

TTIP 2.0: A solution to the US-EU trade conflict

President Trump is about to unleash a trade war with the European Union if the EU does not meet his demand to take unilateral measures to lower the US trade deficit with the EU. The EU says it won't comply and has instead prepared a list of retaliatory measures. Both parties would be better off if they decide to resume the TTIP negotiations



The benefits of resuming TTIP

At the end of April President Donald Trump demanded trade concessions from the EU by the first of June, at the pain of raising tariffs on EU steel and aluminium. Countries such as South Korea have already yielded to the same blackmail tactics from the US government. Canada and Mexico are also prepared to make concessions in the ongoing NAFTA re-renegotiations and even China has made some concessions.

Trump's blackmail strategy won't work with the EU

But the EU has held firm and asked the US to remove the threat of steel and aluminium tariffs before talking about changing the trade conditions. The EU is in a better position to issue this

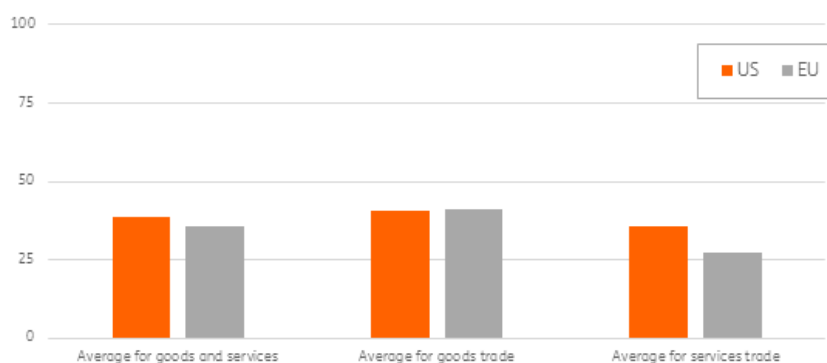
demand than other countries. South Korea, Canada, Mexico and even China are more dependent on US demand for their products than the other way round. In contrast, the US economy depends almost as much on European demand trade for its products than vice versa. A transatlantic trade war would lead to a lose-lose situation for both the US and the EU.

Resuming the TTIP (Transatlantic Trade and Investment Partnership) negotiations, on the other hand, would bring benefits to both trade giants.

A free trade agreement is not only superior to the current strategy of Trump because he has difficulties strongarming the EU, so it would avoid a mutual harmful trade war, but also because such an agreement would result in larger benefits for the US than unilateral EU- concessions. After all, if the EU would give in to the US and reduce an import tariff unilaterally, for example on cars, WTO rules dictate that it needs to offer the lower tariff to all its trade partners. So all imported cars would become cheaper – including the very competitive ones from Japan, South Korea and China. This would act as a brake on any increase in American car exports to the EU.

Doing this will require quite some resistance to be overcome. TTIP was put on ice in late 2016 after activists in Europe had undermined support for the deal. On the other side of the Atlantic too, the political support for a deal had disappeared amid the apparent popularity of Trump’s protectionist campaign messages.

Non-tariff measures US and EU (simple average)



Source: Berden et al 2009
Trade restrictiveness on a scale from 0 to 100 (survey results).

What the EU should be doing

In light of President Trump’s preoccupation with the car industry, the EU should try to lure the US to the negotiating table with an offer to reduce EU import tariffs on cars to equal the US’s 2.5%. That would enable President Trump to claim a victory at home. In return the EU could require that its standards on crash testing cars are accepted in the US, saving a second round of checks. Once at the negotiating table, the EU could be seeking to reduce the high non-tariff trade barriers on other products too, such as lipstick.

The US benefits more from a trade deal than ad hoc trade concessions

For TTIP negotiations to resume, support will need to be rebuilt in both the US the EU. To assist in this, contentious issues such as chlorinated chicken, blue cheese and a mechanism to settle disputes between foreign investors and domestic governments, might have to be set aside. This would result in a TTIP 2.0. To build support, the tainted TTIP acronym should also be discarded.

Whatever it takes, a broad trade agreement between the US and EU is the best answer to the current trade conflict.

Author

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com