FORMATION OF TTIP POTENTIAL COMMERCIAL EFFECTS ON THE BRICS

AYLIN EKMEKCIOGLU

Institute of Social Studies, Selcuk University-Turkey
E-mail: ayekmekcioglu@gmail.com

Abstract- First, in general, liberalizing the trade between the US and EU would positively impact global trade and economy with approximately $31.2 Billion welfare gain. Second, a significant increase of the US-EU bilateral trade under the TTIP is mainly benefited by the reduction of NTBs. This further translates to significant economic gains as a whole for the US and the EU. Third, most of BRICS exports to the US and the EU would decline; however, the aggregate exports and GDP of BRICS suffer just limited impacts. The exceptional case occurs in Brazil, which aggregates exports and GDP benefits from the TTIP. Fourth, the TTIP will increase the bilateral trade within BRICS economies because of substitution an indirect spillover effects. Finally, when changing the magnitude of direct and indirect spillover effects to a specific level, the TTIP could positively impact BRICS countries in general. This depends on the reduction on NTBs that will benefit the US-EU area and BRICS itself within BRICS.

Keywords- TTIP, BRICS, Welfare, GDP, Bilateral Trade.

I. INTRODUCTION

It is common for countries to form alliances in the modern world. These alliances can entail issues of common interests such as trade, political interests as well as the formation of better economics and social welfare for their member countries (Reardon, Kling, McCorkle, & Miller, 2002). Initially, nations would form alliances with their closest neighbors before expanding to form regional partnerships. Hence, this led to the formation of alliances such as BRICS and in the recent past, TTIP. BRICS is a partnership formed by the emergent nations such as Brazil, Russia, India, China and South Africa. The nations that formed BRICS comprised majorly of countries that strongly from the post-2008 financial crisis, an aspect that allowed the global market to steer away from plunging further. On the other hand, TTIP is an undergoing trade agreement being negotiated between the U.S. and the EU with the aim of creating an integration of the transatlantic market with the EU nations.

II. DETAILS

The formation of TTIP elicits mixed reactions amongst analysts. It is widely regarded as the cure for all the problems that have been affecting the transatlantic relations as well as the challenging economic climate that faced the majority of Europe in and after the 2008 financial crisis. According to Bromund, Gardiner, & Coffey (2014), countries such as the US should work towards the support of measures that boosts growth and unemployment and consequently economic freedom. However, the authors warn of increasing the regulatory frameworks to create a trade bloc that would compromise the sovereignty of the nation. Many of the proponents of TTIP argue that the trading block will reform the Chinese more efficiently than the World Trade Organization with some supporters having an illusion, and it would help NATO contain Russia and improve the US-EU relations. On the other hand, the EU supporters view it as a platform to be equals with the US. However, it is imperative to note that almost every argument advanced by proponents is geopolitically motivated. The WTO has failed to reform China, a key member of BRICS. Therefore, it becomes imperative to look beyond the geopolitics and evaluate the potential effects that TTIP will cause on BRICS. Weinhardt & Bohnenberger (2016) insists on caution with the formation of TTIP as it comes at an expense, creating an incentive for the formation of trade blocs as opposed to shaping globalization trends. According to The Financial Express (2015), the nations forming the BRICS form a combined 43% of the global population and a foreign reserve of $4.4 trillion by the end of the year 2012. The trade between the BRICS has increased rapidly over the years, with a reported increase of $255 billion between 2002 and 2013. Furthermore, the trade group accounts for the 15% of the total world trade and 20% of all FDI inflows in the world. Importantly, UNDP estimates that by 2020, the aggregated GDP of Brazil, China and India will be more than that of the U.S.A, the UK, Canada, France, and Italy combined. Therefore, Sahdev & Nataraj (2014) argue that in some situations, the formation of TTIP will not have any major impacts to the BRICS. In any case, the formation of such a bloc has potential positive spillover effects. In this case, it would be prudent for the BRICS to take a passive engagement and not to engage in acts to balance the TTIP. As such, the nations forming the BRICS could strive to improve

their bloc and therefore form a stronger trade bloc. However, reaction to develop bigger bloc by these countries may result in integration challenges due to bilateral challenges.

The developments in the recent past for the formation of TTIP brings complications to the BRICS, despite the portrayed estimated financial strengths. As such, it will be necessary for the countries forming BRICS to move with the changes occurring when the deal between the US and the European Union is completed. The formation of TTIP will create a joint global economy of 46% of their members, an aspect that will substantially reduce the trade options that will be open to BRICS. In the long run, the goals of the TTIP agreement moves beyond the simple trade deals with the goals of removal of trade barriers and liberalizing of the markets between the United States and the EU. Besides, it creates a platform to reinforce the rules set by the international trade and consequently to take a foothold in the global governance structures. Hence, the formation of TTIP will likely create a barrier to entry to developing nations and thereby make them less likely to play by the rules.

The rise of the emerging economies especially the BRICS has led to the wane of the powers that were once held by the US and the EU. As such, the member nations of the BRICS continue to gain a respectable position in the globe, which has made them work towards the development of their nations and their subsequent growth. Crucially, this has been done by increasing the memberships of countries such as India and Brazil thereby advancing the interests of the BRICS while blocking the interests of the developed nations. Offik (2014) further highlights the shrewdness of the formation of TTIP, outlining major indicators such as the collapse of Doha round two talks and the rise of BRICS. Accordingly, Offik (2014) argues that the motive of the formation of TTIP moves beyond deregulation. As noted, the level of transatlantic tax by 2014 stood at 3%, a figure considerably low while the talks that have primarily been held focused little on the tariffs.

The continued dragging of the Doha talks opened the avenue for the nations negotiating the TTIP agreement to setting new global agreements and reducing the roles played by the BRICS. As such, it is worth noting that the United States and the European Union account for almost a third of all trade conducted globally. Hence, this implies that the developing nations will be compelled to adapt to the new set of rules and regulations and therefore exclusion of emerging countries from the policy. Therefore, these emerging economies (BRICS) highly depend on the demand generated from the advanced economies, and hence an exclusion on policy to the emerging nations will lead to a setback for multilateralism. According to The Financial Express (2015), the completion of TTIP deal would give rise to an increase of the GDP of the TTIP members. Consequently, this increase in the per capita income increases the purchasing power which in turn leads to higher demand for goods and services. Conversely, this will have an opposite effect on the BRICS, with the trade significantly declining between BRICS members and the US and EU member nations. Crucially, in a simulated study on the same, it was found that the commercial relations between Germany and BRICS would decline by estimated 10% while the US trade relations would reduce by 30% (The Financial Express, 2015). According to Thorstensen & Ferraz, the formation of TTIP, which aims to reduce tariffs between the two blocs may result in fully or partial elimination of tariffs. 100% reduction of tariffs will potentially negatively affect the global exports of the BRICS. Moreover, this will balance of payments deficits and therefore, a small reduction in the GDP for the BRICS (Thorstensen & Ferraz). Accordingly, Brazil (0.17%, 0.16%) and India (14%, 14%) faces the largest declines in export and import values respectively. This is also evident in China with 0.14% decrease in exports and 0.12% decline in imports. Also, a 50% reduction in non-tariff barriers, as well as the elimination of tariffs, will result in a more projected adverse effects on the BRICS global trade flows. When the TTIP agreement comes into place, the Brazilian economy is severely affected by the reduction of tariffs and NTBs. In this case, the negative effects to the non-participants (BRICS) are likely to occur as the US and EU integrate to form TTIP.

Also, the formation of TTIP will probably influence the geopolitics and consequently the trade and development of new standards. According to Offik (2014), the shift of power from the West to the emerging economies brings an even distribution to the global economy. The BRICS would, therefore, gain a bargaining chip with free trade agreements (FTAs) becoming a more attractive option to both sides. Importantly, the formation of TTIP would likely lead more stringent regulatory frameworks concerning food, health and safety. Although considerable efforts have been carried out in these fields, it would become imperative for the blocs to pass approved standards tan as individual nations. Thereby, the global standards for commodities can be determined and ensure that the goods traded between the two blocs would be adherent to the acceptable global standards.

III. RESULTS AND DISCUSSION

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CONCLUSIONS

The formation of TTIP will open up trade to its members and negatively affect the trade by the BRICS. The formation of this trade bloc will result to economic isolation of the countries forming BRIC, and therefore they will have no preferential access to the trade agreements. In this case, the increased market liberalization promoted within TTIP and the reduced in the non-tariff barriers will potentially lead to higher negative effects to the BRICS. More so, the members of the TTIP will shun trading with their BRICS counterparts as tariffs are reduced, therefore diverting trade and negatively affecting the exports of the products from the BRICS nations.

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