create RTAs among themselves and as LDCs will not have a

⁶⁰ Karmakar, Suparna. "Rulemaking in Super-RTAs: Implications for China and India. Bruegel Working Paper 2014/03, March 2014." (2014).

⁶¹ Karmakar, Suparna. "Prospects for regulatory convergence under TTIP. Bruegel Policy Contribution 2013/15, October 2013." (2013).

⁶² Diekmann, Berend. "The Transatlantic Trade and Investment Partnership: Opportunity and Challenge for International Trade." German Federal Ministry of Economics and Technology. <http://transatlantic.sais-jhu.edu/publications/articles/TAP%20diekmann%20article.pdf> (accessed May 5, 2014).

⁶³ Brazilian Trade Official, Interview by author. Personal Interview. Geneva, May 5, 2014

voice in the negotiations, as they do in the WTO, to address domestic concerns and sensitivities.⁶⁴ LDCs are less attractive partners for RTAs and are thus likely to not even be included in final agreements to their detriment.⁶⁵ As for emerging economies, their creation of RTAs would likely be beneficial in the short to medium term, but in the long term the lack of regulatory cooperation and systems of competing RTAs would not work in their favor as trade would not be liberalized to allow for maximum growth. Both LDCs and emerging economies would be hurt long term if TTIP spawned as system of RTAs and dueling trade regimes instead of multilateralization and thus it is in their best interest to finish the Doha Round possibly even with the increased regulations from TTIP.

VI. Accession Clause or Expansion of TTIP?

The potential for other countries to accede to TTIP would strengthen the agreement and create more pressure on other countries to accept the standards on a multilateral basis. US Secretary of State John Kerry even stated "Turkey needs to play a significant role in TTIP."⁶⁶ Representatives from BRIC countries, Canada, Mexico, and turkey have been attending recent forums and discussions on TTIP some of which have even declared a

⁶⁴ "Rulemaking in Super-RTAs: Implications for China and India. Bruegel Working Paper 2014/03, March 2014." (2014).

⁶⁵ Swiss Trade Official, Interview by author. Personal interview. Geneva, April 11, 2014.

⁶⁶ Yeşilyurt, Serdar, and Amanda Paul. "Between a Rock and a Hard Place: What is Turkey's Place in the Transatlantic Market." *European Policy Centre* (2013).

public interest in joining TTIP.⁶⁷ Though for now negotiators on both sides “have not ruled out the possibility of others joining but are currently focused on creating the best possible agreement before others enter.”⁶⁸ The problem becomes that the more countries involved in the negotiations, the less comprehensive the agreement will be; but in turn without other countries the terms may become too strict and some may not want to join.⁶⁹ For example there is an accession clause in NAFTA but no new nations have joined the agreement since its inception.⁷⁰ A leading analyst succinctly phrased this conundrum as “the days of neo-classical ‘build it and they’ll beg to join’ treaty constructs are long over.”⁷¹ The future for accession to TTIP is anything but clear. Perhaps the name of the agreement hints at further membership. Many traditional FTAs are named after the signatory countries, for example the recent US-Korea FTA that was aptly nicknamed KORUS, but TTIP’s nomenclature implies more than just EU-US trade. Though this may be stretching the available evidence, there is no indication that the agreement will not contain at least a limited accession clause. This would be beneficial long term to emerging markets and LDCs, despite potential short-term drawbacks from trade discrimination, as the agreement would be more likely to be multilateralized and thus liberalize world trade

⁶⁷ Workman, Garrett, Interview by author. Personal interview. Video Call, April 11, 2014.

⁶⁸ US Trade Official, Interview by author. Personal interview. Geneva, April 28, 2014

⁶⁹ Barker, Tyson. "On the "Outs" An Early Economic Conundrum for the US-EU Trade Deal." German Council on Foreign Relations. <https://ip-journal.dgap.org/en/ip-journal/topics/outs> (accessed May 4, 2014).

⁷⁰ Ibid.,

⁷¹ Pierre Sauve, at the IMD organized meeting entitled “WTO Blueskying: Ideas for the new DG”, 28 June, 2013

VII. Conclusion

While TTIP does endeavor to expand global trade, the issue of development is not brought up in any of the stated goals. If development goals are kept in mind, TTIP has the potential to create a meaningful impact on LDCs and emerging economies. Using TTIP to regulate tariffs and NTBs that encourage development would increase the potential for progress in the Doha Round as there will already be a template that many countries will be in favor of. Sandler Trade LLC prepared a unique report that outlines ways in which TTIP could be used to spurn global economic development with the following actions:⁷²

1. "Adopt standards harmonization, rather than mutual recognition agreements, for products that emerging economies export to the TTIP markets to ensure benefits also flow to them.
2. Extend the benefits of mutual recognition to emerging economies for products that they also export to TTIP markets.
3. Where bilateral removal of tariffs and NTBs is likely to adversely affect competing emerging- economy exports, provide potentially affected countries the opportunity to negotiate plurilateral or multilateral liberalization.
4. For key exports of emerging economies (as identified by them), harmonize the U.S. and EU preferential rules of origin as well as overall product, shipment, and inspection standards.
5. Grant the benefits of TTIP tariff elimination and NTB removal or reduction to GSP beneficiary countries."

The effect of these measures would help to ease the potential burden on LDCs and emerging economies as well as promote their development which could lead to a growth in trade with the EU and US as well. This paper recommends TTIP include these

⁷² "The Transatlantic Trade and Investment Partnership: A New Engine for Global Development?." Sandler Trade LLC. <http://sandlertrade.com/wp-content/uploads/2013/06/Sandler-Trade-LLC-Emerging-Economies-and-TTIP-Study.pdf> (accessed May 6, 2014).

aforementioned policies to help ensure the well being of the rest of the countries not involved in the agreement.

The EU and US represent approximately half of global output, and thus a FTA between the two powers has the potential to be extremely impactful on the world stage. As a FTA, TTIP is unprecedented in several ways. First, if concluded it will be the largest FTA ever undertaken. Second, nearly 80% of the agreements potential benefit comes from areas other than tariff changes like NTB elimination and cross-regulatory convergence. Finally, it aims to tackle areas not traditionally covered in FTAs like the setting of new standards on topics like state owned enterprises, currency manipulation, intellectual property rights, and competition policy. This paper aimed to examine the agreements affects on emerging economies and LDCs as part of the development of global trade liberalization.

The analysis of this topic begins with why the agreement was formed in the first place. The emergence of BRIC economies as global powers coupled with the standstill of the WTO's Doha Development Round created the necessity for trade leadership in liberalization outside the WTO. The EU and US are attempting to use TTIP to this extent by creating a template for future trade agreements that can hopefully be brought back to the WTO. Traditionally, FTAs create trade diversion among non-participatory nations and trade creation within the agreement. The tariffs between the EU and US are already relatively low though and thus these effects will be minimal. Proponents of the agreement argue that the non-tariff measures of TTIP will serve to benefit third party countries but studies have shown that the potential for trade discrimination due to these actions is equally high. The EU and US have a long and storied history of trade disputes though that imply that the agreements ambitious goals will not be completely realized despite a strong

political will. If TTIP is able to conclude with all of the original provisions of NTB removal and regulatory convergence, the effect on third parties and the global trading system will largely depend on the reactions of emerging economies. These countries may accept the new regulations as a higher cost of conducting global business and thus help pave the road to the multilateralization of the arrangements or they could form dueling regulatory regimes that would harm the world economy in the long run. A utilized accession clause in TTIP could help provide the support to spark progress in the Doha round by example. Overall though, the outcome of TTIP for third parties depends heavily on the extent to which the agreement goes in terms of liberalization and standard setting as well as the reaction of emerging economies to their implementation.

Further study could be done on the agreements potential effects on developed economies with close relations to the EU and US like Canada, Mexico, Turkey, Norway, and Switzerland. The future of the global trade regime is at play with the negotiation of TTIP, but with such a mammoth undertaking there is little to no way to predict a definitive outcome even for the most seasoned of experts. While some hear the death knell of the WTO, others hear the chorus of a renewed multilateral trading agenda. The only clear sound for now is the hushed discussion between EU and US negotiators that will shape the foreseeable global trade regime for better or for worse.

Abbreviation List

BRIC	Brazil, Russia, India, and China
DSB	Dispute Settlement Body
EU	European Union
FDI	Foreign Direct Investment
GATT	General Agreement on Trade and Tarriffs
GDP	Gross Domestic Product
LDC	Less Developed Country
MFN	Most Favored Nation
NATO	North Atlantic Treaty Organization
NAFTA	North American Free Trade Agreement
NTB	Non-Tariff Barrier
FTA	Free Trade Agreement
RTA	Regional Trade Agreement
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership

UN	United Nations
US	United States
USTR	United States Trade Representative
WTO	World Trade Organization

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