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MARMARA ÜNİVERSİTESİ

AVRUPA BİRLİĞİ ENSTİTÜSÜ

AVRUPA BİRLİĞİ İKTİSADI ANABİLİM DALI

THE EXTERNAL IMPLICATIONS OF THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP (TTIP):

THE CASE OF TURKEY AND MEXICO

Yüksek Lisans Tezi

ZEHRA ÇAĞIL VALENCIA LOPEZ

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ONAY SAYFASI

Enstitümüz AB İktisadı Anabilim Dalı Türkçe / İngilizce Yüksek Lisans Programı öğrencisi Zehra Çağıl Güven'in *"THE EXTERNAL IMPLICATIONS OF THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP(TTIP) - THE CASE OF TURKEY AND MEXICO"* konulu tez çalışması 5 Haziran 2015 tarihinde yapılan tez savunma sınavında aşağıda isimleri yazılı jüri üyeleri tarafından OYBİRLİĞİ / ~~OYÇOKLUĞU~~ ile BAŞARILI bulunmuştur.

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ÖZET

Bu tez, Transatlantik Ticaret ve Yatırım Ortaklığı (TTYO) üzerine yapılmış mevcut çalışmalara dayanarak, ABD ve AB arasındaki TTYO'nun Türkiye ve Meksika açısından genel etkilerini analiz eder. TTYO'nun amacı, mal ve hizmet satın alımını kolaylaştırmak için ticaret bariyerlerini kaldırmak, ve AB ve ABD arasındaki yatırım rejimini düzenlemektir. Dünya'nın geri kalanı için TTYO etkileri son derece önemli fakat bir o kadar da belirsizdir. Bu özellikle ABD ile Kuzey Amerika Serbest Ticaret Anlaşması üyesi olan Meksika, ve AB ile Gümrük Birliği olan Türkiye için geçerlidir. Bu çalışma, ABD ve AB ortaklığının, onlarla yakından ticaret ortaklığı olan ayrıcalıklı statüde bulunanlara etkilerini ele almaktadır. Anlaşmanın dışında olmanın, Türkiye ve Meksika ekonomilerine tercihli ticaret erozyonu ve ticaret saptırması ile ayrımcı düzenlemelerin etkileri sebebiyle zararlı etkileri olabilir. Öte yandan, bu süreçte yer almak sadece onlar için değil, bahsedilen transatlantik partnerler için de faydalı olabilir, dahası iktisadi bütünleşme ve buna bağlı olarak refah ve barışı arttırabilir. TTYO'nun, özellikle TTYO üyelerinin iç çemberinde yer alan ülkeler tarafından ulaşılabilir olması önemlidir.

GENERAL KNOWLEDGE

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ABSTRACT

This thesis, building on existing studies on Transatlantic Trade and Investment Partnership (TTIP), evaluates the general effects of TTIP between *the US* and *the EU* on Turkey and Mexico. The objective of the TTIP is to remove trade barriers in order to make easier to trade goods and services, and to regulate investment regime between the EU and the US. The implications of the TTIP for the rest of the world are extremely important but still not clear. This is especially the case for *Mexico* which is a member of North American Free Trade Agreement (NAFTA) with the US and *Turkey* that has a Customs Union with the EU. The study addresses how the US and the EU partnership impacts on the closer trading partners in terms of their privileged status. Being left out of the agreement may cause detrimental effects for Turkish and Mexican economies due to the preference erosion, trade diversion and regulatory discrimination. On the other hand, taking part in the process would be beneficial not only for them but also for those transatlantic partners and would increase the chances for geographical prosperity and for their economic integration. TTIP should be accessible by third countries that are in the inner circle of TTIP members.

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LIST OF ABBREVIATIONS

AVE	Ad Valorem Equivalent
APEC	Asia-Pacific Economic Cooperation
BAA	Buy American Act
BIS	Business, Innovation and Skills
BIT	Bilateral Investment Treaty
BRICS	Brazil, Russia, India, China, and South Africa
BSEC	Black Sea Economic Cooperation Council
CCT	Common Customs Tariff
CEPR	Center for Economic Policy Research
CEPII	Centre d'Etudes Prospectives et d'Informations Internationales
CET	Common External Tariff
CGE	Computable General Equilibrium
CETA	Comprehensive Economic and Trade Agreement
CU	Customs Union
EIA	Energy Information Administration
EEC	European Economic Community
EU	European Union
FAR	Federal Acquisition Regulation (FAR)
FIW	Forschungsschwerpunkt Internationale Wirtschaft
FDI	Foreign Direct Investment
FSECC	Framework for Strategic Economic and Commercial Cooperation

FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMOs	Genetically Modified Organisms
GP	Government Procurement
GPA	Government Procurement Agreement
HLC	High-Level Committee
HLED	High Level Economic Dialogue
HWLG	High-Level Working Group
IFO	Information und Forschung (Research)
ILSA	Iran-Libya Sanctions
IP	Intellectual Property
IPR	Intellectual Property Rights
ISAF	International Security Assistance Force
KORUS	U.S. -Korea Free Trade Agreement
LIC	Low Income Countries
MENA	Middle East and North Africa
MEUFTA	Free Trade Agreement between the EU and Mexico
MFN	Most-Favored-Nation
MNEs	Multi-National Enterprises
MRAs	Mutual Recognition Agreements
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NL	Netherlands

NTA	New Transatlantic Agenda
NTBs	Non-Tariff Barriers
NTM	New Transatlantic Marketplace
NTMs	Non-Tariff Measures
NTR	Normal Trade Relations
OECD	Organization for Economic Co-operation and Development
OSCE	Organization for Security and Cooperation in Europe
OIC	Organization of Islamic Cooperation
PMR	Product Market Regulation
RoW	Rest of the World
ROOs	Rules of Origins
SC	Sumitomo Corporation
SPS-plus	Sanitary and Phyto-Sanitary -Plus
SITC	Standard International Trade Classification
SMEs	Medium-sized enterprises
SOEs	State-owned enterprises
TAA	Trade Agreements Act
TABA	Turkish American Business Association
TABD	Transatlantic Business Dialogue
TAD	Transatlantic Declaration
TBT-plus	Technical Barriers to Trade –Plus
TCA	Turkish Customs Administration
TEP	Transatlantic Economic Partnership
TIM	Turkish Exporters' Association
TPP	Transatlantic-Pacific Partnership

TOBB	Turkish Union of Chambers of Commerce and Commodity Exchange
TTIP	Transatlantic Trade and Investment Partnership
TÜİK	Türkiye İstatistik Kurumu
TÜSİAD	Turkish Association of Businessman and Industrialist
UK	The United Kingdom
US	The United States
USCC	U.S. Chamber of Commerce
USITC	U.S. International Trade Commission
USTBC	U.S. -Turkey Business Council
USTR	U.S. Trade Representative
WTO	World Trade Organization
WTO-X	WTO extra

INTRODUCTION

Why do countries follow the path of trade liberalization? It is argued that by liberalizing trade, countries can benefit economically. Consumers eventually take advantage since liberalized trade can help to lower prices and broaden the range of quality goods and services available. Companies can gain from open trade since it diversifies risks and channels resources to locations in which returns are highest. With the support of appropriate domestic policies, liberalized trade also facilitates competition, investment and raises in productivity (OECD,2015).

When the General Agreement on Tariffs and Trade (GATT) was created (1947), the world trading system has benefited from multilateral trade liberalization, along with from unilateral and regional liberalization. Around the world, the living standard has risen as a result integration in the world economy (IMF Staff, 2001). Despite the developments in international trade, there is still need to further liberalization. Even though protection has declined noticeably over the past years, there are still many trade barriers between countries due to the deadlock in multilateral trade negotiations of WTO Doha Round and economic crisis. The lack of progress by the WTO and the rush to sign free trade agreements (FTAs) may actually have turn out to be mutually supporting. The countries have been having motivation to form FTAs in order to open up their markets to foreign economies by reducing tariff and non-tariff barriers which affect trade costs among partner countries. Certainly, the number of mega deals has been steadily increasing. In this context, the United States (US) and the European Union (EU) have decided to establish bilateral trade and investment partnership, so called Transatlantic Trade and Investment Partnership (TTIP).

The TTIP is a mega trade agreement with an ambiguous agenda to cover comprehensive issues and deeper trade liberalization between the EU and the US. The first idea is try to integrate the trade and investment structures and also coordinate policies in order to cut the economic and trade costs, encourage growth and protect the two sides' situation in the global economy and in world trading system. Its establishment is very important for the world economy; mainly because of two aspects. Firstly, it is one of the biggest ambitious initiatives of creating a comprehensive trade agreement in the world; the EU and the US already accounting for nearly half of the world's GDP, 28.8% of global exports, 43.7% of global service exports and 39.4% of global stocks of foreign direct investment (i.e. mega trade deal). Secondly, agreement will lead to the parties' continues dominance over the international economic governance structure and their ability to set the global standards[1]; for example for security of investment or fair competition (i.e. game changer rule).

The actual causes of the TTIP are numerous but categorizes as follows; after the eruption of the financial and debt crises, both the EU and the US met huge challenges from their economic recessions and decreasing employment opportunities. Economic output across the Eurozone fell by 0.6% and the unemployment rate was 10.8% in 2012. Even though GDP rose by 1.6% in the United States; since the beginning of 2009 the unemployment rate has remained relatively high: 7.8% at the end on 2012 (Eurostat, 2014). On the other hand, developing countries have been economically improving quite well. According to UNCTAD's World Investment Report 2013, FDI flows to developing economies reached more than $700 billion; absorbed an unprecedented $142 billion more FDI than developed economies. The unemployment rates in most of the countries in East Asia and Latin America decreased after the global crisis. Japan's unemployment rate dropped to below 5%. Along with these developments in the global economy, both of the EU and the US desired to find new ways to deal with unemployment problem and stimulate growth. This powerful integration is also a way to enhance both sides' competitiveness against emerging economies like China and India. In the meantime, since WTO Doha Round talks entered in a dilemma and did not provide anticipated liberalization, the TTIP is intended to further liberalize all sectors of the transatlantic economy through eliminating border tariffs and many investment restrictions and encouraging more harmonious regulatory

[1] Standards: A standard is a document that provides requirements, specifications, guidelines or characteristics that can be used consistently to ensure that materials, products, processes and services are fit for their purpose. (International Organization for Standardization (ISO))

necessities. In addition, both sides will have initiative to be jointly the unique game-changers in the world.

The trade relations between the US and the EU are very open towards each other in terms of investments and trade with low level of bound and applied tariff rates reveal. Nonetheless, various non-tariff measures (such as, customs procedures, regulations and practices) on both parties continue to block economic potential in the transatlantic market place in a larger number of sectors and call for a truly free transatlantic market (Francois , Berden , Thelle, Wymenga, & Tamminen , 2009).[2] Moreover, commitments dealing with issues going beyond the current WTO mandate, namely WTO extra (WTO-X) provisions, for example in technical standards, competition policy, child labor, human rights, environment, visa and migration are considered to be included in this Agreement (Akman S. , 2014).

The TTIP is expected to have an important impact on future global development and trade. The Center for Economic Policy Research (CEPR) study about TTIP talks in March 2013 claimed that the TTIP would bring significant economic gains as a whole for the EU (€119 billion a year) and US (€95 billion a year). The bulk of the income gains (80%) are expected to stem from eliminating bureaucracy and regulatory barriers and liberalizing trade in services and public procurements. On the other hand, liberalizing trade between the EU and the US would have a positive impact on worldwide trade and incomes, increasing global income by almost €100 billion. Nevertheless, many studies claim that outsiders (i.e. non-TTIP members) may face considerable welfare losses. The Bertelsmann Shiftung (2013) argues that, all countries outside the TTIP would experience a reduction of per capita income, even the Parties decide to eliminate only tariffs (Felbermayr, Heid, & Lehwald, 2014). A more ambitious TTIP which focuses on NTBs and standardization would have even more challenging for third countries. While the US and the EU are taking advantage of a transatlantic free trade agreement, most other countries may suffer from trade diversion effects. The extent of trade diversion would rely on preference erosion: the extent to which the third country loses its previous trade preferences with the US or the EU.

[2] Henceforth ECORYS (2009)

In this thesis, the general effects of the EU-US FTA on Turkish and Mexican economies are analyzed. Both countries has a special relationship with the US and EU. Turkey is one key partner to be considered because it has been part of Customs Union (CU) with the EU since 1996. The EU is Turkey's first import and export partner while Turkey aligns seventh in the EU's top import and fifth export markets (European Commission, Trade, Growth and World Affairs - Trade Policy as a Core Component of the EU's 2020 Strategy, 2010). Turkey is 26th largest export market for US goods (Office of the United States Trade Representative, 2014). The concerns for Turkey are mainly because of the CU. As a result of the CU obligations, US products are able to enter freely to Turkish market through the EU; however US is going to continue apply tariffs to Turkish products. On the other hand; Turkish export products may not be able to catch European export products in the US market, which lead to unfair competition. Moreover, Turkey and other third countries have to align themselves in order to be compatible with the EU and US standards, which is highly costly process.

Mexico is another key partner to be evaluated. Mexico has one of the world's largest economies. Supported by the economic liberalization policies implemented throughout the 1990s, Mexico has come to be one of the most promising emerging economies ranking the 2nd largest economy in Latin America. The EU and the US are essential trade partners of Mexico. The US holds almost 80% of the Mexican exports and half of the Mexican imports. The EU is the country's second largest export market after the US. Mexico and the US, and Canada together established the North American Free Trade Agreement (NAFTA) in 1994. NAFTA eliminated tariffs and trade barriers, and has helped boost intra-regional trade between the members. Nevertheless, being outside of the TTIP is projected to cause a significant trade diversion for Mexico and Canada. Felbermayrl and Larch (2013) estimated a 7.24 percent reduction in Mexican welfare, which is quite high.

The changing atmosphere of new global trade creates reactions to the EU and US in general and has possible spill-over effects in all over the world in particular countries that are excluded from the dynamics, i.e. TTIP. This environment would bring a negative impact on economic welfare in Turkish and Mexican economies unless both parties harmonize their standards and domestic regulations and participate in TTIP. The Ifo study estimates that, long-term real per capita income drop by 7.2 percent in Mexico and 2.5 percent in Turkey (Felbermayr G. , Larch, Flach, Yalcin, & Benz, 2013).

The literature concerning external implications of TTIP on third countries is limited. There is almost no proper study specially dealing with the case of Turkey and Mexico. It is important to analyze the big picture of the new world trade dynamics, evaluate the impacts of TTIP and make policy conclusions. This study provides a survey of the literature review that has been done about TTIP and its possible effects on EU, US and third countries. The thesis claims that TTIP would be relevant especially for 3rd countries like Turkey and Mexico which are in the 'inner circle', considering their preferential and special link with the US and the EU. It also proposes that a discriminatory TTIP will have wider implications not only in terms of market access and trade diversion, but especially in the case of non-tariff barriers should regulatory discrimination.

First part describes the sources and contents of the Transatlantic Trade and Investment Partnership from the past to the present. Second, the impacts of the transatlantic partnership on the EU, the US, and rest of the world and on global trading regime are analyzed. Third part focuses on Turkey and Mexico. And finally, in the last section the policy suggestions for Turkey and Mexico within the TTIP context are discussed.

CHAPTER I
SOURCES AND CONTENTS OF THE TTIP

1.1. A BACKGROUND FOR TRANSATLANTIC INTEGRATION

Negotiations have been underway for several years towards the establishment of the Transatlantic Trade and Investment Partnership (TTIP), which aims at removing trade barrier in an extensive range of economic sectors among the European Union and the United States.

US alliance with the EU is based on the Transatlantic Declaration (TAD) of 1990 and the New Transatlantic Agenda (NTA), adopted in 1995. The implementation of the TAD was aimed to strengthen their cooperation in order to encourage democracy and human rights, protect peace, promote sustainable economy, and support liberalization of the multilateral trading system and support to the nations of Eastern and Central Europe embarking on economic and political reforms and promote their involvement in the multilateral organizations of international trade and finance (U.S. Mission to the European Union, 1990). The NTA (European Parliament, Madrid European Council Meeting 15 and 16 December 1995 Presidency Conclusions, 2014) was proposed for the first time in Madrid on 3 December 1995, at the signing of the New Transatlantic Agenda EU-US summit, in order to revitalize and strengthen the association between two sides and to act jointly. The agenda includes four sections laying out targets for transatlantic relations. The first section points promotion peace and stability, democracy and development around the world. The second section concentrated on global challenges such as, sources of international crime, environmental issues and public health risks. The third section considered of the expansion of world trade and closer economic relations. They marked that, they have a special duty to strengthen the multilateral trading system, to support the World Trade Organization and to lead the way in opening markets to trade and investment. This section also marks that they will create a New Transatlantic Marketplace (NTM) by ‘progressively reducing or eliminating barriers that hinder the flow of goods, services and capital’, strengthen regulatory cooperation, concluding by the end of 1996 a customs cooperation and mutual assistance agreement, constituting Transatlantic

Information Society, and establishing a joint working group on employment and labour-related issues. Mainly due to the efforts of Leon Brittan, the former EU Trade Commissioner, the NTM in 1998 proposed specific objectives. These objectives included the complete elimination all industrial tariffs by 2010, creation of a free trade area in services and further liberalization of investment, public procurement and intellectual property (European Commission, European Commission Backs New Transatlantic Marketplace, 1998). The last section also reassured 'building bridges across the Atlantic'. It addresses the necessity of strengthening and broadening public support for the partnership and encourages educational establishments between the parts.

The NTA also welcomes the leadings of the Transatlantic Business Dialogue (TABD) in Seville- Spain in 1995, as the official business sector advisory group for EU and US agents on trade and investment topics. The objective of the TABD was to develop a proceeding dialogue among business and government at the highest degrees to develop the world's largest trading bloc (Trans-Atlantic Business Council, 2014).

The NTA is an extensive declaration of the many scopes for the partners' common action and cooperation. They have been working on the Agenda and setting the agenda for the regular Summits in custody of the Senior Level Group. Many transatlantic achievements proceeded by the NTA progress. Some of the policy outputs assigned to this collaboration are demonstrated by Table 1.

Table 1

Policy outputs emerging from the NTA process

Agreement	**Date**	**Substance**
Agreement on customs cooperation and mutual assistance in customs matters	May 1997	Outlines cooperation between EU and US customs authorities.
Science and technology agreement	December 1997	Encourages cooperation between EU scientific institutions and US government research agencies

EU-US agreement on the application of the positive comity principles	June 1998	Clarifies implementation of positive comity in competition policy cooperation
Mutual recognition agreement	December 1998	Covers standards for goods, including telecom equipment, pharmaceuticals, medical devices, electromagnetic compatibility, electric safety and recreational craft
EU-US veterinary equivalence agreement	July 1999	Facilitates trade in live animals and animal products

Source: Campanella & Sylvester C.W, 2003.

Even if these common intentions occur, the EU trade ministers affirmed that resolving long-standing disputes with the United States over Helms-Burton and Iran-Libya Sanctions (ILSA) laws was a ‘precondition’ for moving ahead the NTM. In the intervening time, several EU members were opposed the NTM as in their own interests. French President Jacques Chirac declared that the NTM proposal went against the crucial interests of his country in the communications, agricultural and intellectual creativity sectors. France had also concerns whether the proposed bilateral mechanism would undermine the WTO dispute settlement process. The Netherlands was against to the proposal because it does not include agriculture. They believe including agriculture within NTM would give the EU the push it needs to push forward reform of its common agricultural policy. Germany and Belgium were lukewarm on the NTM proposal (BRIDGES, 1998). However, it can be claimed that, until TTIP, the NTA represents the most elaborate and exhaustive constitutional basis for between the US and EU. Over years, the NTA was strengthened and regenerated according to the conditions.

The Transatlantic Economic Partnership (TEP) was another important agreement in the multilateral trade liberalization progress between the EU and US. TEP was announced at the Birmingham summit of May 1998, spearheaded by Commission Vice President Sir Brittan, and divides its agenda into bilateral and multilateral topics. In terms of bilateral topics, the TEP deals with free trade area in services, government procurement, improvement of intellectual property rights, the mutual recognition agreement and agriculture and audiovisual services. In terms of multilateral topics, the TEP supports the trade liberalization and encourages the liberalization surely fits in the context of the WTO (Frost, 1998). However, the process reached only symbolic significance. Many conflicts arose about agricultural subsidies, tax and aircraft production subsides, steel tariffs, food safety and environmental laws and regulations. The 2002 Positive Economic Agenda-which was designed to encourage transatlantic co-operation by concentrating on areas where there is goodwill on both parts to achieve upstream convergence and/or mutual recognition of rules, standards etc. in areas where substantial gains can be sought (European Commission, 2014)- was not able to overcome to ease settlement of these conflicts. So, High Level Regulatory Forum was launched with aim of approaching these objectives. However, like the foregoing initiatives, it was affected by absence of sustainable political commitment.

Hence, transatlantic relation had been suffering from the complexity and costs of having to comply with different regulatory issues. Contrary to average customs duties in transatlantic trade of less than 4%, with the exception of some areas with high import tariffs, e.g. trade in agriculture and textiles, non-tariff market access barriers (NTBs) maintained to be a remarkable obstruct to trade (Mildner & Ziegler, 2009). At their April 2007 Summit meeting, by signing the Framework of Advancing Transatlantic Economic Integration, the leaders of the US and the EU committed their governments to strengthening transatlantic economic integration, with the goal of improving competitiveness and the lives of their society. The parties created the Transatlantic Economic Council (TEC) to manage the efforts outlined in the Framework, with the aim of fostering cooperation and reducing regulatory burdens as well as furthering to work on priority issues for transatlantic economic integration (so called 'lighthouse projects'); such as: intellectual property rights, secure trade, financial markets, innovation and technology, and investment (European External Action Service, Framework for Advancing Transatlantic Economic Integration between the United States of American and the European Union, 2007). Via the TEC, the transatlantic integration has obtained new aspects and became compulsory during time. The EU and the US also signed Open Skies (Air Transport) Agreement in Washington, DC on April 2007. The objective of the agreement is to create a transatlantic Open Aviation Area: a single air transport market between the EU and the US with free flows of investment and no restrictions on air services, including access to the domestic markets of both parties (European Commision, 2013). The second congress of the TEC reached few actual consequences, especially about exchange between the EU and US administrations on the safety of imported products. Yet, the EU-US economic and trade policy integration and cooperation progress continued slowly.

1.2. TOWARDS A TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP

The United States and Europe have discussed a transatlantic free trade area in many aspects for years. Both of the sides recognized the necessity of encouraging their economies aftereffects of the financial and Eurozone crises. While exertions to develop transatlantic economic integration are enduring, the present emphasis on a US-EU Free Trade Agreement runs from a final report by a joint High-Level Working Group (HWLG) on Jobs and Growth. Constituted after the US-EU Summit which was held in Washington, DC on November 28, 2011, the HLWG is directed by US and EU leaders to identify policies and measures to increase EU-US trade and investment to support mutually beneficial job creation, economic growth, and international competitiveness. Leaders inquired the Working Group to work closely with all public and private stakeholder groups, and to lead further present dialogues and mechanisms. On February 11, 2013, the HLWG has reached a final report concluded that ‘a comprehensive agreement that addresses a broad range of bilateral trade and investment issues, including regulatory issues, and contributes to the development of global rules, would provide the most significant benefit of the various options ... considered.’ The HLWG has analyzed extensive options for expanding Atlantic trade relation (European Commission, High Level Working Group on Jobs and Growth , 2013) such as,

- Elimination or reduction of conventional barriers to trade in goods, such as tariffs and tariff-rate quotas.
- Elimination, reduction, or prevention of barriers to trade in goods, services, and investment.
- Enhanced compatibility of regulations and standards.

- Elimination, reduction, or prevention of unnecessary 'behind the border' non-tariff barriers to trade in all categories.
- Enhanced cooperation for the development of rules and principles on global issues of common concern and also for the achievement of shared global economics goals.

The HLWG concluded that a comprehensive agreement was necessary which addressed a wide range of bilateral trade and investment issues that contain mutual market opening in goods, services, and investment, and address the challenges of developing trade rules and enhancing the compatibility of regulatory regimes. They recommended starting the negotiations on a comprehensive trade and investment agreement.

Box 1. Briefly TTIP Negotiations

Market access: *Some 'traditional' market access issues may play a minor role in the TTIP context than they have in other trade agreements. The tariffs are already low in U.S. and EU. Yet, given the size of the transatlantic relations, the removal of tariffs will provide a major contribution to improving trade between two sides. Moreover, commitments in other areas, like further opening of government procurement markets, might also bring a better market access.*

Regulations: *An important component of the benefit of a transatlantic agreement is the variant regulations that may serve as non-tariff barriers and regulatory issues. There could be a significant economic gain due to better regulatory collaboration and compatibility. In the meanwhile, there is incredulity whether an integrated transatlantic marketplace on regulatory issues can be accomplished.*

Rules: *The trade-related issues in the agreement, like intellectual property rights (IPR), could build on key principles of the WTO. Most of these areas –include investment, IPR, labor and environment -have become a standard part of U.S. and EU FTAs with other countries.*

The HLWG considers that negotiations on a comprehensive trade and investment agreement should aim to achieve ambitious outcomes in three broad areas: a) market access; b) regulatory issues and Non-tariff barriers; and c) rules, principles, and new modes of cooperation to address shared global trade challenges and opportunities.

The classification of these issues can be complex, since the issues in general overlap and addressing one issue can assist to address another. For example, regulatory cooperation to eliminate non-tariff barriers can boost market access for goods, services, and agriculture.

1.2.1. HLWG Report

1.2.1.1. *Market Access*

1.2.1.1. 1.Goods

The HLWG recommended that TTIP should eliminate all duties, with substantial elimination of tariffs upon entry into force, and a phasing out of all but the most sensitive tariffs in a short time frame. Each day, the US ships more than $730 million in goods to the EU (Office of the United States Trade Representative , U.S. Objectives, U.S. Benefits in the Transatlantic Trade and Investment Partnership: A Detailed View., 2014). Currently, EU and U.S. imports of each other's products are assessed at the most-favored-nation or normal trade relations (NTR) rate.[3] In accordance with CEPII and ITC[4] estimates using the MAcMap-HS6 database[5], tariff duties on bilateral trade average 2.2% in the US and 3.3% in the EU, in *ad valorem* equivalent terms (Table 2) (Fontagné, Gourdon, & Jean , 2013).[6] The tariffs rates are quite low –except for in agricultural sector and regarding tariff peaks in some industrial sectors -, so tariff issues may play a lesser role in the TTIP negotiations. However, given the magnitude of the agreement, further tariff elimination or reduction could yield to significant economic gains to both sides. One study suggested that U.S.-EU FTA that eliminates all tariffs

[3] Normal Trade Relations (NTR) was enacted in U.S. law on July 22, 1998 to replace misleading term 'most-favored –nation (MFN)'. MNF treatment means equal treatment, and the terms 'most-favored-nation' and 'Nondiscriminatory' are often used interchangeably.
[4] CEPII (Centre d'Etudes Prospectives et d'Informations Internationales) is the main independent French institute for research into international economics. ITC (International Trade Center) is the joint agency of the World Trade Organization and the UNCTAD.
[5] Market Access Map (MAcMap) has been developed by ITC. It provides information about customs tariffs (including rariff preferences) applied by 196 countries and faced by 239 countries and territories. See: http://www.macmap.org/
[6] Henceforth, CEPII (2013).

would allow U.S. exporters to avoid an estimated $6.4 billion in annual duties paid on goods exported to the EU and would allow EU exporters to avoid at least $4.1 billion in annual duties paid on goods exported to the U.S. (Monahan, A U.S. - EU Free Trade Agreement: Big Opportunities, Big Challenges, 2013).

Tariffs applied by the US to the imports of European products, is in average 1.7% for manufactured products, and 6.6% for agricultural products. Dairy produce is the most sensitive sector with average 22% tariff duty (including 40% on yogurt and 33% for unripened cheese) and where European producers are often competitive. There is significant protection in a number of articles of apparel, on knitted fabrics, and on shoes, with sector averages close to or above 10% in all these cases. Specific steel items are also potentially sensitive and significantly protected. In literature it is widely argued that tariffs is the easy side for negotiations, however, it should also be considered that tariffs provide protection to domestic industries in both sides in different sectors and as Figure 1 and Figure 2 revealed brings significant tariff revenue.

Table 2

Average tariff protection on bilateral trade between the EU and the US (as valorem equivalents in percent, 2010)

	Agriculture	**Industry**	**Overall**
Tariffs applied by the US on import from the EU	6.6	1.7	2.2
Tariffs applied by the EU on import from the US	12.8	2.3	3.3

Source: MAcMap-HS6.

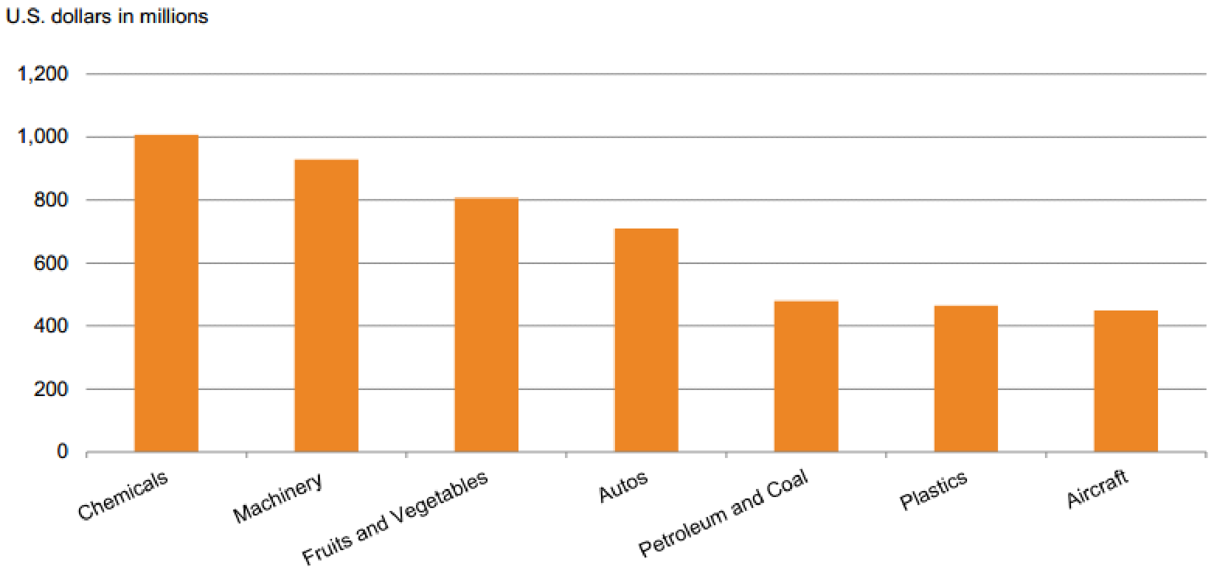

Figure 1 Tariffs Paid on U.S. Exports to the EU - 2012

Source: Monahan, A U.S.-EU Free Trade Agreement: Big Opportunities, Big Challenges, 2013

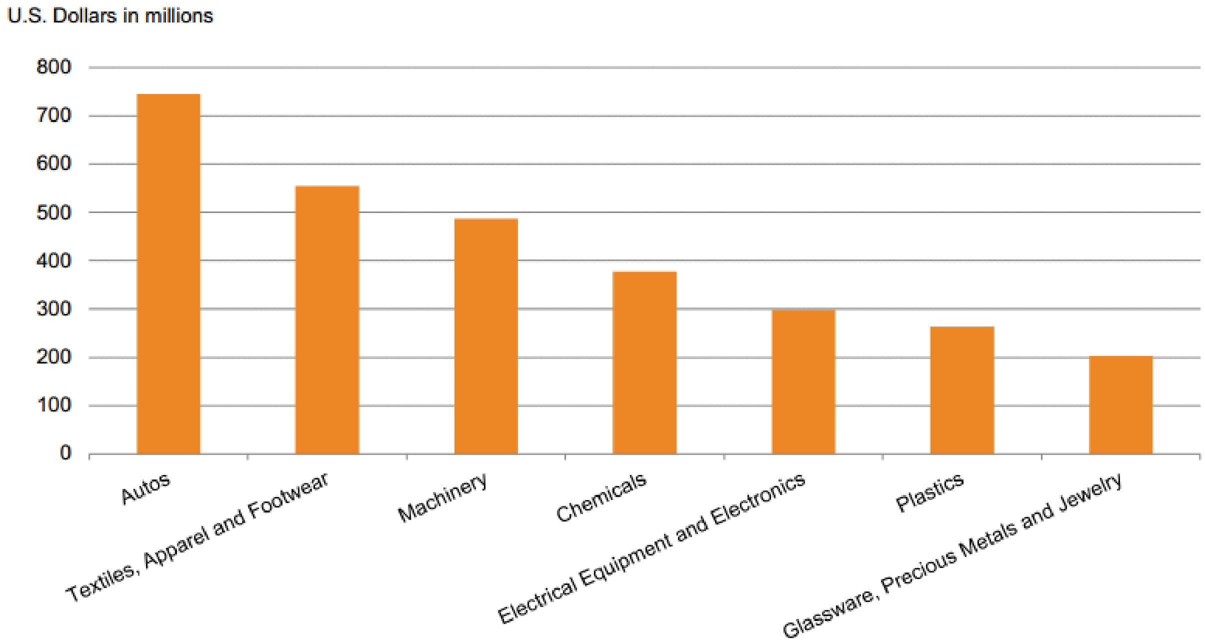

Figure 2 Tariffs Paid on EU Exports to the U.S. - 2012

Source: Monahan, A U.S.-EU Free Trade Agreement: Big Opportunities, Big Challenges, 2013

In the European case, agricultural products are the main protected items (12.8%, compared to 2.3% for manufactured products). The meat is the most sensitive sector, with a 45% average tariff duty, a sector where American exports are most competitive and accounted for nearly 20% of world exports in 2010. According to the estimates, the bovine meat sector is particularly affected, with a 146% ad valorem equivalent duty on frozen edible bovine offal, 97% on frozen boneless meat and 75% on fresh boneless meat; despite non-tariff issues (mainly hormones) being of the utmost importance in this case. Another potentially important sensitive sector is bioethanol. The competitive position of the US is not strong in other highly protected sectors, like dairy produce, milled products, and sugar. In the manufacturing sector, protection is low on behalf of most products but is far from negligible for clothing (with average protection over 11%) and footwear (9.4%), and for transport equipment products (7.8% on average), with a 10% duty on most individual automobiles. Tariff elimination in these sectors could have considerable effect on bilateral trade.

Agricultural products will be more difficult to negotiate. EU has 81 agricultural tariff headings over 100% and from the US side, 25 tariff headings exceed 100%. Dairy products, sugar, meat, peanuts, food preparations attract very high duties in both markets. In transatlantic agreement, with potential trade impact, sectoral lobbies in sugar, dairy, cotton, peanuts, and certain grains will try to see if they can be exempted from reduction by inclusion as among 'most sensitive tariffs' (Seshadri, 2013). Even though US just sent over $10 billion of agricultural exports to the EU in 2013, the goal of TTIP is to help U.S. agricultural sales reach their full potential by eliminating tariffs and quotas that stand in the way of exports.

1.2.1.1.2. Services

Activities in the services sector includes as wide areas as accounting, banking, retail, insurance, education, legal transportation, e-commerce, securities, express delivery, tourism, and telecommunications. Services industries represent for 68 percent of U.S. GDP and four out of five U.S. jobs. The U.S. is the largest exporter of services with 14% of the global total in 2011 and the largest importer with 10% of the global total in 2011. In 2012, the sector accounted for 29% of total U.S. exports and 7% of total imports. The EU is an important services market for the US; representing 32% of US exports of sectors and 35% of US imports in 2012 (Cooper & Nelson , 2014).The United States also holds a services trade surplus with the EU; with balance on services $42 billion in 2013 (see Figure 3) (U.S. Bureau of Economic Analysis (BEA), 2014). The United Kingdom (UK) is the largest market for U.S. exports as well as the largest EU source of U.S. services imports. Within the EU, United Kingdom, Ireland, Germany, and France are the leading U.S. trading partners, followed by the Netherlands and Italy.

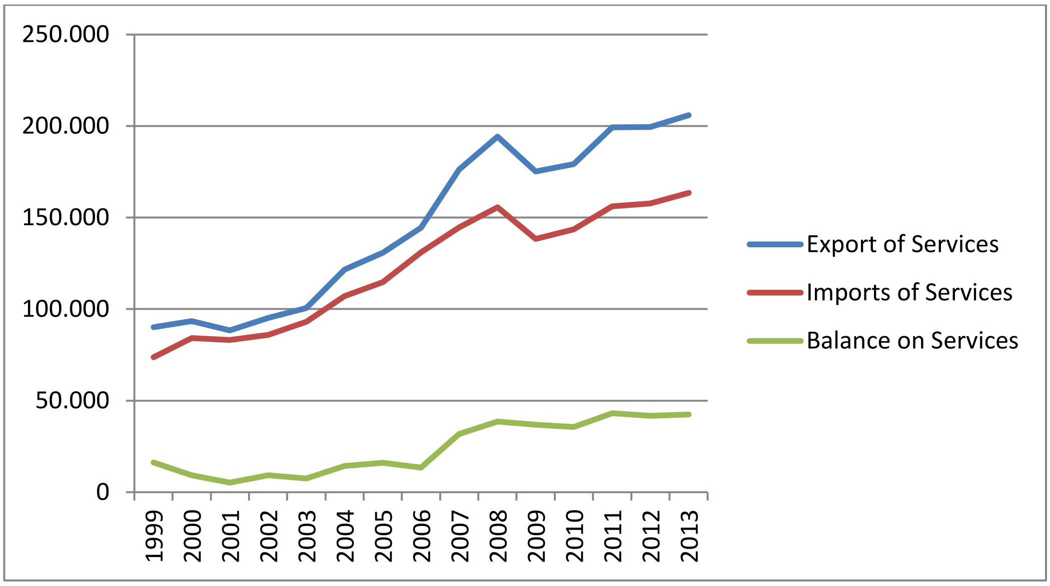

Figure 3 U.S. Trade in Services with the EU, 1999-2013 (Billions of U.S. dollars)

Source: U.S. Bureau of Economic Analysis

The US and EU are both signatories to the WTO's General Agreement on Trade in Services (GATS), a treaty was created to extend multilateral trading system to service sector. The GATS consists of: (1) a main text containing general obligations and disciplines; (2) specific commitments of signatories to provide market access; and (3) annexes containing rules for specific sectors (World Trade Organization, General Agreement on Trade in Services, 2014).

The HLWG has recommended to: (1) bind the highest level of liberalization that each side has committed to in other FTAs; (2) achieve new market access by addressing remaining long-standing market access barriers, recognizing sensitive nature of certain sectors; (3) include commitments to provide transparency, impartiality, and due process with regard to licensing and qualification requirements and procedures; and (4) enhance regulatory disciplines.

Whether making sure that U.S. express delivery companies are capable of competing for EU shipping business or allowing telecommunication service provides to connect U.S. companies with EU consumers online, diminishing barriers in the services sector will have a beneficial impact on the whole U.S. economy. Lowering barriers among the participants will make it easier, for example, for U.S. architecture companies to send blueprints for projects in Europe in real time and without costly delays.

Another important component of the TTIP is financial services. Market access issues with regard to financial services are expected to be a part of the transatlantic economic relationship. The goals are to ensure high-standard rules for investment in the financial services sector, along with lock in existing and create new market openings for their services suppliers. A successful transatlantic agreement will increase financial services market access to the EU in addition to provide consumers with access to high-quality financial services and greater choice with respect to suppliers. In the meantime, U.S negotiators will continue to ensure that their government retains discretion to regulate the financial sector and to take the actions necessary to ensure the stability and integrity of the U.S. financial system (Office of the United States Trade Representative , 2014).

Yet, liberalization in ‘sensitive’ sectors like air transport (Foreign airline cannot now take over American carries or carry passengers between American cities. There is a near-total ban on cabotage rights for foreign airlines. Ryanair is forbidden from operating a flight between Dallas and Boston, moreover it cannot operate a flight between Dallas and Boston if the flight continues on to Dublin. (The Economist, 2013)) or maritime services (the US Merchant Marine Act 1920 (the Jones Act) requires all waterborne shipping between US ports to be carried out by vessels built in the US that are owned, registered and operated by Americans) could be hard negotiations. Similarly, another controversial topic could be audiovisual services, particularly with respect to 'cultural exceptions' led by France and a few other EU member states have called for the exclusion of the audiovisual services and products from the transatlantic negotiations. [7]

The both sides of the transatlantic relation seek to develop appropriate provisions to facilitate the use of electronic commerce to support goods and services trade, including through commitments not to impose customs duties on digital products or unjustifiably discriminate among products. Moreover the sides seek to include provisions that facilitate the movement of cross-border data flows. However, both EU and US have different visions about privacy and data protection and their relative importance vis-à-vis security. Another important topic would, how the issue of trans-border data flows will be dealt with in the context of e-commerce or IT services (Seshadri, 2013).

1.2.1.1.3. Investment

The US and EU have the most open investment framework in the world and that have helped to facilitate high levels of transatlantic investment. They have similar investment policy goals, aiming to reduce constraints on foreign investment and protect investor rights, though balancing other policy interests.

The United States negotiates investment issues in FTAs on the basis of a U.S.'s 'Model Bilateral Investment Treaty' ('Model BIT'), which provides investments with five basic benefits:

- non-discriminatory treatment for investment-implemented through national treatment and/or most-favored-nation (MFN) treatment for investments;
- clear limits on the expropriation of investments and provisions for payment of prompt, adequate, and effective compensation in cases of expropriation;

[7] For example, the culture ministers of a 14 European countries (Austria, Belgium, Bulgaria, Cyprus, France, Germany, Hungary, Italy, Poland, Portugal, Romania, Slovenia, Slovakia, and Spain) reportedly have signed on to a letter addressed to the Irish EU presidency and to the European Commission calling for the continued exclusion of audiovisual services from the commitments to the trade liberalization, France in the United States, 'The Cultural Exception: Communiqué issued by the Ministry of Culture,' May 14, 2013. See: http://ambafrance-us.org/spip.php?article4587

- quick transfer of funds into and out of the host country without delay using a market rate of exchange;
- the right of submit an investment dispute with the treaty partner's government to international arbitration (usually referred to as 'investor-state dispute settlement' or 'investor-state arbitration'); and
- restrictions on the use of trade-distorting performance requirements (such as local content rules, technology transfer requirements, or export quotas) (Akhtar & Jones , 2014).

The EU usually subscribes to these core principles as well. The Lisbon Treaty made negotiating investment agreements in the EU exclusive competence area which provides a unique opportunity to set a new agenda for investment protection and investor state dispute settlement provisions. According to the HLWG report, the goal of the TTIP should include investment liberalization and protection provisions based on highest levels of liberalization and highest standards of protection that both sides have negotiated to date (European Commission, Investment, 2015). The US and EU also could use transatlantic investment commitments secured through TTIP to shape global investment rules.

In the absence of comprehensive multilateral agreement on investment rules, transatlantic investment flows are governed by 'international investment treaties[8]' (BITs) (Akhtar & Weiss , 2013). The United States has 40 BITs in force including with eight EU member states (Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Slovakia) and an EU candidate (Turkey); and one with a potential EU candidate (Albania) (Trade Compliance Center, 2014). There are more than 1200 BITs concluded by EU with other countries (European Commission, 2010). While the US has investment treaties with most of the EU member states, it has none with the EU as a whole. The substantial investment across the Atlantic may indicate no legal framework is necessary between them. If a Transatlantic Investment Agreement done properly, it would be useful to liberalize new areas for investment among them, and to

[8] The U.S. bilateral investment treaty (BIT) program helps to protect private investment, to develop market-oriented policies in partner countries, and to promote U.S. exports.

strengthen international investment law, thus helping improve business climates in other countries (Chase, 2011).

1.2.1.1.4. Government Procurement

Government procurement is the term used for the purchase of goods and services for governmental activities and covers purchases of everything from pencils and paper clips to computer systems and telecommunications equipment, ship building or consulting services (European Commission, 1997). The size of government procurement markets in the EU and the US is equivalent of about 15-20 percent of their GDPs (ECORYS, 2009). The HLWG has called for substantially improved access to government procurement opportunities at all levels of government (European Commission, High Level Working Group on Jobs and Growth , 2013).

The US and EU are both parties to the limited WTO Agreement on Government Procurement Agreement (GPA)[9]. The GPA commitment made by the US, covers only 3.2% of the US total government procurement, where the EU has committed to open around 15% of its public procurement markets to the other GPA parties (European Commission, 2011).

According to the report of USTR, due to the lack of EU statistics on government purchases of goods and services, measuring the current level of U.S. (and non-EU countries) participation in the EU government procurement market is difficult. Further, the Report declares that an EU directive on procurement of utilities (European Parliament & European Council, 2004) covering purchases in the water, energy, transportation, and postal services discriminates against bids with less than 50 percent EU content that are not covered by an international or reciprocal bilateral agreement (Office of the United States Trade Representative, 2013). In contract competitions directed by EU member states governments, U.S. firms reported their claims about lack of transparency and corruption. In TTIP, U.S. negotiators are seeking to expand market access opportunities in goods and services in the government procurement markets of the EU and EU member states', and to ensure fair, transparent, and predictable conduct

[9] A plurilateral agreement that regulates the government procurements of the parties of to the agreement, based on the principles of openness, transparency and non-discrimination.

of government procurement, as well as favorable, nondiscriminatory treatment for U.S. suppliers (Office of the United States Trade Representative , 2014).

EU negotiators stated that the TTIP negotiations present an important opportunity for the EU and the U.S. to develop together some bilateral 'GPA-plus' elements to complement the revised GPA disciplines. EU's intention is to have more access to sub-central government (e.g., states) entities in the U.S. (European Commission, 2013) .In addition, they also complained about US laws, such as the Berry Amendment which restrict government purchases of certain items to U.S. business for security reasons; and the Buy American Act, which provides a preference for American goods in government purchase (ECORYS, 2009).

1.2.1.2. Regulatory Issues and Non-tariff barriers

These may be the hardest issues to deal with transatlantic negotiations. João Vale de Almeida, the Head of the EU Delegation to the US, termed regulatory cooperation as *the crown jewel of the negotiations* (Digest, 2013) . Non-Tariff Barriers (NTBs) are restrictions due to prohibitions, conditions, or specific market requirement, and these make trade activities difficult and costly. Those barriers can be restrictive licensing, permitting, and other barriers applied at the border, but also barriers behind the border, like unwarranted technical barriers to trade and sanitary and phytosanitary measures, and so on.

Several debates had taken place between the EU and US; for example, genetically modified crops, hormone treated meat and chlorine treated poultry. The EU has argued that the restrictions are necessary for the protection of human health, while US insisting on science based determinations about safety and health (Thompson, 2013). Other examples of divergences face from EU and US are; genetically modified organisms (GMOs), vehicle safety standards, energy efficiency, testing of pharmaceutical products, chemicals and environmental issues (ECORYS, 2009). Even if the EU has agreed to allow U.S. exports of beef processed with lactic acid and live hogs to enter the European market (Inside U.S. Trade, 2013), most of the disputes are still ongoing.

The HLWG has recommended that the two sides should seek to negotiate:

a) A ‘Sanitary and Phyto-sanitary -plus (SPS+)’ chapter that will seek to build upon the key principles of the World Trade Organization (WTO) SPS Agreement and based on scientific and risk assessments required in the SPS Agreement.

b) A ‘Technical Barriers to Trade -plus (TBT+)’ chapter that will seek to build upon the key principles of the WTO TBT Agreement with objectives to yield greater openness, transparency, and convergence in regulatory approaches and standards, as well as, to reduce double testing by promoting confidence in conformity assessment testing of institutions.

c) Cross-cutting disciplines on regulatory coherence and transparency for the development and implementation of efficient, cost-effective, and more compatible regulations for goods and services.

Additionally, HLWG has recommended that the EU and the US meet periodically at senior levels and framework for continuing dialogue and cooperation in various sectors (High Level Working Group on Jobs and Growth , 2013).

By means of TTIP, the parts seek to identify techniques to decrease costs related with regulatory differences, while maintaining high levels of health, safety and environment protection (Office of the United States Trade Representative , 2014). According to CEPR Report (2013), in an ambitious scenario, that virtually brings elimination of 25 per cent of NTB related costs and 100 per cent of tariffs, EU’s GDP is estimated to increase by 119.2 billion € and 94.9 billion € for the US.

1.2.2. Rules Addressing Shared Global Trade Challenges and Opportunities

The HLWG has also supported the goal of advancing rules in several areas that are not only applicable to bilateral commerce, but would also support to the multilateral trading system.

1.2.2. 1. ***Intellectual Property Rights***

The strong protection and enforcement of Intellectual Property (IP) –including patents, copyrights, trademarks, trade secrets and related rights – remains as a noteworthy part of the TTIP negotiations, due to the significance of IPR to innovation, economic growth, and competitiveness (Akhtar & Jones , 2014). Both sides will sustain and enhance their work on IPR issues. The HLWG has recommended that both sides explore opportunities to address a limited number if significant IPR issues of interest to either side, without prejudice to the outcome.

1.2.2. 2. ***Environment and Labour Standards***

Both the US and EU continue strong protection for the environment and labor standards in their local economies. The US has being more optimistic for the Atlantic trade (Kulish & Calmes, 2013). Yet, in the EU some non-governmental organizations, political parties and civil societies have concerns regarding health, food, labor, environment, social & data privacy standards and other public interests. Still, certain civil groups support the TTIP and believe it would be beneficial for the EU and US both economically and politically (Bolla , 2014). The HLWG has recommended that the two sides explore opportunities to address protection for these important issues (the environment and workers), taking into account work done in the Sustainable Development Chapter of EU trade agreements and the Environment and Labor Chapters of U.S. Trade agreements.

1.2.2. 3. ***Other Globally Relevant Challenges and Opportunities***

The HLWG has recommended that the US and the EU seek bilateral agreement on globally relevant rules, principles, or modes of cooperation in the following areas: 1) Customs and trade facilitation. (The HLWG has proposed that the disciplines aim to go beyond those under negotiation in the WTO. The intention is for negotiations to introduce processes for future bilateral, multilateral and even plurilateral agreements (Lane, 2013). Reducing supply chain barriers is also important dimension in the agreement. A recent study found that reducing global supply chain barriers to trade could increase world GDP by nearly 5% and international trade by nearly 15%. (World

Economic Forum, 2013) 2) Competition policy; 3) State-owned enterprises (SOEs) and other enterprises that benefit from special government-granted rights; 4) Localization barriers to trade: measures designed to protect, favor, or stimulate domestic industries, services providers, or intellectual property at the expense of imported goods, services, or foreign-owned or foreign developed intellectual property; 5) Raw materials and energy; 6) Small-and medium-sized enterprises; and 7) Transparency.

Accepting the HLWG's findings, on 13 February 2013, United States President Barack Obama, European Council President Herman Van Rompuy and European Commission President José Manuel Barroso announced that, based on recommendations from the HLWG, the US and the EU will each initiate the internal procedure necessary to launch negotiations on a Transatlantic Trade and Investment Partnership (European Commission, 2013). TTIP is an ambitious, comprehensive, and high standard trade and investment agreement being negotiated between the US and the EU. On March 20, 2013, the Obama Administration notified the U.S. Congress of its intent to enter into negotiations on a comprehensive trade and investment agreement with the EU (Office of the United States Trade Representative , 2013). The US and EU, led respectively by the Office of the U.S. Trade Representative (USTR) and European Commission, have held nine rounds of negotiations to date (see Table 3), and the ninth round scheduled for April 20-24,2015 in New York, NY. Even if some claims exist about the complexity of the negotiations, the both sides are aimed to conclude in two years.

Table 3

TTIP Rounds of Negotiations

1st Round (July 8-12, 2013, Washington, DC)	Consideration of main issues expected to be pointed in comprehensive dialogues and determination of areas of common ground and divergence.
2nd Round (November 11-15, 2013, Brussels)	Identification of areas of common ground for further preparation and discussion of potential convergence in areas like investment, services, regulatory issues, and energy and raw materials.
3rd Round (Dec. 6-12, 2013, Washington, DC)	Termination of the initial stage of negotiations and the three core parts of the TTIP –market access, regulatory aspects and rules- are decided to be focused in the next talks.
4th Round (March 10-14, 2014, Brussels)	Dedication of taking steps in favor of small- and medium-sized enterprises (SMEs), and discussion all three pillars of a future agreement –market access, the regulatory cluster and so-called ‘rules’ issues.
5th Round (May 19-23, 2014, Arlington, Virginia)	More substantive discussions about tariffs, services, government procurement, and also ways to promote greater regulatory compatibility in a range of sectors, including medical devices, pharmaceuticals, cosmetics, automobiles as well as chemicals. However, the desirable points still have not reached.
6th Round (July 14-18, 2014, Brussels)	Working on a final agreement text that will increase market access for goods; discussion of exchanging proposals on sanitary and phytosanitary measures (SPS); and considering the inclusion in a final text that addresses regulatory coherence: textiles, chemicals, pharmaceuticals, cosmetics, medical devices, cars, ICT, engineering and pesticides.
7th Round (Sep. 29- Oct. 3,2014, Chevy Chase, MD)	Discussion about rules and international standards focused on energy and raw materials, customs and trade facilitation, intellectual property rights (IPR) and small-and medium-sized enterprises (SMEs).
8th Round (February 2-6, 2015, Brussels)	Consideration of all areas that will be covered in the agreement (except on ISDS/investment protection). Steady progress has taken at technical level on all three pillars (market access, trade-related rules and regulation).
9th Round (April 20-24, 2015, New York, NY)	A forum help during which U.S. and EU negotiators exchanged views with interested stakeholders.

Source: Summarized information from various U.S. and EU official sources.

This evolution is essential for the global trade system, especially for two aspects. Firstly, it is the largest regional free-trade agreement in history. As the HLWG noted in its June 19, 2012 Interim Report, transatlantic trade and investment are the backbone of the world economy (High Level Working Group on Jobs and Growth , 2013). The TTIP seeks to generate a more open market for 800 million consumers including both sides of the Atlantic. The EU and the US together constitute almost half of world GDP (46%) and 30% of world trade in 2012; with US-EU trade flows in goods totaling €497 billion, and in services €315 billion. Foreign direct investment (FDI) is even larger, with total FDI stocks of €3.7 trillion in each other's economies (See Figure 4). Due to the size of the U.S. and EU economies, the potential economic benefits of the agreement are expected to be more than the gains from earlier U.S. FTAs, including proposed TPP (See Table 4).

Table 4

Largest U.S Free Trade Agreements: Economic Area, 2012

FTAs	**GDP (billions of current U.S. dollars)**	**% World GDP**	**Population (millions)**	**% World Population**
U.S.-South Korea FTA	$16,841	23%	364	5%
NAFTA	$18,681	26%	464	7%
TPP	$27,558	36%	792	11%
TTIP	$32,269	45%	817	12%

Source: Akhtar & Jones, 2014.

The transatlantic economy promotes economic growth and supports some 15 billion jobs in both economies. Moreover, the US and the EU have directly invested more than $3.7 trillion/€2.8 trillion on both parts of the Atlantic (European Parliament, 2013).

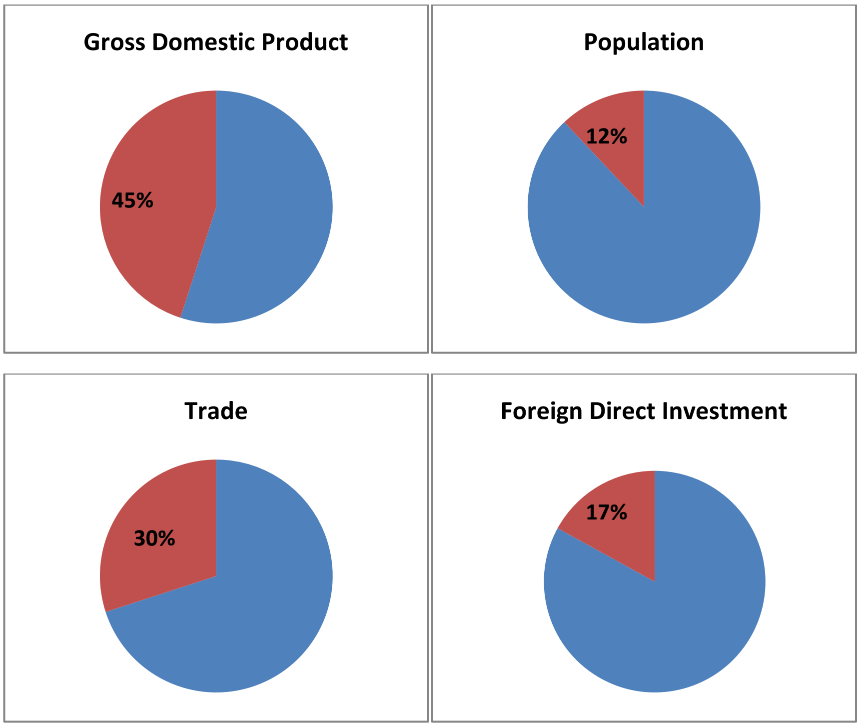

Figure 4: Combined U.S.-EU Share of Global Economy

Source: Akhtar, Shayerah and Jones, Vivian C. (2014)

***Note:** Red shares U.S.-EU share of global economy, blue shares reflect rest of the world.

Secondly, the TTIP will enable the US and EU, two giants of global trade, to set the rules on critical emerging trade issues as regulatory standards and cooperation (Alden, 2013). The TTIP focuses on the remaining impediments to trade and investment both at and beyond the borders of the EU and the US. Because the US and EU are main export, import and investment markets for many other countries, TTIP would open the way for deep and comprehensive international trade and investment integration (Ash, 2013).

The transatlantic partnership should be evaluated together with US's regional agreements together with Asia-Pacific region. Both of the initiatives are complementary and should be considered as essential parts of a coherent global strategy. So called Transatlantic-Pacific Partnership (TPP) is a proposed regional free trade agreement (FTA) between 12 countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States; Korea intends to join in. The gross domestic product (GDP) of 12 TPP countries is $27, 75 billion, which is 37.5% of world's GDP, with 25.6% of world's trade. Actually, the US is the most important member country, accounts for approximately $15.5 trillion, or nearly 60% of TPP GDP.

On the other hand, lack of success to complete the Doha Round of multilateral trade negotiations has put a damper on the future of the multilateral trading system. The EU and the US are disappointed by the Doha impasse. Creation of new momentum is required in their economies. So that, TTIP agenda has regulatory issues and aiming new global challenges in its center (Harbinson, 2013).

Together with TTIP and TPP are the main parts of the emerging network. Via these exhausting regional deals, the US and the EU are going to put themselves at the center of an ambitious network of trade deals with global reach. Via these dialogues, the US and the EU are ready to set up a new set of trading rules which could end for a generation. The rest of the developing and emerging countries could observe the development like a means to force them to implement 'new trade rules' prepared in their absence. The most debatable property of both the dialogues is their ability to form new rules that could be applied worldwide, without seeking the participation or agreement of the other stakeholders. Together with generating new trade rules, a considerable advancement of current rules is anticipated too. Put another way, the main advantage for the US and the EU is expected to be in the 'rule-making' capacity of the deal (Aran, 2013).

A TTIP would join together the world's two biggest economies. The partnership also expresses the shape of the worldwide economy as a whole. Either the EU or the US is the main trade and investment partner for nearly all other countries in the global economy (European Commission, 2011). Apparently, it is going to affect the global economy and the rest of the countries. For instance, according to TUIK reports, in 2012 the US (3.6%) and EU (39%) consists of nearly 42.6% of Turkish exports. In 2012, the EU constitutes of 71.3% foreign direct investments to Turkey, where the US accounts for4.1%. In the similar way, The United States is the number one Mexico export destination with 77.3% in 2011. Even if exports to Europe remain a small share of total exports, real export to Europe has been very strong during the last years. Among advanced countries the EU has the biggest average real export growth between 2002 and 2011 by 10.5% (International Monetary Fund, 2012) .

1.3 THE MOTIVATIONS OF THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP

As mentioned in the beginning, the transatlantic partnership has not occurred suddenly. The participants has being in the process since 20 years. So why did they decide to do this agreement in presently? The main concerns could be summarized as; the economic conditions in the world economy, the recession in Europe, the stalling of multilateral negotiations and the desire to promote stronger economic growth &employment in both the US and EU (Schott, 2013).

1.3.1 Rise of Emerging Economies

Accordingly, the change in global production and trade networks and the boost of the emerging economies' market share is an important factor which have urged Brussels and Washington to strengthen transatlantic relation. Mainly, Far East Asia countries and emerging economies increased competitiveness concerns in transatlantic market. Competitive strength of China, South Korea, ASEAN, Brazil, Russia and India pushed both EU and the US to make Free Trade Agreements with third countries (Akman S. , 2014a).

Figure 5 shows world merchandise export and import share of selected countries. As seen from the figure, the US and EU countries share declined from 14% to 8.3% and 47% to 32% where China's share increased from 0.7% to 11.7% –which is higher than US's share at the moment. Similarly, there is a visible rise in ASEAN countries' share in world merchandise share.

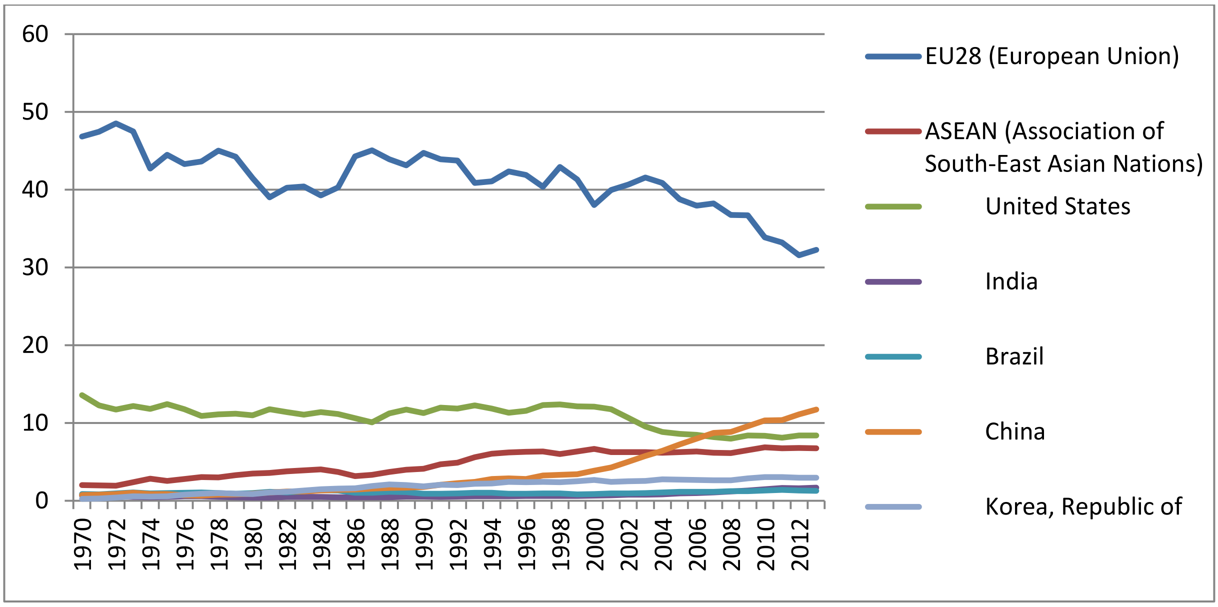

Figure 5 Values and shares of merchandise exports and imports, annual, 1970-2013

Source: UNCTAD

The last few years have been tough for the transatlantic economy. After the outbreak of the financial and debt crisis, both the EU and the US faced many difficulties from their economic recessions and increasing unemployment station, which weakened transatlantic cross-border trade and investment flows. In 2012, economic output across the Eurozone declined by 0.6% and the unemployment rate was 10.8%. In the same year, even the GDP rose by 1.6% in the US, however the economy suffered by 7.8% unemployment rate (Eurostat, 2014). Under these circumstances, there has been a clear decline in international trade flows between two sides.

Figure 6 U.S. Trade with the EU in Goods and Services, 1999-2013 (millions of dollars)
Source: U.S. Department of Commerce. Bureau of Economic Analysis

Figure 6 indicates that the US has consistently run deficits in goods and services with the EU. US balance of goods and services with the EU was -28.5 millions of dollars in 1999, and it rose up to -84.5 millions of dollars in 2013. The EU's exports with the US were 15.7% in 2002 and declined to 11.1% in 2012. However with China, trades in goods have been increasing from 7.4% to 14.7%, similarly exports with India, Russia and South Korea have been increasing (Figure 7).

Moreover, the combined FDI share of the US and the EU, averaged high as 56% over the period 2005-2007. With the start of financial crisis, their share began to decrease and by 2012 it was down to 28% ((UNCTAD), 2014).

It's believed that TTIP will continue to strengthen the ties of two sides of the Atlantic. Even with continuing transatlantic economic turbulence, the US and EU remain each other's most important markets and source of job, each other's most significant strategic partner and a powerful force in the multilateral system.

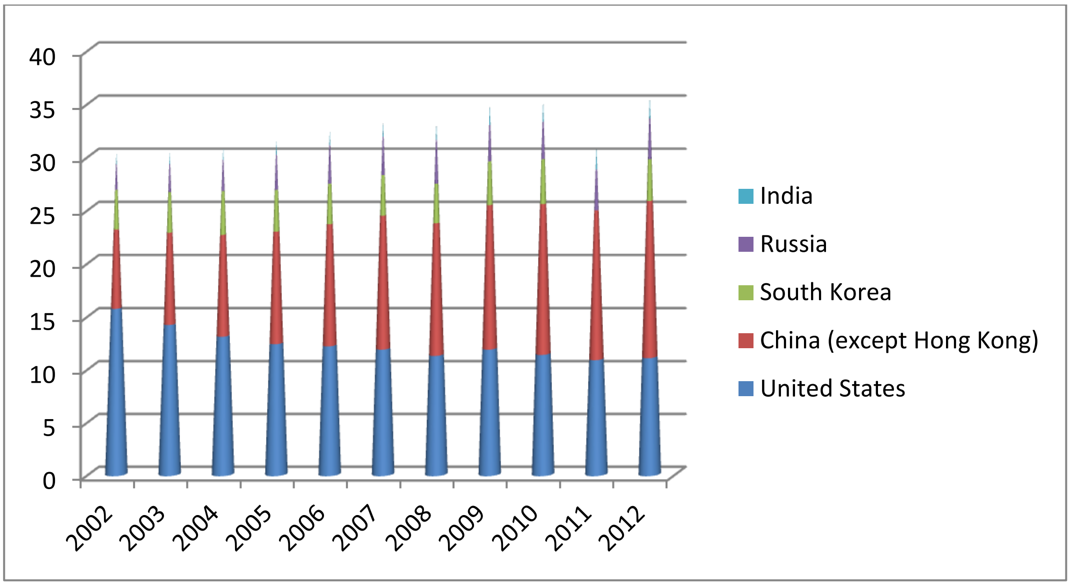

Figure 7: EU Share of national exports in world exports (%)

Source: EUROSTAT

1.3.2 Stalemate in Multilateral Trade Negotiations and Failing Doha

Another motivation to start trade talks at this stage is the lack of progress in the Doha round of multilateral trade negotiations. This caused the US and EU to look for cross-regional bilateral free trade agreements as a means to support export growth and create new trade and investment rules for global governance. A similar picture took place through the 1980's when as a consequence of the energy and debt crisis and stagnation of the Uruguay Round, Canada and the US made a decision of a free trade agreement, which was followed soon by the North American Free Trade Agreement (NAFTA), an agreement which helped to impel the Uruguay Round. The Doha conclusion at Bali was unsuccessful to include two matters: a plan for developing countries to open markets for products and a commitment by developed countries to stop subsidizing agriculture products. One of the expectations is that TTIP will be complementary to the Doha round conclusion (Roy & Domínguez, 2014).

1.3.3 EU-US Initiative to Enhance Growth and Employment

Among these, the most important issue is the US's and EU's goal of economic growth and employment in their trade strategies. For them, TTIP represent an opportunity to boost economic growth and increase more job possibilities.

Karel De Gucht, European Commissioner for Trade, expressed the importance of growth and employment issues in EU trade strategy: '*International trade and investment matter to Europe and to Europeans! Trade is an engine for global growth. It contributes to long-term jobs in the EU and around the world*…' In 2010, with *Trade, Growth and World Affairs* document, European Commission sets out how EU intends to shape its trade and investment policy to contribute to the goal of sustained economic growth which should create more jobs and safeguard their welfare state. This will require a strong commitment from all stakeholders, EU institutions and Member States (European Commission, 2010).

The US has similar objectives as EU as well. In the US President Obama's 2014 Trade Policy Agenda, it is stated that, in 2014, the Obama Administration will continue to advance trade policies that promote open markets to enable additional job-supporting U.S. exports and sustained economic growth. International trade is believed to support many jobs in the US. Every $1 billion in U.S. goods exports supported an estimated 5,400 American jobs, and every $1 billion of U.S. services exports supported nearly 5,900 U.S. jobs (Office of the United States Trade Representative, 2014 National Trade Estimate Report on Foreign Trade Barriers, 2014).

CHAPTER II
IMPACTS OF THE TRANSATLANTIC PARTNERSHIP

2.1. ECONOMIC IMPACTS ON THE EU AND THE US

Without any doubt, this ambitious and comprehensive trade and investment partnership will have major repercussions both on trade between two parts and their relations with third countries.

Many important studies analyzed for the possible economic implications of the TTIP. For instance, United States Trade Representative (USTR) requested comments from the public regarding U.S. interests and priorities on the proposed TTIP in May 2013 (Bell, 2013). Following of a request from the USTR, the U.S. International Trade Commission (USITC) instituted an investigation on the probable economic effects of the providing duty-free treatment for imports and transmitted a report about the findings to the USTR on September 2013. The USITC requested public comments and held a public hearing on the TTIP as well (United States International Trade Commission, 2013). Similarly, the EU Commission published an impact assessment report on the future of the EU-US trade relationship which structured as an analysis of all theoretically possible options, aims to support any final decision on how to proceed with the bilateral economic relations between the EU and the US (European Commission, 2013).

In general, the studies outline different policy options for the future EU- US trade policy. An earlier and an extensive economic study about the potential economic impact of further trade liberalization of 'Non-Tariff Measures in EU-US Trade and Investment' presented by **ECORYS (2009)**.The goal of the study was to shed light on the existence of non-tariff measures (NTMs) and regulatory divergence at the sector level, the magnitude of this divergence and the potential economic impact of a reduction or harmonization of these measures. ECORYS used a variety of methods to produce quantitative estimates of NTMs: literature reviews, business surveys, econometric analyses, extensive consultations with regulators and businesses, and inputs by sector experts. The essential of the research was the business survey which generated 5,500 responses from US and EU firms in 23 different sectors, with a response rate in some sectors representing over 60 percent of turnover of that sector. By construction, the survey yielded estimates of overall levels of restrictiveness (NTM indexes) that have been cross checked against OECD (2007) restrictiveness indicators (OECD, 2009) and against the Product Market Regulation (PMR) indexes (OECD, Indicators of Product Market Regulation Homepage, 2014). For the service sectors, a combination of OECD restrictiveness indicators and survey results has been used.

Tariff and Non-tariff Barriers: *Trade barriers are measures that restrict the exchange of goods and services among countries. Tariff barriers mostly composed of tariffs on importing products from out of the country. Non-tariff trade barriers limit the importation of goods and services from out of the country other than tariffs. For example, quality standards, shipping and labeling requirements, technical or legal requirements for imported products, and import restrictions ranging from import quotas to bans on imports. Non-tariff trade barriers also contain subsidies of a country's own exports via tax advantages or financial assistance.*

Source: Gabriel Felbermayr, Benedikt Heid, and Sybille Lehwald, "Transatlantic Trade and Investment Partnership (TTIP): Who benefits from a free trade deal?" (Bertelsmann Stiftung, 2013)

The ECORYS (2009) study comprised two scenarios. In an ambitious scenario, it considered what might happen if about 50% of NTMs and regulatory divergences were dismantled. A more limited scenario –and more realistic- examined the likely effects of a 25% elimination of all NTMs and regulatory divergence. The results indicate that, under the ambitious scenario, by 2018, GDP of EU and US will respectively increase by 0.7 % and 0.3 % per year which is an annual gain of € 121.5 billion and € 40.8 billion in 2008 prices. Under the limited scenario, the annual gain will be € 53.6 and € 18.3 billion for the parts (ECORYS, 2009). (See Table 5)

Table 5

Summary of macroeconomic changes following NTM reduction and regulatory convergence

	Ambitious Scenario (Full Liberalization) – Long Run	Limited Scenario (Partial Liberalization) – Long Run
Real income, billion €		
United States	40.8	18.3
European Union	121.5	53.6
Real income, % change		
United States	0.28	0.13
European Union	0.72	0.32
Real household income, % change		
United States	0.31	0.14
European Union	0.79	0.35
Real wages % change, unskilled workers		
United States	0.35	0.16
European Union	0.82	0.36
Real wages % change, skilled workers		
United States	0.38	0.17
European Union	0.78	0.34
Value of Exports, % change		
United States	6.06	2.68
European Union	2.07	0.91
Value of Imports % change		
United States	3.93	1.74
European Union	2.00	0.88

Source: ECORYS (2009)

Yet, the ECORYS 2009 study did not take into account the possible international *spillover effects* of bilateral trade liberalization or other aspects like social and environmental issues, and did not analyze the impact of tariff elimination. In 2013, DG Trade commissioned an additional study from the Center for Economic Policy Research (hereafter **CEPR 2013**) to complement and update the ECORYS 2009 study. The report is based on new data of GTAP 8 and Eurostat, and provides an updated and more accurate set of estimates. The new study provides new computable general equilibrium (CGE) based estimates for the removing both NTBs[10] and tariffs affecting transatlantic trade flows. Estimates are provided with regards to expected changes in GDP, sector output, aggregate and bilateral trade flows, wages, and labour displacement, among other issues. Besides, the analysis have been widened by presenting an assessments of the effect of reducing barriers to foreign direct investment (FDI) on the activity of multi-national enterprises (MNEs) across the transatlantic marketplace. Both the CGE and investment assessments build on the survey and econometric work of the Ecorys study. The estimates are provided considering expected changes in GDP, sector output, aggregate and bilateral trade flows, wages, and labour displacement, among other issues.

In the CEPR 2013 study, two main scenarios - differ in terms of the level of ambition- are taken into consideration (see Table 6). The CGE modelling provides results of simulations of the price, income and substitution effects in market equilibrium under different assumptions in the policy. The analyses make us able to comment on the effects of a ‘tariffs, services or public procurement only’ option, and a ‘comprehensive agreement’ option against a ‘baseline option’ (with no policy change). The assessment also includes the impact of partial alignment of global rules and standards with a new set of EU-US standards and cross-recognition agreements.

[10] On the basis of estimates in Ecorys (2009)

Table 6

The Scenarios Summary of CEPR 2013 study

<table>
<tr><td colspan="2">Narrow (Limited) FTA Scenarios</td></tr>
<tr><td>Tariffs only</td><td>98% of tariffs eliminated</td></tr>
<tr><td>Services only</td><td>10% of services NTBs eliminated</td></tr>
<tr><td>Procurement only</td><td>25% of procurement NTBs eliminated</td></tr>
<tr><td colspan="2">Comprehensive Scenarios</td></tr>
<tr><td rowspan="3">Less Ambitious</td><td>98% of tariffs eliminated</td></tr>
<tr><td>10% of NTBs eliminated on both goods and services (20% of actionable)</td></tr>
<tr><td>25% of procurement NTBs eliminated</td></tr>
<tr><td rowspan="3">Ambitious</td><td>100% of tariffs eliminated</td></tr>
<tr><td>25% of NTBs eliminated on both goods and services (50% of actionable)</td></tr>
<tr><td>50% of procurement NTBs eliminated</td></tr>
</table>

Source: CEPR (2013)

The CEPR 2013 study also includes the analysis of social effects expressing estimates for the expected changes on wages for skilled and unskilled labour. The analysis is enhanced by an analysis of for both skilled and unskilled labour reallocation across sectors due to potential trade agreements. Concerning environmental issues, the study demonstrates estimates on the impact of CO2 emissions in the US, the EU and in the rest of the world along with estimation of the intensity of natural resources use.

The results show positive and significant gains for the both sides. Under the less ambitious and the ambitious FTA scenarios, GDP is estimated to increase by 68 and 119 billion euros for EU and 50 and 95 billion euros for the US, respectively. This translates to an extra in disposable income gains €545 annually for a family of 4 in the EU, and €655 in the US.

Income gains are a consequence of increased trade. EU exports to the US would rise up to 28 per cent, same as an additional 187 billion euros worth of exports of

EU goods and services. In general, total exports would increase 6% in the EU and 8% in the US. Table 7 summarizes the macro-economic effect of the agreement for different scenarios.

Table 7

Summary of Macroeconomic Effect

	Limited agreement: tariffs only	**Limited agreement: services only**	**Limited agreement: procurement only**	**Comprehensive agreement: less ambitious**	**Comprehensive agreement: ambitious**
Change in GDP					
EU, million euros	23,753	5,298	6,367	68,274	119,212
US, million euros	9,447	7,356	1,875	49,543	94,904
Bilateral exports f.o.b.[11]					
EU to US, million euros	43,840	4,591	6,997	107,811	186,965
US to EU, million euros	53,777	2,859	3,411	100,909	159,098
Total exports f.o.b.					
Extra-EU, million euros[12]	44,338	5,742	7,881	125,232	219,970
US, million euros	57,330	5,488	5,942	142,071	239,543

Source: CEPR 2013 study

The estimated gains would be significantly lower under a FTA that is limited to tariff liberalization only, or services or procurement liberalization only. For instance, an FTA limited to tariff liberalization would cause 23.7 billion euros increase in GDP for the EU and a 9.4 billion euros increase for the US. The study also takes into account

[11] The f.o.b. price (free on board price) of exports and imports of goods is the market value of the goods at the point of uniform valuation, (the customs frontier of the economy from which they are exported). It is equal to the c.i.f. price less the costs of transportation and insurance charges, between the customs frontier of the exporting (importing) country and that of the importing (exporting) country. (see: The OECD glossary of statistical terms)

[12] EU’s total external trade; non-European firms operating in the EU

potential benefits from abolishment of NTB on FDI. The general point of the study is that it is more beneficial for both economies to negotiate an agreement that would be of a comprehensive nature.

One more essential point of the results is that focusing efforts on reducing NTBs is crucial to the logic of transatlantic trade liberalization. Cutting costs imposed by bureaucracy and regulations, along with from liberalizing trade in services and public procurement would constitute 80% of the total gains.

Divergent procedures to the same regulatory challenges can subject the firms to cost increase, and so depress labor productivity. Negotiation on NTBs is an opportunity to maintain a combination of cross-recognition and regulatory convergence to decrease these barriers. Compared to reduction in NTBs, limiting the scenario to 'tariffs alone' would lead to still positive, but much more limited effects.

Regarding to labor market impacts, the EU and US labour markets will be beneficial, both in terms of overall wages and new job opportunities for high and low skilled workers due to the increased level of economic activity and production gains created by the transatlantic agreement. A relatively small number of people, roughly 0.2% to 0.5% of the EU labour force, would have to change jobs and allocate across sectors.

Moreover, the study claims that liberalizing trade between Atlantic would have a positive impact on worldwide trade and incomes, increasing global income by almost €100 billion. The EU and US, as the big economic forces in the world, can work mutually to better develop establishment and recognition in standards, reduce regulatory divergence, and otherwise reduce the impact on rules and regulations on the cost of business, which has potential to improvement of market access for third countries and helping to offset trade diversion.

On the topic of environmental issues, elimination of NTBs involves with improved productivity, in other words, less primary inputs are required for current activity. The results show negligible effects on the rate of CO_2 emissions and utilization of natural resources.

Another study was produced by Institute for Research on the International Economy (The Centre d'Etudes Prospectives et d'Informations Internationales) in 2013 (henceforth **CEPII 2013**). The authors used MIRAGE, a multi-sector, multi country Computable General Equilibrium (CGE) model of the world economy developed by CEPII, to carry out research of tariff provisions but also of the obstacles to trade in services and Non-Tariff Measures (NTMs).[13]In the study, 34 sectors (primary and energy-5, agriculture-6, manufacturing-11, and services-12)[14] and 13 geographical areas (the US, 6 sub-areas within the EU, and 6 in the rest of the world)[15] are considered. The scenarios considered in the study include progressive but full phasing out of tariff protection between the partners starting in 2015. The reference scenario foresees the elimination of all custom duties, and removal of NTBs for both the product and services sectors with the exception of public and audiovisual services.

The authors' calculations suggest that trade in goods and services between the Parties would increase by half and TTIP would boost US exports performance more significantly than that of the EU; 52.5% and 49% respectively.

In agriculture, eliminating tariff and NTBs is estimated to increase bilateral trade between the EU and the US by average of 150% or more in both directions. The biggest increases are observed for dairy products and to a lesser extent fiber crops and meat products. Due to the initial differences in trade flows and protection levels, absolute US gains in agriculture are 2.5 times larger than European gains. The most modest increase in trade takes place in services sector (14% in the US and 24% in the EU). The EU gains much more comparing to US gains, mainly because EU can expect important trade benefits in the insurance services. The study also indicates that, the EU and the US would have similar GDP gains (+0.3%), where US would gains mostly in agriculture and EU gains in the industrial and services sector.

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[13] For more information about MIRAGE, See http://www.mirage-model.eu/miragewiki/index.php?title=Accueil

[14] Cereals, Vegetables, Fruit and Oil, Sugar, Fiber crops, Meat, Dairy in 'agriculture'; Other Primary products, Coal, Oil, Gas, Electricity in 'primary and energy', Food products, Beverages and Tobacco, Textile, Wood and Paper, Coal products, Chemicals, Other manufactured products, Metals, Transport equipment, Electronic material, Machinery in 'industry', and finally Construction, Trade, Other Transport, Sea Transport, Air Transport, Communication, Finance, Insurance, Business, Recreational services, Public Services and Other services in 'services'.

[15] Canada, Mexico, China, Japan and Russia are singled out in the model although the authors do not report the corresponding results due to lack of space. For the EU, analysis covers France, Germany, the UK and the Eastern European countries (the 2004 and subsequent enlargement countries; which are treated as a single entity).

The study also puts forward alternative scenarios with less ambitious options. The authors' findings show that GDP gains would then be rather limited (if not negligible), and that the export performance of the EU would generally positive, but more gains by that of the US.

The first scenario, '*tariffs only*', considers only tariff liberalization. The second scenario, '*targeted NTM cuts*', assumes that liberalization will be progressive, that is to say, more stringent for those NTMs that initially are more restrictive and therefore target the most protected sectors. The authors assumed for agriculture, industry and services separately that ad valorem equivalent (AVE) tariff protection provided by the NTMs will be by 30% for the upper half sectors (i.e. the sectors with initial protection beyond the median sector level)[16], and by 15% for the lower half.

Table 8

Changes in exports and real income in alternative scenarios

(Volume, % change in the long run)

Exports					
	Reference	Alternative Scenarios			
		1	2	3	4
		Tariffs Only	Targeted NTM cuts	Harmonization spillovers	*Ecorys* NTMs
USA	10.1	2.1	10.4	14.5	5.4
EU27	2.3	0.4	1.9	3.4	1.3
Germany	2.1	0.3	1.7	3.0	1.2
UK	4.2	0.6	3.6	5.5	2.4
France	2.6	0.5	2.2	3.8	1.5
Enlargement	1.3	0.3	0.8	2.5	0.7
Real Income					
USA	0.3	0.0	0.3	0.5	0.2

[16] The median NTM AVE protection defined by large sectors: in agriculture 48% for the EU and 50% for the US; in manufacturing 64% and 31%, respectively, and in services 31% and 43%.

EU27	0.3	0.0	0.2	0.5	0.1
Germany	0.3	-0.0	0.3	0.5	0.2
UK	0.3	0.0	0.2	0.4	0.1
France	0.2	0.0	0.2	0.4	0.1
Enlargement	0.2	0.0	0.1	0.5	0.1

***Note:** volume, percentage deviation from baseline in 2025.
Source: CEPII 2013

A transatlantic agreement may also yield both sides' NTMs less restrictive for third country exporters: the better compatibility among standards and norms on signing partners might make it less costly to cope with the requirements of both markets, and third countries might adopt the standards and norms conformed by the EU and the US, which would increase international compatibility beyond the signing partners. The third scenario, *harmonization spillovers*[17], takes into account these effects, where the trade restrictiveness of NTMs with respect to third country exporters is assumed to be cut by 5%. The forth scenario, *Ecorys NTMs*, employs the same liberalization assumptions like reference scenario but relies on alternative assessment of the trade restrictiveness of NTMs. According to the *reference* scenario AVE protection in agriculture is 48% in the EU and 51% in the US, with comparable but lower levels for manufactured products (43% in the EU, 32% in the US. For services, the trade restrictiveness of NTMs in broad terms is equivalent to 32% protection in the EU, and 47% in the US. *Ecorys NTMs* scenario points to higher levels for agriculture (56.8% in the EU, 73.3% in the US) and lower levels for in manufacturing (19.3% in the EU, 23.4 in the US), and significantly lower for services (8.5% in the EU, 8.9% in the US).

The study's conclusions are positive, declaring that the TTIP's 'impact would go well beyond what is possible to include in this modelling framework, and the main

[17] It might be less costly to deal with the requirements of the EU and the US when there is greater compatibility between the standards and norms on both economies, and when the standards and norms agreed upon by both countries might be adopted by 3rd countries, which may increase international compatibility beyond the TTIP's signing parties. These effects are taking into account in this scenario.

expected benefits might result from regulatory convergence[18] and from the enhancement of signatories' normative influence[19]'.

Another economic estimate was made by **Erixon and Bauer (2010)** to examine the potential gains from a transatlantic zero-tariff agreement on trade in goods. Computable general equilibrium model applied in the study. The results show that, the GDP increase from a tariff-only agreement (static effects) for the EU would be 0.01 per cent and 0.15 per cent for the US. Dynamic gains (i.e. long term effects) -accounting for improved productivity and reduced trade facilitation costs- are projected to be 0.32-0.47 percent for the EU (or $46 to $69billion) and 0.99-1.33 percent for the US (or $135 to $181billion). The study also estimated significant trade benefit for the both sides. In aggregate, it is estimated that total EU exports to the US could increase by 18 per cent, while U.S. exports to the EU could rise by up to 17 percent. According to the authors, these potential gains are higher than in most other preferential trade deals signed by the EU and the US, or agreements currently being negotiated.

2.2. ECONOMIC IMPACTS ON THE REST OF THE WORLD

The proposed Transatlantic Trade and Investment Partnership (TTIP) will have an effect not only on trade and welfare in its negotiating partners, but also may well impact third countries substantially. Thus, it is worthy to also look at the possible effects on the rest of the world.

This section will try to express economic effects of the TTIP on third countries. One of the concerns related to the Transatlantic Agreement is *trade diversion*. The participants of the deal improve their bilateral trade by reductions in the trade barriers with the consequence of remaining trade limitations with other countries out of the deal become differently higher. A portion of the additional bilateral trade is because of substitution of trade flows detrimental to third countries.

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[18] Regulatory convergence is a concept adopting a series of tools to reduce unnecessary regulatory incompatibilities (Malmström, 2015). For regulatory cooperation the OECD definition states as; 'international regulatory cooperation is defined as any agreement, formal or informal, between countries (at the bilateral, regional or multilateral level) to promote some form of cooperation in the design, monitoring, enforcement, or ex-post management of regulation, with a view to support the converging and consistency of rules across borders'.

[19] Normative influence is conformity based on one's desire to fulfill others' expectations and gain acceptance. (Myers, 2009)

CEPII (2013) argues that, the related trade diversion does not contribute to global efficiency if third country exporters would have been more competitive than exporters inside the FTA were there no trade barrier differentials. The importing country shifts from the lowest-price supplier to a higher-price provider, causing efficiency losses and hurting non-participating economies. The study shows a small amount of trade diversion generated by a TTIP. Overall, US imports from the Rest of the World (RoW) declined by 2.5%, with most of this trade diversion in manufacturing. The analysis points that Mexico, Canada, China and Japan lose export shares in the US industrial market, in machinery and transport equipment and in chemicals. In general, the study displays no trade diversion in the EU, as the limited trade diversion in agriculture (US exports to the EU replacing former imports from third countries) is more than compensated for by trade creation with third countries. It is believed that, this effect is a result of the existence of global value chains. Via exporting more to the US, European producers correspondingly import more from the US and from the third countries, therefore increasing service imports from third countries. Besides, a large share of EU and US imports from RoW already benefit from preferential treatment as a result of free trade agreements or non-reciprocal trade preferences. This makes it less plausible for EU to shift a higher-price supplier. Still the increased competition worries keep on for RoW, but this lowers the probability of significant efficiency loses for the signing parties.

A comprehensive investigation implemented by Germany's **Bertelsmann** Foundation in 2013 to assess the economic effects of a free trade agreement between the 27 EU member countries and the US. The research seeks to assign what the effects will be on international trade flows, the real gross domestic product (i.e. quantities of goods and services produced), and labor markets. In addition to the countries that would be signing the agreement, the study also take into account 126 countries in all. This approach allow for the fact that a transatlantic agreement will also have third–country effects. A computable general equilibrium model developed by the ifo Institute is used to calculate the effects of dismantlement of tariff and/or non-tariff trade barriers. The methodology applied in this research is different than other studies. The authors argued that 'in CGE studies, trade costs are typically not estimated consistently from model to model. Other modelling differences consist in the country breakdown and the treatment of unemployment'. The study adopted a structural method based on bilateral trade costs, as calculated in 2007 (before the 2007 crisis) between 15750 country pairs. Calculations of trade costs take both tariff and NTBs into consideration, the latter divided into 'trade policy barriers' (e.g. export-import licenses), 'other policy barriers' (environment or health standards) and 'natural barrier' (e.g. geographic distance, lack of a common language).

The study provides two essential scenarios. The first scenario (tariff scenario) looks for the economic consequences of elimination of all tariff-type trade barriers between the EU and the US. The second scenario (liberalization scenario) considers abolishment of both tariffs and non-tariff trade barriers between the parties to the agreement. The two scenarios are compared with a case of non-existence of transatlantic free trade agreement.

Concerning real gross domestic product per capita, the results shows an increase in the US and in all 27 EU member countries. However since the study contains many other countries, we are able to see some level of trade diversion effects. In the tariff scenario, EU exports to Morocco, Tunisia, Algeria, Egypt, Russia and Belarus would increase, while imports from these countries would decrease. The trade diversion effects are more dominant in comprehensive liberalization scenario; EU exports to and imports from the Maghreb countries[20] or Eastern Europe would decline. TTIP leads to trade diversion effects within the NAFTA between USA, Mexico and Canada. In the comprehensive liberalization scenario, both two-way trade decline for NAFTA partner countries within the region. Mexico's imports from US decline by 15.99%, while US imports from Mexico dropped by 16.04%. Canada's imports from USA decline by 9.32%, and USA's imports from Canada reduced by 9.32%. In this case, Canada's and Mexico's market will become more attractive for one another and their trade between each other is gradually increasing. TTIP also generates a substantial decrease in bilateral trade of US with Brazil, Russia, India, China, and South Africa

[20] Tunisia, Algeria, Morocco, Libya, and Mauritania.

(BRICS). Overall US Exports to those countries (BRICS) would decline 31.78%, imports from them would decline 32.69%.

The study also checked for the effects of eliminating the transatlantic barriers on real per capita income. In the tariff scenario, the change in real per capita income ranges between 0.03% (Luxemburg) and 0.58% (Lithuania), with an average at EU level of 0.27%.

In the deep liberalization, the gains are on average some 23 times higher than in the tariff scenario. Countries that currently have a lower per capita income (like Romania) gain more than those that have higher incomes (like Luxemburg). France, Czech Republic and Austria would gain only a limited advantage as a result of their proportionally smaller exports to the US.

For the US, real per capita income rises by 0.8% in tariff scenario. Even only tariff scenario, the winners from eliminating tariffs are essentially limited to USA and EU member states. The study determines that the TTIP would not greatly magnify the income gap within the Europe. In the tariff scenario, the agreement is projected to lead to greater convergence – the poorer often peripheral countries benefit more than the richer, central ones. But the expected gains remain still very limited for all member states. In the liberalization scenario, the expected welfare gains are more substantial, although less equally distributed across the EU.

The Bertelsmann study also forecast the impact of the TTIP on per capita income for third countries. In tariff scenario, a dramatic trade diversion phenomenon is expected for all countries with substantial trade flows with the EU or the US –i.e. all countries except Brazil, Kazakhstan and Indonesia, which are important suppliers of raw materials to Europe and the USA. Brazil is developing a robust internal demand in relatively protected and stronger financial ties with other BRICS, Kazakhstan exports mainly energy goods with a rigid demand, which will not be affected by TTIP and Indonesia may divert to China and Korea EU and US exports (Bendini & De Micco, 2014).

While the US and the EU are taking advantage of a transatlantic free trade agreement, most other countries may suffer from trade diversion effects. The extent of trade diversion would rely on preference erosion: the extent to which the country loses its previous trade preferences with the US or the EU – generally either PTAs or autonomous measures (Generalized System of Preferences +). Most-favoured nation (MFN) countries would face the same fate, since strengthened trade relationship between the US and the EU would likely result in their crowding out exports from 3rd countries. The US and European products will become more competitive in each other's markets.

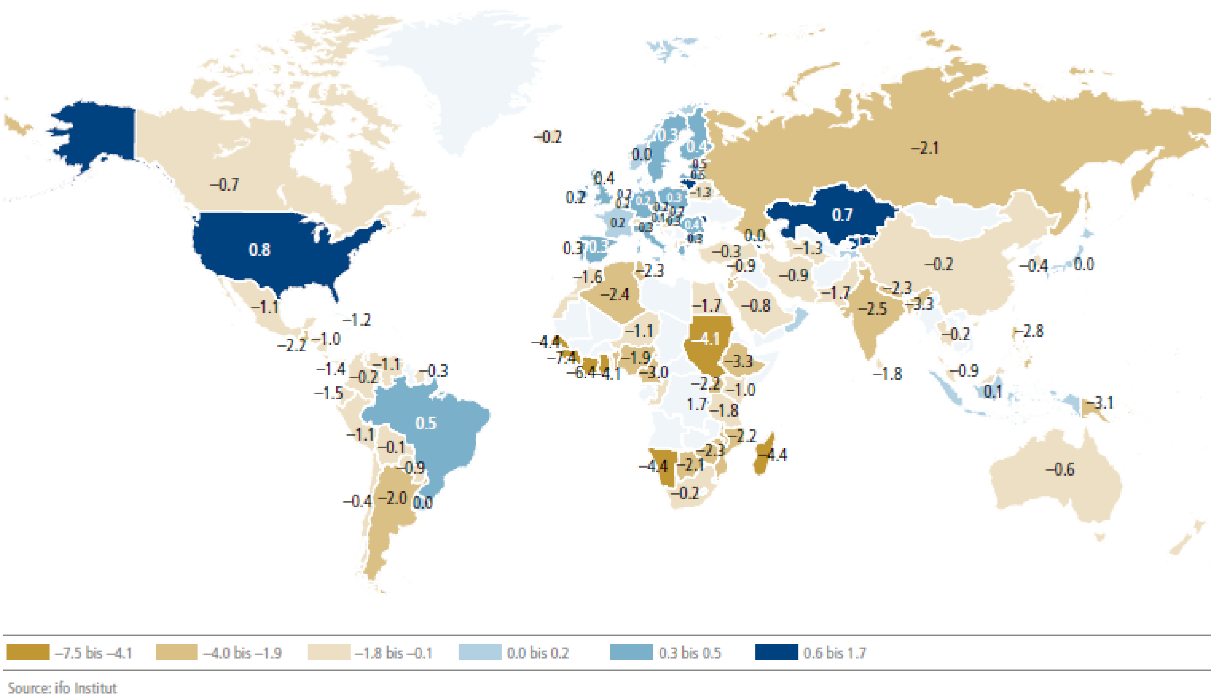

Figure 8 Change in real per capita income – if the TTIP were only to eliminate tariffs
Source: Ifo Instute, 2013.

Figure 8 illustrates the potential global effects of a TTIP under tariff only scenario. Nearly all third countries are expected to experience a reduction of per capita income, although the main losers would be developing countries. In particular, because of their geographical location, North and West African countries are in more trouble (especially Ivory Coast and Guinea); they have traditionally trade intensively with Europe (mainly France and Belgium) and would have a difficult stage finding alternative markets for their export products.

A more ambitious TTIP will focus on Non-Tariff Barriers and standardization; the deep liberalization scenario. In this case, trade creation effects are stronger for the EU and the US; however the trade diversion effects on third countries would be more intense. The most affected countries in such a scenario would be the US's and the EU's main industrial partners: Canada, Mexico, Japan, Australia, Norway, Chile and the Central American countries. Mexico and Canada have concerns due to their free trade agreement with the US (called NAFTA), which will lose value as a consequence of TTIP. Diminishing exports would cause long-term real per capita income drop by 7.2 percent in Mexico and 9.5 percent in Canada. In Japan long-term real per capita income would decline by almost six percent, likewise Turkey by 2.5 percent. Loses in real income could also arise in European countries that do not belong to the EU.

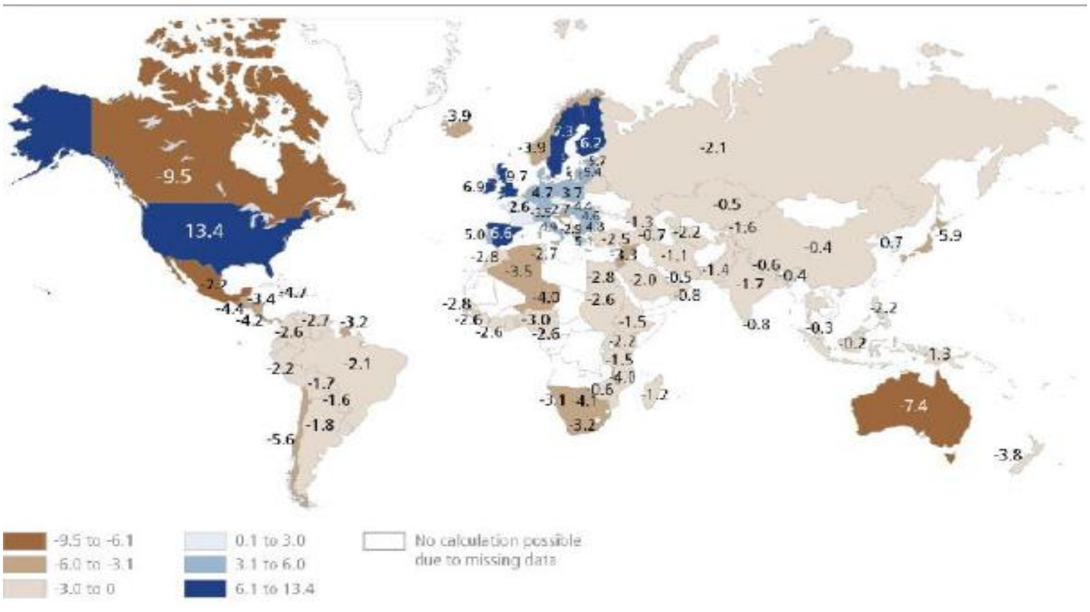

Figure 9 Change in real per capita income- if the TTIP were to achieve deep liberalization

Source: Ifo Instute

Actually, the main trade partners of the EU and US would willing to adapt their standards to the new EU/US ones, either by improving existing agreements with the EU or the USA or by participating to the TTIP. This effort to harmonize technical standards could, reinvigorate the WTO fora for discussing NTBs, the TBT and the SPS committees.

The study also demonstrates the impact of increased foreign trade from the TTIP on labor markets. The results show that the net impact on EU's welfare would be positive, with significant differences between Member States. It is expected that TTIP will create 2 million jobs, equally divided among the negotiating Parties. Job creation in the EU Member States is as follows: the higher the unemployment rate in the EU member country, the greater the reduction of the unemployment rate from tariff reduction. For instance tariff elimination would lower the unemployment rate in Spain by 0.16 percentage points, in Greece by 0.17 and in Belgium by 0.02 percentage points. For third countries, the situation is not joyous. The TTIP would increase unemployment rate in Canada by 0.15 percentage points, in Australia by 0.11 and in Turkey by 0.10 percentage points. Under the deep liberalization scenario the numbers are totally changing. In this case, for the sake of comparison, the agreement would lower the unemployment rate in Spain by 0.62, in Greece by 0.68 and in Belgium by 0.08 percentage points; however in Canada it would increase by 0.56, in Australia by 0.44 and in Turkey by 0.38 percentage points. A comprehensive agreement will create about 181,000 new jobs in Germany, and more than a million in the USA. However the countries that are outside the agreement would face employment lost. It is expected that the agreement would cause 102,000 job losses in Canada, 95,000 in Turkey and 72,000 in Japan.

The Bertelsmann study conducted by the **Ifo (Information und Forschung (research)) Institute for Economic Research**, commissioned by the German Federal Ministry of Economics and Technology, focuses on Germany. It also provides interesting findings that apply to all EU member states and third countries.

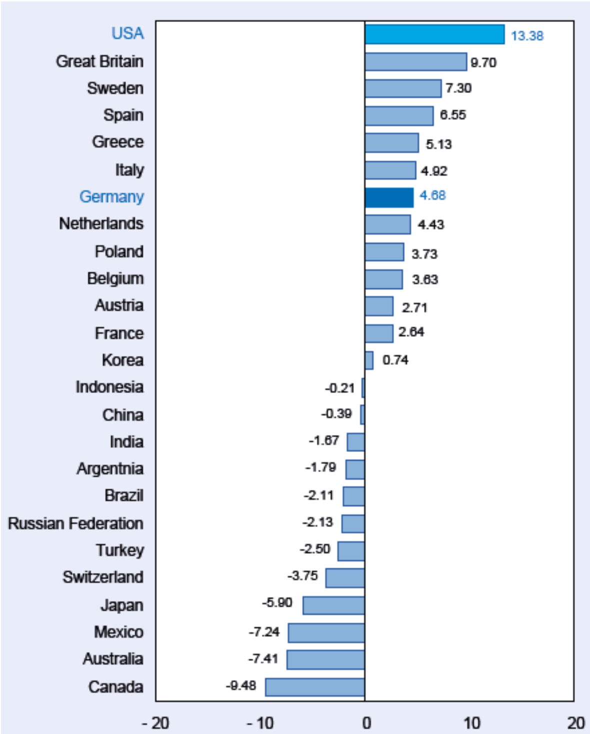

Figure 10 Welfare effects of a comprehensive Free Trade Agreement

Source: Felbermayrl, G. And Larch, M. (2013)

Figure 11 below shows the welfare effects of the tariff elimination scenario. In the long run, welfare increases by 0.75% in the USA, 0.37% in the UK and 0.31% in Spain. On the other hand, Turkey faces welfare loss by 0.27%, Australia by 0.62%, Mexico by 1.06%, Russia by 2.14% and India by 2.48%. The global average long-run increase is 0.09%. As mentioned before, those countries, with which the US and the EU already have FTAs, register losses.

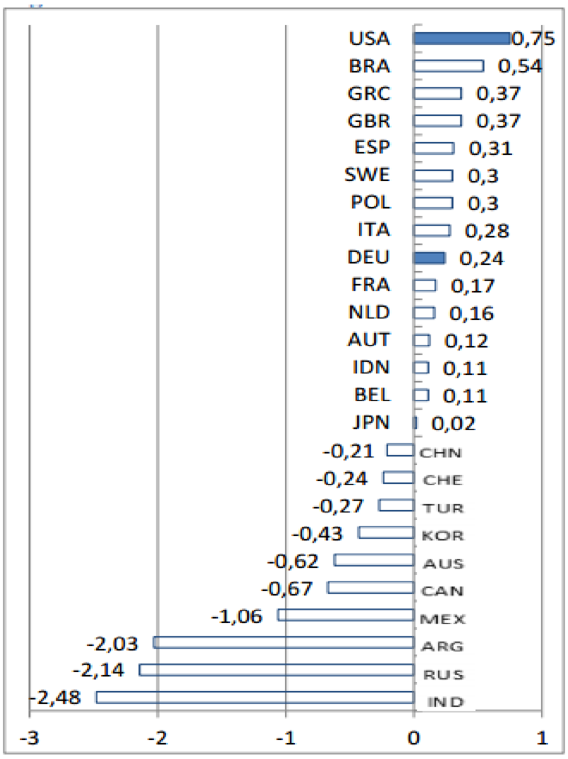

Figure 11 Welfare effects of tariff elimination
Source: Felbermayrl, G. And Larch, M. (2013)

Another report, published by the Center for the Analysis of Regional Integration of the University of Sussex (**CARIS**) (Rollo, et al., 2013), evaluates potential effects of the TTIP on the trade in goods of 43 low income countries (LIC) using three different approaches, i.e. an analysis of trade performance, a partial equilibrium modelling and a qualitative assessment to evaluate the impact of regulatory integration based on SPS measures and TBT. The results indicate that, Bangladesh, Pakistan and Cambodia are likely at risk due to the tariff elimination between the US and the EU, which are the largest LIC trades and specialize in textiles, clothing and footwear, which dominate their top 20 exports to the EU and US. However, the EU and US show no indication of being competitive suppliers of these products in one another's markets.

Other, small LIC exporters evaluated in this analysis[21] tend to specialize in raw materials and agricultural products governed by SPS rules. These countries are

[21] Ghana, Kenya, Nigeria, Burkina Faso, Burundi, DR Congo, Malawi, Nigeria, Occupied Palestine Territories, Rwanda, Sierra Leone, Togo, and Uganda.

potentially to be affected by more restrictive SPS standards that might be agreed in the TTIP framework. On TBT the main issues would be true for textiles and clothing exporters if the TTIP standards modify requirements for labelling rules and regulatory treatment for textiles' chemicals.

According to CARIS, the policy options open to LIC and developing countries are quite limited. They include ex ante requests for compensation of any perceived losses. For example, Bangladesh, Pakistan and Cambodia do not currently receive preferences for most of the products they export to the US. The US could give them grant preferences to offset the increased competition they would face from the EU firms. Also, LIC may participate in any mutual recognition agreements (MRA) between the EU and the US, and try to comply with any new standards fixed within TTIP.

Studies show that TTIP has definitely considerable impacts on third countries. *Increased market access* objective of the TTIP renders discrimination against outsiders since the EU and the US mutually grant each other by enjoying preferential access to the each other's markets. On the other hand, *regulatory cooperation* objective of the Agreement may yield to reduction of the trade costs by all countries through enforcing TTIP standards. However, this may bring compliance costs to the exporters and also the standards defined by rich industrialized countries may not be suitable for poorer countries. Thus, for outsiders TTIP will undoubtedly be discriminatory for some aspects; however it may be helpful to all countries for some other aspects depending on the details of the agreement. Surely, more inclusive agreement is more beneficial for every country in the world (Aichele & Felbermayr, 2015).

2.3. OTHER COUNTRY-SPECIFIC EFFECTS

Based on an initiative from the Swedish Ministry of Foreign Affairs, the National Board of Trade has conducted a study of the economic implications of a potential FTA between the EU and the US from the viewpoint of **Sweden** (Kinnman & Hagberg, 2012).

In the study two different FTA scenarios are modeled, and both of them include complete removal of bilateral import tariffs. The reduction of NTBs between the

EU and the US differ between the scenarios with one being more comprehensive (50% reduction) and the other is more limited (25% reduction). The results of the limited scenario indicate that trade with the US from Sweden as well as the rest of the EU countries would increase substantially. According to the results, the Swedish exports to the US would increase 17% and imports would increase 15%. The EU would see a 20% increase in both directions. In the more comprehensive scenario these increases are approximately doubled. Also, the results indicate in the more ambitious scenario, Swedish national GDP increases by 0.18%. This number somewhat lower than the EU (0.24%) and lower than the effect for the US (0.51%). For the rest of the world, national income decreases by 0.15%.

For Sweden, ‘food and beverages’, ‘insurance’, ‘motor vehicles’ and ‘metals’ sectors are the largest relative increases in total exports. The largest gains from liberalization for Sweden derive from liberalization in the business services sector and account from nearly a third of the gains. The study projects that, the largest gains are due to reduction of NTMs in terms of harmonization and simplifications of rules and regulations. The largest effect comes from non-discriminating regulations that increase costs for firms trading across borders.

Another significant study commissioned by the Dutch Ministry of Economic Affairs, Agriculture and Innovation from **ECORYS (2012)** analyzed the potential impact of a trade deal with the US from the perspective of the Netherlands (NL). The results yield positive results in terms of welfare in the EU, US and NL. The yearly change in national income in the NL is projected to be €1.38 billion, compared to almost €35 billion for the rest of the EU and €24 billion for the US in the long run. Owing to a modelled FTA, both import and export in value terms of the EU, the US and NL will increase. Dutch, EU and US wage effects are slightly positive for unskilled and for skilled workers. An examination of the study’s methodology exhibits that, 60% of the total trade liberalization gains for the NL derive from the reduction of NTMs modelled. For the EU and US these percentages are 50% and 52%, respectively. This indicates that NTM reduction is relatively more important for the NL than for the EU as a whole, where tariff reductions have relatively more impact.

A report commissioned by the UK's Department for Business, Innovation and Skills (BIS) prepared by **CEPR**, and was published in March 2013 (Centre for Economic Policy Research (CEPR), 2013). The study shows that, the TTIP is expected to increase UK's national income of between 0.14% and 0.35% of GDP levels. Four main scenarios are envisaged in the study: 98% and 100% tariff elimination or various reductions in NTBs. Under all scenarios, the results show positive and significant gains for the UK, where national income and GDP are estimated to increase by between £4 and £10 billion annually, depending on the extent to which NTBs are reduced.

The main massage is that, for the sake of UK's gains, NTBs are critical. The gains that the rest of the EU would see as a result of removing tariffs would be much higher than in the UK, due to the UK's lower initial barriers. Concerning sector benefits, when the NTBs are reduced, the motor vehicle and financial services sectors stand out in terms of output and employment gains. Overall, a more ambitious agreement brings more gains in terms of output, wages, and investment.

Another study was commissioned by the Austrian Federal Ministry of Economy, Family and Youth within the scope of **FIW** (the Research Center International Economics) concludes that, the primary gains for the Austrian economy, are linked to deeper integration with North America. A possible agreement with the United States is likely to benefit the Austrian economy, in terms of wages, employment, and national income (Francois & Pindyuk, 2013).

Most part of the gains owing to reductions in NTMs, especially for goods, rather than tariffs. Productivity gains from NTM reduction mean a combination of increased national income, higher wages, and employment, and increased capital stocks for the Austrian economy. This follows from reductions in resource costs linked to regulatory burdens, differences in product standards, and increased input costs linked to NTMs. Reductions in such trade barriers, with saving in real resources, are reflected to translate into gains in Austrian labor productivity and, consequently, a positive investment and export response.

The study underline that, the primary gains for the Austrian economy are linked to the county's deeper integration with North America as a whole. A possible agreement with the US offers the greatest gains, in terms of wages, employment, and national income. A combined agreement with the US and Canada offers even more, with national income gains of nearly 2% of the GDP. Still, most part of the gains stem not from tariffs, but rather from reductions in NTMs.

Other **study** (Semerák, 2013) was prepared to estimate the effects of TTIP for the Czech Republic. The authors conclude that the economic estimates suggest relatively modest, but positive welfare gains for the Czech Republic. The reasons are attributable to (i) small initial levels of trade with the USA, (ii) concentration of Czech exports on sectors with often relatively low reduction in nominal barriers. Nonetheless overall welfare effects are not negative and; the Czech Republic cannot lose by supporting the TTIP. Authors claim that, if the work on the TTIP leads to further intra-EU liberalization, the resulting effects can be much more optimistic.

Another research mainly focusing on the elimination of tariffs effect by **Aslan, B., Mavus, M. and Oduncu, A. (2014)** analyzes the potential consequences impacts of the TTIP and TPP on Chinese economy. The results show that Chinese economy is negatively affected when TTIP is realized and the decrease in the country's GDP could be up to 0.7%. When both TTIP and TPP are realizes and China is not participating, the drop in the country's FDP could be as great as 2.3%. If China included in the TTIP, the negative effects of the TTIP would be offset, and China expected to experience a 2.5% increase in GDP.

2.4. EFFECTS ON GLOBAL TRADING REGIME AND THE WTO

The proposed transatlantic trade and investment partnership, serving the world's first and second biggest markets, is projected to deepen transatlantic relationship by leading worldwide trade policy and develop a rule based system for global governance. It is expected that, this agreement will also have recognizable influence on international trade system.

Apart from concerns about above stated trade diversion effects, another concern is that the eventual agreement would threaten the functioning of the WTO. Could it impede successful completion of the Doha Round? Baldwin and Seghezza (2010) demonstrated that regional integration efforts are neither a building block nor a stumbling block to the progress of multilateral liberalization (Baldwin & Seghezza, 2010). On the one hand, they diminish incentives for participating countries to make concessions at a multilateral level. On the other hand, they increase the benefits from successful multilateral negotiations for initially uninvolved countries. In particular, emerging economies could be persuaded to make concessions.

The TTIP talks could engage a significant proportion of EU and US negotiating capacity. Both of them are already involved in numerous bilateral and plurilateral negotiations. Currently, the EU has on-going free trade agreement negotiations with Japan, Canada, ASEAN and Mercosur, the US has with TPP countries. According to some researchers, extra transatlantic talks consequently jeopardize to overstretch both executives and could further diminish interest a successful conclusion of the Doha Round (Mildner & Schmucker, 2013). At the same time some of them believe that a deeper bilateral agreement between the U.S. and the EU poses no external threat to the multilateral trading system; instead it helps this system to develop further in a more structured form (Zeneli, 2013; Hills, 2013). Many countries, like Canada, which have ongoing negotiations with either the US or the EU should have a vigorous interest in successfully concluding the deals. Bertelsmann Stiftung (2013) shows that, TTIP leads to an expansion of trade between the EU and Canada. EU exports from Canada would rise 14.53% in deep liberalization, where Canada's exports from the EU would increase 10.07%. Countries that are already associated by agreements to either the EU or the US would have a motivation to form a bilateral agreement with the partner with whom they do not yet have an arrangement. Therefore, a comprehensive bilateral agreement between the EU and the US poses no existential threat to the multilateral trading system[22].

[22] Felbermayr and March (2013)

On the other hand, aforementioned trade diversion effects may be offset by *spillover benefits* –positive externalities-. In relation to that, there are two sets of possible effects. The first one is *direct spillovers,* which emerges from enhanced regulatory conditions due to regulatory convergence between TTIP signatories. Accordingly, the third countries will take advantage serene market access conditions in US and EU markets (Akman, 2015). The second one is *indirect spillovers*, which becomes fact when outsiders adopt common TTIP standards (CEPR, 2013). However according to Felbermayr et al. (2014), such spill-over effects are not questionable because of following reasons; 1) there is no supportive evidence about indirect spillovers. 2) TTIP is concentrate on market access in services, public procurement, investment… areas; which makes regulatory convergence remote possibility. 3) TTIP will most likely turn out in mutual recognition of standards, and there is no guarantee that third country products would automatically admitted by the EU or the US regulators.

Also, this huge agreement carries another risk for the system: the rest of the developing and emerging countries could take in the progress as a means to pressure them into implementing 'new trade rules' molded in their absence. Due to the size of the participating countries, in addition to developing a comprehensive 'new rule book', a substantial upgrading of existing rules is expected as well. In other words, the major gain for the signing parts is expected to be in the 'rule-making' capacity of the deal (Aran, 2013). The *game changer* role will provide the EU and the US to set the rules and standards; however the third countries will somehow obligate to follow the rules set by TTIP members. Because these rules will be established in a mega regional deal instead of multilateral system where third parties can participate and negotiate. Therefore, TTIP will have a decisive impact on the multilateral system.

How will third parties react? They may perform a *proactive approach* to tackle the Agreement's results through starting trade disputes under WTO. But one should remember that dispute settlement is the central pillar of the multilateral trading system (WTO, 2015) and these developments may cause dysfunctional WTO dispute settlement mechanism since it becomes engrossed with many cases. Another possible response for outsiders could be to attempt to *dock* into TTIP either under special status or by developing accession mechanisms (Akman, 2015). The details of the TTIP arrangements will expose its effects on third countries and their reactions against these progresses.

During these global trade developments, WTO should also reconsider its mission as it is ‘the only global international organization dealing with the rules of trade between nations’ (WTO, 2015). It should give more attention to managing preferential trade agreements effectively in order for them to be more unfriendly for those stands outside of the arrangements (Low, 2015).

2.5 REMARKS ABOUT EMPIRICAL STUDIES

In this chapter, some of the studies’ results are assessed in order to show the effects of the transatlantic trade agreement. Next, more will be discussed on some issues regarding those findings.

The general message is definite in the influential empirical studies on the TTIP: TTIP is beneficial for both the EU and the US. The studies report positive effects on GDP, trade flows and unemployment rates for both sides. But these gains are big enough? Even in ambitious scenario ECORYS shows, TTIP could boost EU GDP only by 0.7% and 0.3% for the US GDP in 2018, comparing to no agreement. This is an annual potential gain of €122 billion and €41 billion for EU and US, respectively. Felbermayr et.al (2013) also show in tariff scenario, the change in real per capita income ranges between 0.03% and 0.58% for the EU, and 0.8% for the US. With respect to job creation, CEPR (2013) shows a relatively small number of people would have to change jobs and move from one sector to another (0.2 to 0.5 per cent of the EU labour force.) There are some doubts such as the impact of the agreement on employment in the EU and US would be minimal, or even negative (Baker, 2013). Also, the studies show that trade inside the EU countries would decline. The leveling of the barriers with the US leads to a deterioration in trade that came about as a result of preferential treatment of intra-EU trade flows. As already has been discussed, trade diversion effects could be harmful for most of the third countries. Besides, TTIP leads in some countries to job losses (for ex. 100, 00 jobs in Canada). According to these, the actual gain from the TTIP is questionable.

Unsurprisingly, TTIP leads to increase trade flows between the EU and US. Since tariffs on between the parties are already at very low levels, most of the economic effects are due to elimination of NTMs. It seems like the higher NTM reduction, the higher positive effects from free trade. NTMs are policy measures other than ordinary custom tariffs. Some examples of NTMs are quotas, special licenses, bureaucratic delays at customs, unreasonable standards for the quality of goods…They are related to countries, cultures, languages, currencies, etc. It is hard to measure those barriers and the studies assume removal of 25% of NTMs (for ex. Ecorys, CEPR 2013, CEPII 2013), which sounds too sanguine. Another challenging issue is, it hard to define the cost of NTMs removal. Furthermore, CGE modelling is conspicuous almost in all studies. It may be helpful to try alternative models and check the results according to these. The analysis may be extended by considering these subjects.

CHAPTER III

IMPACTS ON TURKEY AND MEXICO

From the very beginning, several third countries have raised reasonable concerns about TTIP. Especially, NAFTA members Canada and Mexico on the one side and the EFTA members and Turkey on the other side of the Atlantic Ocean, are expected to be effected from this transatlantic partnership directly. In this section, potential impacts of the TTIP on Turkish and Mexican economy are going to be investigated.

3.1. TTIP AND TURKEY:

Concerning the TTIP, certain impacts on Turkish economy will arise owing to the reason that Turkey has powerful political and economic relations with the EU and the US (Kirişçi K. , 2013). The EU and the US are both among top trading partners of Turkey (Table 9).

Table 9

Trade Statistics of Turkey with the EU and the US

	Export shares of related regions in Turkey's total export (%)		Import shares of related regions in Turkey's total import (%)	
	2004	**Average of 2005-2013**	**2004**	**Average of 2005-2013**
EU	58.1	48.59	49.3	39.5
USA	7.7	4.11	4.9	5.57
EU+USA	**65.8**	**52.7**	**54.2**	**45.1**

Source: TUIK (www.tuik.gov.tr)

Turkey has Customs Union arrangement with the EU since 1995. Within the framework of EU's trade strategies its relations with third countries, especially FTAs, entails discussions regarding the CU between the EU and the US. Through the customs union Decision, the TTIP also brings Turkey-USA relation to the current issue (Akman S. , 2014b, p.14). In this context:

*Trough TTIP, US products would enter Turkish market freely without duties, although Turkish export goods would continue to face duties and other limitations in the U.S. market. One can expect that Turkey's current $8.525 billion trade deficit with the US in 2012 would likely to grow.

*The TTIP could be the new anchor for the transformation of Turkish agriculture and services sector and other areas as was the case with industrial policy when the Customs Union was established with the EU. An early adaption to the 'new rules' in the global trade would also generate growth and set Turkey at a new stratum of development (Aran, 2013, p. 9).

*The TTIP has the capacity to serve as a 'game changer' in global economic balances and it is important for Turkey to have a place in this picture, rather than stay out.

*In recent years, Turkey has entered a term where its commitment and ties to transatlantic community is being questioned. Docking Turkey into this economic integration would deepen its economic ties with the Western partners as well as a commitment to the values of a pluralist democracy (Kirişçi K. , 2013).

3.1.1. Overview of the relationship between Turkey and the EU:

Turkey was one of the first countries, in 1959, which established close cooperation with the European Economic Community (EEC). Turkey has had a long association with the European integration. The EEC signed on 12 September 1963 the Ankara Association Agreement (European Commission, 2014) for the progressive establishment of a customs union with the goal of Turkey's full membership in the EEC. The agreement set out 3 phases to complete this association: a preparatory stage, a transitional stage, and a final stage, with the completion of the customs union has been planned at the end of transitional stage. The Ankara Association was supplemented by an Additional Protocol signed in November 1970, which set a timetable for the abolition of tariffs, and quotas on goods circulating between Turkey and the EEC and the possibility of further steps in the free movement of workers[23]. The EU-Turkey Customs Union (CU) was established on 31 December, 1995 by the EU-Turkey Association Council Decision 1/95 of 6 March 1995. Turkey was officially recognized as an EU candidate country on 10-11 December, 1999 at the Helsinki Summit of the European Council and finally the accession negotiations began on 3 October, 2005.

The implementation of the CU marked the most important milestone in the development of Turkey's relations with the EU. The CU with Turkey was the EU's first substantial functioning CU with a non-member state and was one of the earliest attempts by the EU to share some of its legal system with another country. Also, Turkey is one of the three countries to enter into a CU with the EU before becoming a candidate country[24].

The CU eliminates all customs duties, quantitative restrictions and charges with equivalent effect on the Parties' bilateral trade. Turkey adopted the EU's common external tariff (CET) for most industrial products, as well as for the industrial components of processed agricultural products. The Agreement excludes basic agricultural products, services and several regulatory issues like investments and public procurement. However, the CU envisions a deeper integration between the EU and Turkey that extends beyond tariff elimination and the application of CET. It obligates Turkey to align itself with the European Union's preferential customs regime and harmonize its domestic legislation to the EU *acquis* on many issues including technical standards, intellectual property, customs provisions and competition rules –ultimately bringing the relationship beyond further than a classic customs union.

Since 1996, the value of bilateral trade between the EU and Turkey has risen more than fourfold (Figure 12). Bilateral trade between the EU and Turkey reached €123 billion in 2013. Turkey continues to be the EU's sixth largest trade partner, while the EU is Turkey's largest. In the meantime, the EU's share in Turkey's total trade has declined, particularly after 2007 (Figure 13). Intra-industry trade between Turkey and the EU has increased from 30% in 1990 to over 50%. 38% of Turkey's total trade is

[23] The free movement of workers was not subsequently realized by the CU.
[24] The others are San Marino and Andorra.

with the EU and almost 71% of foreign direct investment in Turkey –with a strong high-technology component- comes from the EU (European Commission, 2014). Since there has been deep integration between the Turkish and European firms along production networks, the rise in FDI to Turkey from the EU has been significant. The CU has closely integrated Turkish companies in European production for automobile and clothing. It has supported these improvements and has also contributed to Turkey's productivity gains over the period by reducing its important tariffs on most industrial products. Since the 1970s, most of the Turkish exports of industrial goods to the EU have been duty free. EU MFN (most favoured nation) tariffs have also been reduced and there has been the proliferation of EUs PTAs with third countries, so Turkey has faced preference erosion in the EU market losing import share since 2007 (Figure 14). Nonetheless, Turkey's exports to the EU contribute to employment creating in Turkey, increases in average wages and growth in productivity. Cebeci (2014) evaluates the role of export destinations on productivity, employment, and wages of Turkish firms by comparing the performance of firms that export to low-income destinations and high-income destinations with firms that do not export. Results show that export entry has a positive causal effect on firm productivity and employment and this effect is strengthened as a firm continues to export. Beginning to export to the EU+EFTA market enhances firm productivity in Turkey: there is significant increasing total factor productivity by 7.4, 8.1 and 9.7 percent comparing to non-exporting firms for each the first years of exporting, respectively. For average wages, the impact of exporting to the EU is estimated to be 1.3, 3.5 and 3.8 percent (relative to non-exporting firms) in the first, second and third year of exporting to the EU, respectively. Unlike exporting to high-income destinations (EU), exporting to low-income destinations (MENA) does not result in significantly higher firm productivity and wages. For employment, the impacts of exporting to both regions are significantly positive relative to non-exporting firms (Cebeci, 2014).

Yet, the CU has helped the alignment process with the EU's *acquis*, improving the quality infrastructure and facilitating reform of technical regulations in Turkey to the benefit of Turkish consumers. Moreover, the CU has provided a significant incentive for trade facilitation and customs reform in Turkey containing through modernization of the Turkish Customs Administration (TCA). These developments are in favor with Turkish economy and supporting Turkish export performance over the past decade.

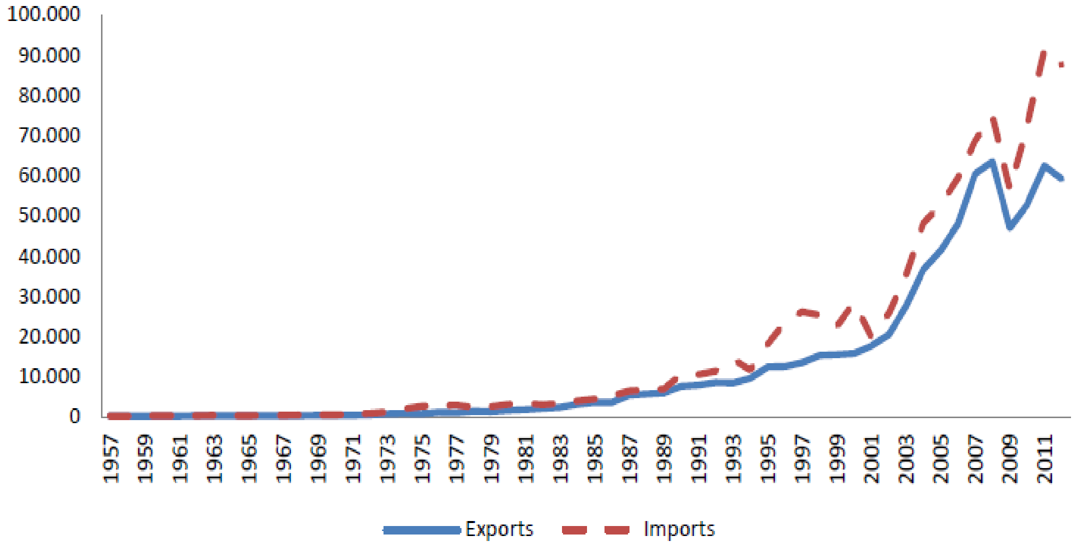

Figure 12 Nominal Trade with the EU (US$ Millions)
Source: IMF Direction of Trade Statistics

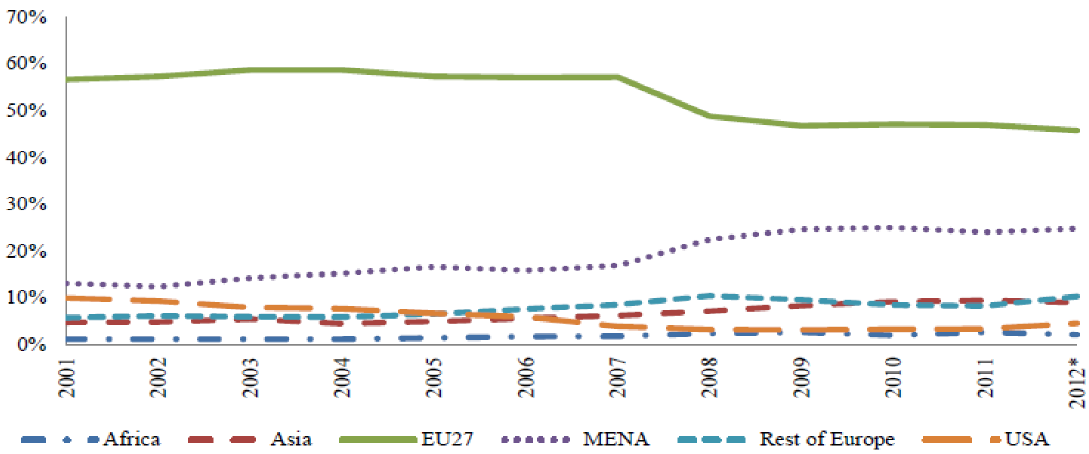

Figure 13 Turkey's Exports by Region (% of total)
Source: UN Comtrade January-September 2012

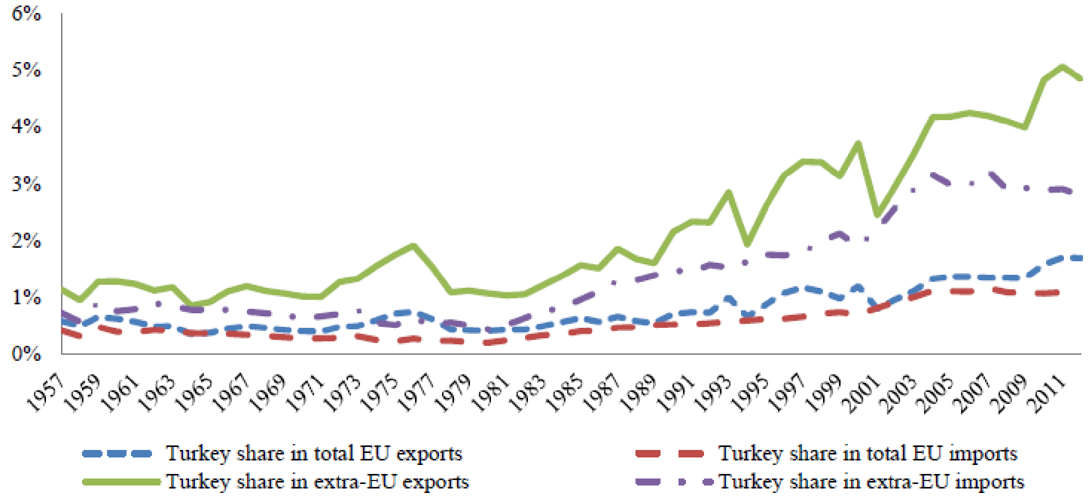

Figure 14 Turkey's Trade Share of the EU

Source: IMF Direction of Trade Statistics

However, the CU is increasingly getting less well equipped to handle the changing dynamics of global economy (Akman, 2010, Akman, 2013, WB Report, 2014). It is required to make the CU work better effect for both sides and for them to full benefit from changing global trading environment. On the other hand, EU expansion into Eastern and Central Europe during the 2000s also calls for rethinking the framework of CU and urging a continued commitment to deeper integration within the EU. Furthermore, as a result of slow progress in the WTO Doha Round of multilateral trade negotiations, both Turkey and the EU have made concluding more bilateral FTAs a policy priority. This condition change has exhibited a key asymmetry in the CU's design in that the EU is allowed to negotiate FTAs with third countries, but Turkey is not allowed a seat at the negotiations because it is not an EU member.[25] This situation has turned out a difficulty for Turkey since parallel negotiations with third countries have not always been concluded, e.g. EU-Mexico agreement. Turkey loses from

[25] Currently, the EU had FTAs with 48 countries while Turkey has concluded FTAs with just 19, two of which the EU does not have FTAs with (Syria and Georgia). Turkey has 17 FTAs in force, namely with EFTA, Macedonia, Bosnia-Herzegovina, Albania, Israel, Palestine, Morocco, Tunisia, Egypt, Syria (suspended), Georgia, Serbia, Montenegro, Chile, Jordan, South Korea and Mauritius. Agreements with Lebanon, Kosovo, Malaysia and Moldova will be in effect after the completion of internal ratification procedures. Meanwhile, there are 13 countries/country blocs that Turkey has started FTA negotiations; namely Peru, Ukraine, Colombia, Ecuador, Mexico, Japan, Singapore, Dem. Rep of Congo, Cameroon, Seychelles, Gulf Cooperation Council, Libya, MERCOSUR. Moreover, Turkey has launched initiatives to start negotiations with 10 countries/country blocs, which are the USA, Canada, Thailand, India, Indonesia, Vietnam, Central American Countries, other ACP Countries, Algeria, and South Africa. (http://www.ekonomi.gov.tr)

increased competition for its exports and may lose trade tax revenues. Trade costs are incurred for both Turkey and the EU if Rules of Origins (ROOs) are set up and implemented as a result to limit exports from the partner seeking to enter Turkey duty-free through the EU. According to former Turkish Economy Minister Zafer Çağlayan, in 2012, Turkey imported $1.3 billion worth of goods from South Africa, while exporting only $382 million. It purchased $867 million of products from Mexico during the same period, but sold only $2.6 billion value of goods (Levent, 2013). Between 2006 and 2009, there were more than 40 EU majority owned firms in Turkey exporting to South Africa and Algeria and more than 30 firms exporting to Mexico, together account for 7-10 percent of EU-majority owned firms operating in Turkey. For domestic majority owned firms, there is more exportation to these third markets but represent a smaller proportion -2 percent- of the total. Thus, on average, EU-majority owned firms export, substantially larger values to South Africa, Algeria and Morocco than do domestic-majority owned firms. There is also more exportation of EU-majority owned firms to the smaller markets which the EU has signed an FTA but Turkey has not. Also, there are larger amount of EU-majority owned firms (about one-quarter) than domestic-majority owned firms (7 percent) exporting to the US. So, it would be in favor of the EU to help Turkey finalize FTAs with third countries with which the EU has, or will be negotiating for the benefit of its own firms. Turkey also faces preference erosion in the EU market since the EU signs FTAs with countries which actively compete with Turkey e.g. Chile, Morocco. These asymmetries are actually very costly to both sides as it risks the introduction of origin controls, the absence of which have been a main source of the benefits form the CU. The expansion of FTAs with the EU, - especially with larger countries such as the US and Canada- risks larger potential losses for Turkey. In order to maximize the benefits of the existing or a widened CU, asymmetries in Turkish participation and consultation on decisions relating to the CU should be corrected. According to Article 13 of Decision 1/95 Turkey is requited to align itself to the EU's common commercial policy in relation to countries that are not EU members. Nonetheless, Turkey neither has right to make FTAs with third countries independent from the EU, nor has any right to speak about continuing FTA negotiations of the EU with the third countries. Turkey turns out to be a defenseless market for all countries that signs FTAs with the EU; goods originating in these countries might enter to

Turkish markets easily; however, market access of Turkish goods in these countries without any trade barrier is not feasible given that FTA requires rules of origin. The countries already made FTA with the EU sometimes refuse to conclude FTAs with Turkey. Therefore, Turkish firms have not received automatic reciprocal access to those markets while imports from these countries can enter Turkey duty-free by way of trade deflection via the EU (World Bank, Evaluation of the EU-TURKEY Customs Union, 2014). The trade between the EU and Turkey becomes more unfavorable for Turkey as the EU makes FTAs with third countries since Turkey loses its comparative advantage in more competitive EU markets (Paul & Yeşilyurt, 2013). Articles 16 and 54 reinforce this by explicitly requiring Turkey to progressively align itself with the preferential customs regime of the EU. Moreover, Article 14 requires Turkey should not apply import tariff lower than the CET for any product. This has led to a progressive liberalization of Turkish tariffs on most industrial products, and selective liberalization of agricultural ones, from the third countries that EU has negotiated FTAs. There is, therefore, a need to make arrangement work in a more balanced way.

3.1.2. Overview of the relationship between Turkey and the United States:

Turkey and the US have an enduring alliance since many years. Turkey has been a NATO (North Atlantic Treaty Organization) member since 1952, an active ally in ISAF (International Security Assistance Force) stabilization operations in Afghanistan, and symbolizes NATO’s vital eastern anchor, controlling (in line with international conventions) the straits of the Bosporus and the Dardanelles, which connects the Black Sea with the Mediterranean.

The US- Turkey partnership is based on common interests and common respect and is focused on areas like regional security and stability, economic cooperation, and human rights progress. Turkey has given the green light for the US to utilize its Incirlik Air Base for the transport of non-lethal logistical support for operations in Afghanistan.

The US and Turkey are also in harmony in the fight against terrorism. Counterterrorism cooperation is a crucial element of the partnership, along with US support for a political approach to security issues based on inclusiveness.

The Framework for Strategic Economic and Commercial Cooperation[26] (FSECC), launched in 2009 by Presidents Obama and A. Gul, guides US-Turkey economic relations. Moreover, in the context of FSECC, Business Council was established in May 2010. It will bring together US and Turkish business leaders to provide policy recommendations to both governments in order to strengthen bilateral economic relations (Embassy of the United States, 2014). There is also the US-Turkey Business Council (USTBC), within the US Chamber of Commerce (USCC), which is a vehicle for dialogue and engagement between American and Turkish business and governmental decision-makers. However the current level of trade argued not where it could potentially be. The website of USTBC states ‘the U.S.-Turkish commercial relationship has failed to reach its full potential when considering the size of the two economies’ (U.S. Chamber of Commerce, 2014).

In addition, the US’ proposed Transatlantic Trade and Investment Partnership (TTIP) with the EU is expected to have a significant impact on Turkey given its CU with the EU. Accordingly, in May 2013 President Obama and Prime Minister Erdogan established a parallel dialogue, the High Level Committee (HLC), as a forum for deepening U.S.-Turkey relations (U.S. Department of State, 2015).

US- Turkish trade peaked at nearly $20 billion in 2011, with a modest fall back to just under $19 billion in 2013. (Embassy of the United States, 2014). Turkey was the US’ 26th largest goods export market in 2013. In 2013, US good exports to Turkey were $12.1 billion, down 3.6% ($454 million) from 2012, but up 316% from 2003. In the same year, Turkey was also the US’ 41st largest good import market. US good supplies from Turkey totaled $6.7 billion in 2013, up 6.0% ($378 billion) from 2012, and only increase 76% from 2003 onwards. The trade between the US and Turkey has been proceeding more beneficial for the US. The US have trade surplus with Turkey with $5.4 billion in 2013. Until 2004, Turkey was in trade surplus in the trade relationship, however since then Turkey has been facing an increasing trade deficit up to date (Table 10). Yet, there is 39% less deficit in 2013 comparing to 2011 due mainly to global economic-crisis.

[26] Ekonomik ve Ticari Stratejik İşbirlikçi Çerçevesi (ETSİÇ).

Table 10

Turkey- US trade relations (million dollars)

YEAR	Turkish Exports to the US	Turkish Imports from the US	Trade Balance
2013	5.640	12.596	-6.956
2012	5.605	14.130	-8.525
2011	4.584	16.034	-11.450
2010	3.762	12.318	-8.556
2009	3.240	8.575	-5.335
2008	4.299	11.975	-7.676
2007	4.170	8.166	-3.996
2006	5.060	6.261	-1.201
2005	4.910	5.376	-466
2004	4.860	4.745	115
2003	3.752	3.496	256
2002	3.356	3.099	257

Source: Republic of Turkey Ministry of Economy and TUIK

The top 5 Turkish exports to US categories (2-digit HS) for 2013 were: Vehicles ($818 million) Machinery ($790 million), Iron and Steel ($521 million), Iron and Steel Products ($338 million), and Stone, Plaster, Cement (Travertine and Marble) ($335 million).

U.S. imports of agricultural products from Turkey amount to $740 million in 2013. Leading categories include: tobacco ($162 million), processed fruit and vegetables ($158 million), and vegetable oils ($101 million).

In 2011, Turkish exports to the US increased by 41.5% in the automotive sector, 37.8% in 2012 and exports in the sector has increased to approximately $706 million. Turkish exports in passenger car in the automotive sector reached to $581 million with an increase of 26%, buses exports to $32.5 million with an increase of 26% and tractors exports to $ 92.5 million by an increase of 165%.

As of 2010, Turkish iron and steel industry exports to the US increased 73.1%, where in 2011 the increase was by 72.9% and reached $755.7 million. In 2012, Turkish exports of iron and steel sector increased by 34% compared to the previous year and amounted to $997 million.

Among sectors, iron and steel products (profiles, wire rods, alloy steel profiles), dried fruit, untreated synthetic staple fibers, entertainment and sporting boats and yachts, sacks and bags used for packing goods sectors experienced the declines in exports.

Also, exports in gold, jewelry and precious stones (especially product with HS code 71131950) dropped in 2008 and 2009 respectively 40% and 30% due to the removal from the United States System of Preferences as of July 2008. In 2010, 4.6% increase is observed in the exports of the sector, yet in 2011 the exports declined by 8.6% again.

The top US exports to Turkey (2-digit HS) for 2013 were: Mineral Fuel (oil) ($2.0 billion), Iron and Steel ($1.9 billion), Aircraft ($1.3 billion), Machinery ($1.0 billion), and Cotton Yarn and Fabric ($801 million).

US exports of products in agriculture Turkey are amounted to $2.1 billion in 2013, the 11th largest US Ag export market. Leading categories include: cotton ($797 million), tree nuts ($282 million), soybean meal ($215 million), and soybeans ($156 million).

Among sectors, cotton, pharmaceuticals, aircraft and parts, medical devices, vaccines, serums and blood, turbojets and gas turbines, live animals, product groups such as automatic data processing machines experienced the declines.

When the sector analyzed on the basis of Turkish imports; 24.1% of agricultural products, 40.9% of iron and steel products, 17.6% of chemicals, 3.5% of semi-finished products of other industries, 18.6% of machinery and transport equipment, 14.9% of textile and 18.1% of apparel products decrease is observed. In 2012, mineral fuels and mineral oils' imports to USA have increased by 3.3% and non-ferrous metals have increased by 22.3% (Ateş, 2014).

Direct investments constitute an important part of the US-Turkey economic relation. In 2012, the 10 countries in terms of FDI inflows in Turkey are ranked as: UK, Austria, Luxembourg, the Netherlands, Germany, Malaysia, Switzerland, the United States, Azerbaijan and Lebanon. The share of US within the foreign direct investment (FDI) inflows to Turkey was 4.3% and the UK's and Austria's shares were 19.8% and 14.7%, respectively. In 2007, the level of US-based international direct investment reached $3.6 billion; in 2011 the amount was $1.4 billion and in 2012 declined to $103 million level. According to UNCTAD, in 2013 the US stays at the top country in the world with $187, 5 billion investments following on growth by 17% with respect to 2012.

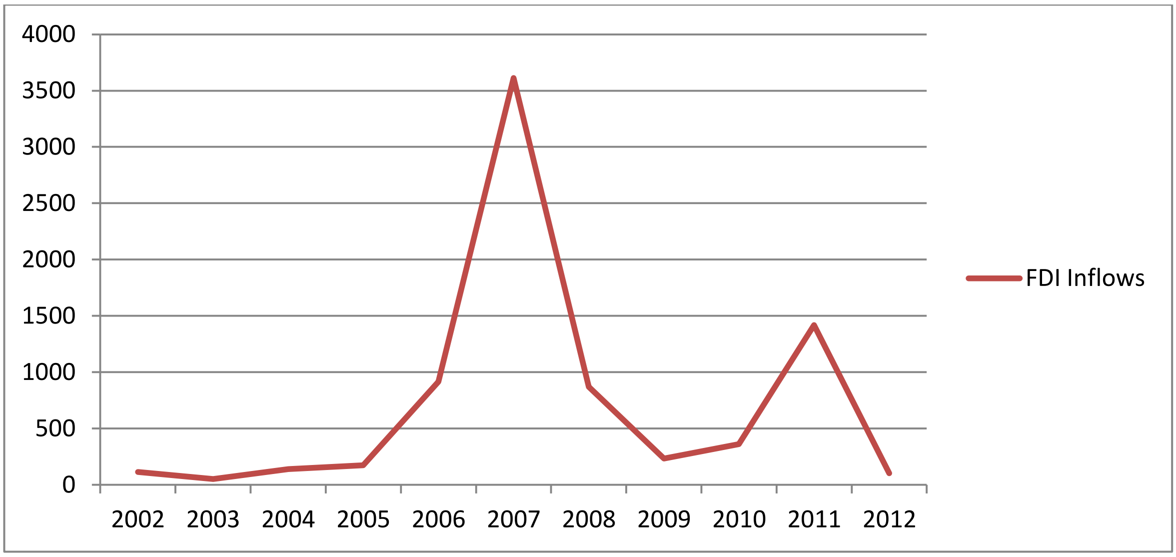

Figure 15 USA FDI flows into Turkey 2002-2012 ($ millions)

Source: OECD

3.1.3. Effects of TTIP on Turkey

Transatlantic Trade and Investment Partnership have the capacity to serve as a game changer in global economic balance. Turkey, a candidate country with its market involvedly linked to the EU, along with being an important trading partner of the US; therefore it will be directly affected by the TTIP. The expectations for Turkey in the short term would be a trade diversion due to a significant loss of income and employment. Felbermayr *et al*. (2013) showed that, deep liberalization between the EU and the US would increase the unemployment rate in Turkey by 0.42% points and real wages would drop by 1.94% points. Countries outside the TTIP with existing preferential agreements with the US or the EU (Australia, Canada, Mexico, Norway, Switzerland, Turkey…) will likely lose economic activity since their preferential market access to Transatlantic area turns into significantly less exclusive. It is more problematic for Turkey for additional causes. A comprehensive trade agreement has significant implications for Turkey, given its obligations under the Turkey-EU Customs Union and the lack of a preferential trade agreement with US. Within this framework, the effects of TTIP on Turkey will be twofold: market access and regulatory effects (Bülbül & Orhon, 2014, Akman, 2014b).

The arguments about the repercussions of TTIP on Turkish economy bring an opportunity to re-consider Turkish economy's integration with that of the EU. In order to deepen the CU decision, the EU proposes to Turkey to consider the excluded areas (services, agriculture, and public procurement), and to enforce the legislation on intellectual property right. For sure, these acts will push Turkish businesses to adapt to new rules and regulations during experiencing increased competition in the domestic market (Yılmaz, 2015). Taking into account these in the context of CU Turkey will face two significant implications regarding TTIP: (i) obligation to reduce or eliminate tariffs in line the Common Customs Tariff (CCT) to US exports; and (ii) obligation to negotiate agreements with the US on a mutually advantageous basis.

3.1.3.1. Market Access Issues

TTIP includes market access chapters for goods and services, which aimed at removing 'customs duties on goods and restrictions on goods, services, gaining better access to public markets, and making it easier to invest' (European Commission, 2014).

The Common Customs Tariff (CCT)

Article 13 of Decision 1/95 obligates Turkey to align itself to the EU's CCT in relation to third countries. This means that Turkey must apply the EU's customs rates on imports from countries that are not EU members. Concerning TTIP, that means trade deflection within the CU area. As soon as the customs duty rates are eliminated among the EU and US, the US origin products will have duty-free access to the Turkish market when they enter through the EU. Clearly transatlantic agreement will decrease Turkey's tariff income in this respect; but it will also negatively affect the competitiveness of the Turkish companies in the US, the EU and Turkey. During European companies will be enjoying from preferential treatment in the US market under the Agreement, Turkish origin goods will continue to be subject to customs duties in the US (Akman, 2014b). Therefore, US companies will be able to compete without tariff restrictions with Turkish companies in Turkey.

However US will continue to apply tariffs to Turkish goods as they have no bilateral FTA. Even though US average bound tariffs are low, it applies 'tariff peaks[27]' in many sectors which are important for the purpose of Turkish exports. For example, the US applies 2.5% to 2% tariff rates to the passenger cars which hold on important place in Turkish exports to the United States. But US tariff rates for 'motor vehicles that used for freight transport', in which Turkey has a significant competitive power, is 19.9%. Under the assumption of full tariff elimination between the US and the EU, the manufacturers operating in Turkey will face about 20% price disadvantage for this product in the US market compared to their European rivals. Similarly in recent years US have been applying up to 9% tariffs in synthetic fibers and fabric products where Turkey has relatively high competitiveness. In case of tariff elimination with TTIP, European competitors will have 9% price advantage in this product group in the US market.

The other channel may adversely affect the trade balance with the US is that US manufacturers will gain duty-free access to Turkish market. Even though Turkey already imposes zero tariff rates for 'scrap steel' and 'stone coal', which are located in the most imported product groups from the US; there are products such as 'inorganic chemical products' for which Turkey applies 4.7% tariff rates, will be able to completely become duty-free after the TTIP.

[27] Relatively high tariffs, usually on "sensitive" products, amidst generally low tariff levels. For industrialized countries, tariffs of 15% and above are generally recognized as "tariff peaks" (WTO, 2015).

Again, through the duty-free entrance of the products originating in the United States to Turkey will may provide a competitive advantage for some US products which were not able to compete in Turkish market before. For example, Turkey imposes around 13% tariff rates to US for motor vehicles that transport 10 or more passengers. With such a tariff rate it would be hard for US manufacturers to compete in Turkish market, however in case of total tariff elimination they will able to compete in Turkey with a price advantage of 13%. Yet, passenger cars are the product groups in which Turkey had the most foreign trade surplus in trade with the US in 2012 with approximately $500 million. Turkey applies 10% tariff rates for importation of these vehicles from the US. In case of tariff elimination with the TTIP will generate an increasing demand for motor vehicles in Turkey and will possibly create drop in the trade surplus. Therefore, it looks like inevitable that the agreement will have ‘trade diversion effect’ for Turkey (Öztrak & Duvan, 2014).

Because of Turkey’s Customs Union Agreement with the EU, the US goods in the EU will get easy access to the Turkish market; however, Turkish goods will not enter to the US’s giant economy via EU due to the rule of origin implied by FTA. Additionally, and more importantly, Turkish goods will lose their comparative advantages in the European markets by now having to compare with increasingly competitive US goods that are currently deterred by European market barriers. According to the study by Felbermayr *et al*. (2013), the Turkish economy may lose up to 2.5 percent of its income if Turkey is left out of Turkey. Besides, it is also highly expected that some trade diversion would also occur as European, South Korean, (due to South Korea-US FTA, or KORUS FTA) as well as the potential TPP countries’ goods would be able to enter the US market preferentially. This is highly possible because the many export items from Turkey to the US overlap to a large extent with the major exports items of the EU along with South Korea and some Asia-Pacific countries (Kirişçi K. , 2013). On the other hand, apart from expectations in Turkey’s current $8.525 billion trade deficit with the US in 2012 would most likely increase and trade deficit with the EU –which was $28 billion in 2012- may also increase.

Turkey’s Central Bank confirms similar results (Mavus, Oduncu, & Güneş, 2014). The study analyzes the possible impacts of the TTIP on Turkey and considers two main scenarios based on the assumptions of Turkey’s inclusion in (by either Turkey’s involvement to EU-US FTA or signing an independent FTA with the US) and exclusion from the agreement. Also, the FTA is deepened by applying different shocks. In the first scenario (*removal of tariffs* scenario), whole custom tariffs including tariff equivalents and quota between the EU and the US have been removed. In the second scenario (*removal of tariffs and limited reduction in non-tariff barriers* scenario), the FTA will not cover only removal of custom tariffs but also will cover reduction in non-tariff barriers in the sectors of food, manufacture and services. Moreover, the method of reduction in trade costs between the EU and the US is adopted since it is expected that there would be easing in international trade due to cuts in non-tariff barriers and so reduction in costs would be observed in international trade. In this respect, non-tariff barriers were assumed to be reduced by 5% in services and 2% in other sectors. In the third scenario (*removal of tariffs and reduction in non-tariff barriers* scenario), 5% reduction of non-tariff barriers in all sectors has been applied. In the fourth scenario (*removal of tariffs, reduction in non-tariff barriers, and direct spill-over effects* scenario), non-tariff barriers in the exports of third countries to the FTA partners have been reduced according to the approach of direct spill-over effect which introduces a cost reduction in exports to these two countries as a result of harmonization of regulations. Given 5% cost reduction in all sectors to cut non-tariff barriers and 20% of direct spill-over effect, it is assumed that 1% cost reduction would arise in the exports of third countries to the EU and the US. All of the effects of these scenarios on the countries’ real GDP are shown in Table 11.

Table 11

The Impacts on the Countries' Real GDPs in Different Scenarios (% Change in Real GDPs)

	The Impacts on the EU		**The Impacts on the US**		**The Impacts on Turkey**	
	Turkey is Excluded	***Turkey is Included***	***Turkey is Excluded***	***Turkey is Included***	***Turkey is Excluded***	***Turkey is Included***
removal of tariffs	0.009	0.009	0.004	0.006	-0.132	0.460
removal of tariffs and limited reduction in non-tariff barriers	0.092	0.102	0.105	0.108	-0.359	2.046
removal of tariffs and reduction in non-tariff barriers	0.151	0.171	0.185	0.190	-0.561	4.001
removal of tariffs, reduction in non-tariff barriers, and direct spill-over effects	0.264	0.280	0.300	0.304	-0.191	3.793

Source: Mavuş, M. and Oduncu, A. and Güneş, D. (2013)

The results show that Turkey could gain of $35 billion if Turkey is included in the TTIP than being left out. The report also checked the export changes in Turkey for different scenarios. The export values of Turkey increase in the range of 1.303% to 6.974% from removal of tariffs to deepest scenario in the paper. Furthermore, for all scenarios Turkey's inclusion in TTIP is not only favor of Turkey but also in favor of the EU and the USA in terms of high GDP growth rates. The GDP values of the EU increase within the bounds of 0.009% to 0.280% and of the US increase within 0.006% to 0.304%. According to the first scenario, the event of removal of whole custom tariffs including tariff equivalents and quotas between the EU and the US, the GDP of Turkey could drop by 0.132%. Turkey could face a 0.359% GDP loss in case of adding limited cuts in non-tariff barriers to the first scenario. In the case of further cuts in non-tariff barriers, higher GDP loss 0.591% in Turkey has been obtained. With the last shock including spill-over effects, GDP loss by 0.191% for Turkey could be happened.

Negotiating FTAs with 3rd countries on a 'Mutually Advantageous Basis'

In accordance with Article 16/1 of the Decision 1/95 of the Association Council, Turkey has to align its trade policy with the European Union's preferential trade regime, which includes both the Community's legislation, and the preferential agreements signed with third countries. In this respect '*Turkey will take the necessary measures and negotiate agreements on mutually advantageous basis with the countries concerned.*'[28]

Under Article 16, the EU is free to start FTA negotiations with any third country at any time it sees appropriate, and Turkey has no right to control this situation. As soon as a trade agreement is concluded by the EU, Turkey is under an obligation to conclude an agreement with the third country in question. Sometimes a 'Turkey Clause' is introduced in some of the agreements in order to facilitate Turkey's negotiation process with the countries concerned in cases where the third countries refrain from concluding an FTA with Turkey . However, this clause is usually far from being legally binding and Turkey negotiates with those countries with its own efforts. Hence, although it was included in their FTAs with the EU, so far the Turkey clause has not motivated South Africa, Mexico and Algeria to negotiate an FTA with Turkey despite Turkey's efforts.

This process has not always been easy for Turkey since the FTAs rely on the willingness of other countries to engage in a bilateral agreement with Turkey. For example, it has taken Turkey many years to have countries such as Palestine, Tunisia, Morocco, Egypt, Chile, Jordan, Lebanon and South Korea sit at the negotiation table, after they have finalized bilateral FTAs with the EU. Besides, after the negotiations begin, it has taken several years to conclude the agreement. Consequently, there is a striking 'time gap' between some of the FTAs concluded by Turkey and the EU.

Additionally, the EU has concluded agreements with many other countries and there are several others with whom it is currently engaged in negotiations. Yet, it started to become more problematic for Turkey when the EU has started to sign FTAs with

[28] Article 16/1 of the CU Decision.

larger economies like Mexico, Canada, South Korea, and the US. For example even though the EU-South Africa FTA, the EU-Algeria FTA and the EU-Mexico FTA entered into force about 13 years ago, Turkey could not start negotiations despite its attempts. Likewise, apart from the US, there are many large economies such as Vietnam, Thailand, India, Japan and Canada[29], which the EU is currently negotiating an FTA and which have not started negotiations with Turkey yet (Bülbül & Orhon, 2014).

3.1.3.2. Regulatory Issues and Wider Negotiating Areas

The impact of transatlantic agreement will rely on many factors such as, level of participation in global value chains that involve TTIP members, the nature of pre-existing prefential arrangements between TTIP countries and rest of the world (in the case of Turkey the Customs Union), the economic structure of economies and the ability of third countries to align themselves with TTIP's regulatory arrangements (Akman, Evenett, & Low, Catalyst? TTIP's impact on the Rest, 2015). In order to discuss the TTIP effects from regulatory issues' perspectives, the scope of CU provides starting point.

Generally speaking, the CU Decision requires Turkey to align its domestic legislation on several regulatory issues, i.e., intellectual property, competition and public procurement, and excludes key issues such as services, investments, public procurement, labor and environment.

Concerning intellectual property, Article 31 and Annex 8 of the CU Decision require that Turkey insures adequate and effective protection and enforcement of intellectual property rights in Turkey and it will implement the Uruguay Round Agreement on 'Trade Related Aspects of Intellectual Property Rights' by 1999. Additionally Turkey had to accede to various international conventions. Furthermore Turkey will have to adopt legislation to secure the patentability of pharmaceutical products and processes.

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[29] With Canada, The Comprehensive Trade and Economic Agreement (CETA) was concluded in 2014.

As for competition, the competition rules applicable within the CU are specified in Chapter IV, Section II of the CU Decision. Article 32 specifies the prohibited agreements, decisions and concerted practices by and/or undertakings, which qualify as preventive, restrictive or distortive of competition. Article 33 prohibits abuse of dominant position to the extent that it is incompatible with the proper functioning of the Customs Union. Article 34 provides for state-aid control policies and prevents governments from granting state-aid which distort competition in the internal market. Additionally, the Customs Union aims to make compatible Turkey's legislation with that of the European Community's competition rules regarding antitrust and state-aid control policies.

About public procurement, there is no regulation in the Decision. Article 48 of the CU Decision states that, the Association Council will set a date for the initiation of negotiations aiming at the mutual opening of the Parties' respective government procurement markets as soon as possible after the date of entry into force of the Decision. However, no reform was undertaken in this area as a requirement of the CU Decision.

In the TTIP world, the EU and the US would like to achieve the goal of further integration in transatlantic market. In order to do that, they would like not only to remove the remaining tariffs on transatlantic trade and similar policy measures that discriminate in favor of domestic providers of goods and services, but especially to ensure greater regulatory coherence, which means initiatives to decrease the market-segmenting and thus cost-raising effects of differences in regulatory regimes and standards that apply to products and suppliers between the parties (Francois, Hoekman & Nelson, 2015). By removing tariffs and some policy measures to the market access objective will very likely cause trade diversion effects especially for countries whose economies strongly depends on exports to the TTIP countries (Aichele and Felbermayr, 2015). We have discussed this view before, under 'trade diversion' effects. But more important is the impact of regulatory convergence. Apart from market access, TTIP has two important elements: Improved regulatory coherence and cooperation by dismantling unnecessary regulatory barriers such as bureaucratic duplication of effort, and improved cooperation when it comes to setting international standards (European Commission, 2014). These objectives are relatively new in the trade agreements and may help (or less harm) third countries and TTIP members depending on the agreed texts in the agreement. If the partnership results in truly global standards, all countries could effectively reduce costs via adopting those standards (Aichele and Felbermayr, 2015).

In the case of Turkey like in many third countries, the level of impact on Turkish economy will depend on how Turkey will adopt to the new trading environment of TTIP (Aran, 2015).

TTIP is expected to bring convergence of the bilateral legal structures. This indicates new and more stringent regulations to be imposed on several different business sectors. To be left out of such a legal process for the third parties like Turkey is the need for a thorough process of harmonization of the local laws, regulations and technical standards with the ones that will be enforced by TTIP. This might imply extra costs for the Turkish business in a global environment market by fierce competition based on cost effective products and solutions (Bilmen, 2014).

In the medium term, it will be very hard for Turkey to achieve its goal of becoming one of the top 10 economies of the world if it is not a part of TTIP.[30] If Turkey adopts and implements the regulatory standards of TTIP, she can attract higher FDI, which is 'stickier' than the fickle capital flows that dominate the Turkish equity market. Apart from helping to address Turkey's perennial current deficit, higher FDI would also help Turkey attract and develop the advanced know-how and technology that she need to avoid being stuck in a 'middle income trap' of around 10,000 dollars GDP per capita. With low level of growth levels and political risk intensified by allegations of authoritarianism and a general perception of a lack of law and due process, Turkey urgently needs big positive economic news; and TTIP would qualify.

Turkey should undertake substantial legislative changes in many areas such as telecommunications, postal, legal, audio-visual, financial services, public procurement,

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[30] The president of Turkey referred to this goal once more during his address to the USCC in May 2013, available at: http://www.bloomberght.com/haberler/haber/1357849-erdogan-hedefimiz-2023te-ilk-10-ekonomi-arasina-girmek

investor-state dispute settlement procedures, sanitary and phytosanitary measures, bio-safety rules, GMOs, IPP and high tariffs for fruits and vegetables and meat products as well as alcoholic beverages (Akman, 2014b). If Turkey manages regulatory convergence and adopts improved standards and common business practices, these developments can be turned into gains for the country (Aran, 2015).

Turkey successfully adopted the EU's acquis in several areas. Overall, CU has supported Turkey's manufacturing sector by introducing increased competition as it has harmonized and decreased Turkey's import tariffs for most industrial products from 3rd countries to just as same levels as those faced by EU producers and opened Turkey to duty-free imports of these goods from European firms. Importantly, the CU has also enhanced the alignment of Turkey's technical legislation and its quality infrastructure with that of the EU, streamlined customs procedures and eliminated the need for rules of origins on its trade with the EU. CU is like an instrument that has been helping Turkish producers integrate into global value chains, catalyzed FDI from the EU, and thus supported the upgrading in Turkey's exports (World Bank, 2014).

Nevertheless, there is still need for improvement in Custom Union areas; intellectual property, competition and public procurement and need for efficient inclusion of areas that are excluded. Regulatory convergence is inevitable for Turkey especially in the case of technical standards, conformity assessment, food safety, health of plants and animals, environmental and similar issues. However this convergence should be fast and constructive since it should catch TTIP regulatory cohesion. This is quite complex and costly process, so definitely it is essential that Turkish Government, business sectors, organizations and universities should consider all these areas. If the necessary arranges are carried out, TTIP would likely be supportive for Turkey's integration to global economy.

3.2. TTIP AND MEXICO:

Mexico has one of the world's largest economies. Supported by the economic liberalization policies implemented throughout the 1990s, Mexico has come to be one of the most promising emerging economies ranking the 2nd largest economy in Latin America. In accordance with an estimate held by U.S. Energy Information Administration (EIA) in 2012, it is the 9th largest oil producer in the world with 2,963,000 barrels per day. Moreover, is the largest silver producer in the world (Létourneau, 2014) and is considered as a regional power (Sambaiew, 2010), middle power and emerging power (vom Hau, Scott, & Hulme, 2012), and a newly industrialized country (Bozyk, 2006). Also, Mexico was the first Latin American member of the Organization for Economic Co-operation and Development (OECD) and considered an 'upper-middle' income level.[31]

Mexico has the 11th largest GDP by Purchasing Power Parity with GDP valued at $1.845 trillion in 2013 (Central Intelligence Agency, 2014)-more than doubling its GDP level over thirteen years. Some believe that by 2013, Mexico will be 8th largest economy in the world (PwC Economics, 2013). Mexico was hardly affected by the financial crisis but recovered quickly; similar to GDP growth, export and import levels increased by time. In 2000, 20% (27%) of GDP was exported (imported) and, in 2012 the level increased to 33% (34%) (World Bank, World Development Indicators: Structure of Demand, 2014). Yet, the country still faces high poverty and inequality rates.

The EU and the US are essential trade partners of Mexico (Table 12). The United States holds 78.9% of the Mexican exports and almost half of the Mexican imports. Similarly, the EU is Mexico's second largest export market after the USA; in 2013 Mexico exported $19.8 billion to the EU. The EU is also the third largest source of imports after the US and China, in 2013 Mexico imported $43.1 billion from the EU (European External Action Service, 2014). Taking into account the size of TTIP, important effects on Mexican economy will occur due to the close relation of Mexico

[31] As of July 2013, the World Bank income classifications by GNI per capita as follows: Low income: $1,035 or less; Lower middle income: $1,036 to $4,085 ; Upper middle income: $4,086 to $12,615 and High income: $12,616 or more

with the Transatlantic Partners. As it known, countries that would suffer more from the agreement are trading partners with both parties. Mexico, Canada, and the US together created the NAFTA in 1994. NAFTA liberalized markets and eliminated tariffs and trade barriers. The TTIP would cause a decline in exports and imports for the US' NAFTA partners.

Table 12

Merchandise Trade Share of Mexico by main destinations, in 2013

EXPORTS SHARE		**IMPORTS SHARE**	
United States	78.9	United States	49.3
EU (28)	5.2	China	16.1
Canada	2.7	EU (28)	11.3
China	1.7	Japan	4.5
Brazil	1.4	Republic of Korea	3.5
US + EU (28)	**84.1**	**US + EU (28)**	**60.6**

Source: WTO, Trade Profiles – Mexico

3.2.1. Overview of the relationship between Mexico and the European Union:

Relations among Mexico and European economies have a deep history and tradition of cooperation that are revealed by close links and exchanges. The formal relations between Mexico and the European Economic Community (EEC) started in 1957, but were formalized with the opening of the Mexican Mission to the EEC in 1960. The EEC and Mexico signed a Cooperation Agreement (1975), subsequently replaced by a Framework Agreement on Cooperation with came into force on 1 November 1991 (De Lombaerde, 2003).This Agreement covers range of disciplines, including cooperation in energy and research as well as economic and commercial activities (European Commission, Mexico relations, 1993). Technical Scientific Cooperation began in the 1980s; an agreement for the exchange of letters about the trade of textile products was signed between the EC and Mexico in 1987; and the Delegation of the European Commission in Mexico City was opened in 1989. In 1995, negotiations and visits between the EU and Mexico started, and as a consequence; the EU and Mexico have concluded an Economic Partnership, Political Coordination and Cooperation Agreement (Global Agreement) in 1997. Mexico is the first Latin American country that took observer status in the Council of Europe in 1999. In 2001, the first session of the Joint Mexico-EU Council and of the Joint Mexico-EU Committee established. In the same year, the Join Council decision 2/2001 on services, intellectual property, capital flows and international payments became effective.

On January 1, 1994, the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico entered into force and had significant implications for Mexico-EU relations. The EU had concerns about its product would be displaced in the Mexican market by products from North American countries and this expected trade diversion would affect its exports into Mexico and imports from the country. Yet, in the first two years after NAFTA’s entry into force (1994 to 1996), a time Mexican imports from the EU decreased 14%, going from $9.116, 0 to $7.800, 4 million. In turn, Mexican exports to the EU increased from $2.810, 3 to $3.554, 6 million, that is, a raise of 26% (Mexican Ministry of Economy, 2014). Furthermore, the authorization of NAFTA and the accession of Mexico into the OECD encouraged the dubiety of Mexico’s access to the General System of Preferences of the EU. This was demonstrated by the EU’s decision to eliminate its tariff discounts to Mexican coal, steel and steel products for a period of three years beginning in January 1995 (Vega Cánovas, 2014). On the other hand Mexico was also holding its Latin American relations, which had resulted Mexico to sign FTAs with Chile (1999), Colombia (1995), Central America[32] (2012), Uruguay (2004) and Peru (2012) (World Trade Organization, 2014). As well, Mexico signed FTAs with Israel and Japan in 2001 and 2005, respectively. These FTAs brought Mexico as a connection among both sides of the Western Hemisphere and an important port of entry into the North and Latin American markets. Likewise, as a member of Asia-Pacific Economic Cooperation (APEC), Mexico could provide a link between the EU and Asia-Pacific.

[32] Original signatories: Costa Rica; El Salvador; Guatemala; Honduras; Mexico; Nicaragua

These developments lead the EU and Mexico come closer and Mexico became the first Latin American country to sign a partnership agreement with the EU. The Agreement, called the EU-Mexico Economic Partnership, Political Coordination and Cooperation Agreement (Global Agreement), concluded on June 11, 1997. Global Agreement included trade provisions that were developed in a comprehensive FTA that entered into force in October 2000 for the part related to trade in goods and in 2001 for that related to trade in services (European Commission, 2014). Free Trade Agreement between the EU and Mexico (MEUFTA) entered into force on July 1st, 2000 and has considerably strengthened bilateral relations between the EU and Mexico. The objectives of the agreement are the following (University Grants Committee of the Hong Kong, 2000):

- To liberalize the reciprocal trade in goods, in compliance with Article XXIV of GATT 1994;
- To open the public procurement markets of the parties;
- To establish a cooperation mechanism in the field of competition;
- To set up a consultation mechanism in respect of intellectual property matters; and
- To set up a dispute settlement mechanism.

Since the agreement has entered into force, the trade relation between the EU and Mexico has increased. In 2000, bilateral trade was valued in $20,856 billion; by 2008 that figure had raised 168.25%, up to $55,946 billion. With the financial crisis in 2008, bilateral trade between the parties decreased 30.6%, going from $55,946 billion in 2008 to $38.828 in 2009; nevertheless, from 2009 to 2012 the trade flows recovered its dynamism and the bilateral trades reached $62,687 billion in 2012. Mexican exports and imports to and from the EU increased 89.06% and 49.6%, respectively, between 2009 and 2012 (Figure 16).

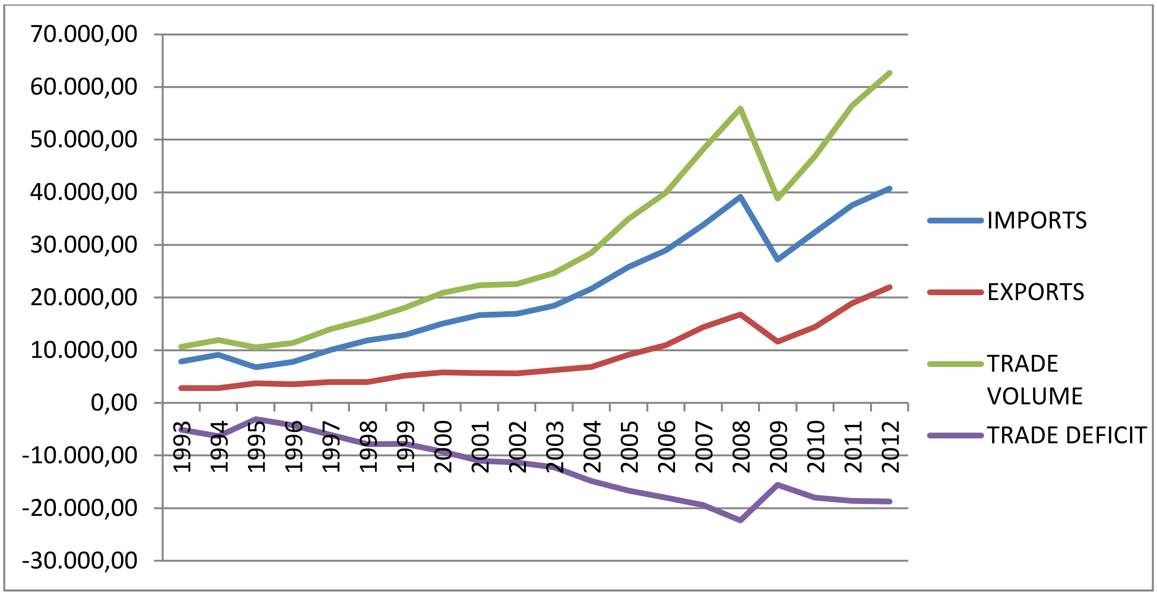

Figure 16 Trade relationships between the EU and Mexico (Value in millions of dollars)

Source: Data from the Mexican Ministry of the Economy

MEUFTA also provides Mexican trade with the EU to growth at a higher rate than with the rest of its trading partners. During 1993 to 1999, Mexican imports from the EU increased 64% and from the rest of the world (RoW) 124%. However, in 1999-2012, the imports from the EU increased 215% and from the RoW 156%. Similarly, thru 1993 to 1999, Mexican exports to the EU increased %84 and to RoW %167. In 1999-2012, the exports to the EU increased 326% and to RoW 165% (Figure 17). This also indicates that Mexican imports and exports from and to the EU have grown at a higher rate than that of US. In the period of 1999 and 2012, the share of Mexican exports to the US increased 142.6% and imports from the US increased 75.8%; which are lower than the growth between Mexican-EU trade.

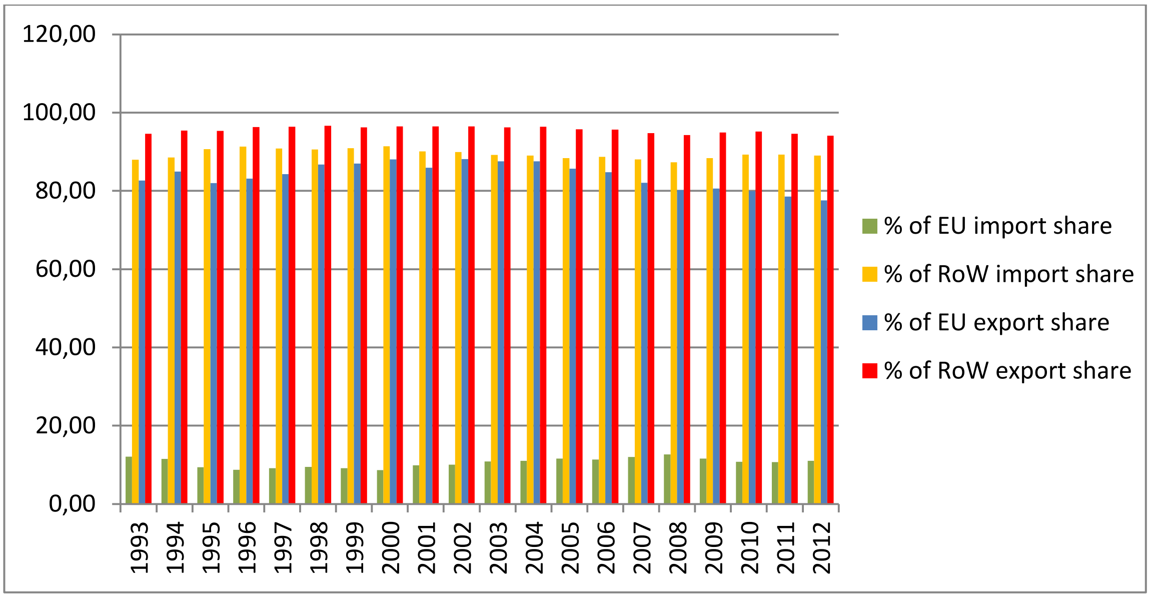

Figure 17 Mexican Exports and Imports Share with the EU and Rest of the World (RoW)
Source: Own calculations, Data from the Mexican Ministry of the Economy

Yet, the trade between the EU and Mexico has being an issue for Mexican economy. Even though both Mexican imports and exports to the EU have been increasing significantly, it is a fact that during 1999-2012 Mexico's trade deficit increased 141% (Figure 17).

Mexico's key imports from the EU are mineral products, machinery and electric equipment, transport equipment and chemical products. Apart from automobiles and pharmaceutical products, Mexico mainly purchases parts and accessories and intermediate products from the EU. This infers that Mexico has turned into a transformation and assembly center for semi-elaborated products that are then re-exported. That is, Mexico has turned into a platform for the production and exports not only to the North American market but also to Latin American countries with which it has signed free trade agreements. Put it differently, big European companies functioning in Mexico participate in intra-corporate trade importing parts and intermediate European goods transforming them into final goods and, in general, exporting them to the US and Latin America. And so, this manufacture process creates more investment in Mexico and contributes to the creation of new and better jobs (Vega Cánovas, 2014).

Mexico’s key exports to the EU are mineral products, machinery and electric equipment, transport equipment, optic photo precision instruments, chemicals and related products, and food and live animals. Oil is the main Mexican export product to the EU, after the other industrial products in the automotive, telecommunications, electronics, medical equipment, and chemical sectors. Comparing to imports, Mexican exports to the EU concentrate in a limited number of sectors. Taking into account growing trade deficit for Mexico in its relationship with the EU, concentration of Mexican exports in a narrow amount of products may show that Mexico is taking less advantage from the MEUFTA than normally it can (Vega Cánovas, 2014).

With regard to FDI flows, Mexico has being one of the top recipients of FDI among emerging economies in the world. Between 1980 and 1993, Mexico received $2.538 million in direct investment flows. Currently, this amount has multiplied by nine, reaching an annual average of $23.6 billion between 2001 and 2012, with which Mexico has registered an accumulated amount of $284.109 million.

As the origin of this FDI, the US and the EU evokes the main sources of investment in Mexico, contributing respectively with 47.8% and 36.6% of capital invested in Mexico since 2001. At the individual country level, Spain, the Netherlands, Canada, UK and Japan participate 13%, 14%, 6%, 3% and 2% respectively in the FDI received by Mexico (UNCTAD, 2014).

From a sectorial perspective, Mexico’s manufacturing industry (47.43%), the financial services sector (17%), the trade sector (8.7%) and the mining sector (5.05%) (Mexican Ministry of Economy) top among the most preferred investment targets. Among the manufacturing sectors, the main recipients are beverages, motor vehicle parts, automobiles, chemicals and iron and steel.

The EU has intensified its position as second investor in Mexico. Since the entry into force of the MEUFTA, European investment in Mexico has grown considerably, at an annual average of $8.7 billion (2001-2012). Only in 2009, the EU invested in Mexico $6.4 billion, which represents 37.6% of the total FDI received this year. In fact, under MEUFTA, the EU has been the main investor in Mexico in 2004, 2007 and 2010. Thus, the sum of the EU investment in Mexico reaches $105 dollars, accumulated between 2001 and 2012. 40% of the EU investment in Mexico concentrates on manufacturing activities, among these stand out beverage, automotive and food sectors.

Moreover, Mexico offers the legal security required by international investors. Together with its FTA, Mexico has also established Bilateral Investment Treaties (BITs) with several countries. In the EU, Mexico has BIT with Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and UK) (Mexican Ministry of Economy, 2014).

There are also many large European companies that exist in Mexico. Including German companies are: Basf, Hoechts Chemical, Bayer, Siemens and Volkwagen; French companies: Danone, Renauld and AXXA; Swiss companies: Nestlé, Ciba, Geigy and Novarties. The leading British companies in Mexico are the British American Tabacco, Glaxo and Shell; Dutch companies: Phillips and Unilever. In 2010, Heineken International, Dutch brewing company, announced that, it will acquire the beer operations of FEMSA, the largest beverage company in Mexico and in Latin America.

Yet, many other companies continue to invest in Mexico. In 2012, Nissan Motor Co., Ltd. announced plans to invest up to $2.0 billion for an all-new manufacturing complex in Aguascalientes, Mexico, to support the company's Americas growth strategy (Nissan Motor Cooperation, 2012). Honda Motor Co. also opened an $800 million factory in Celaya, Mexico. The plant will eventually make 200,000 cars a year and employ 3,200 workers (Muller, 2014). Coca-Cola also intends to invest $8.2 billion over the next years in Mexico (Owusu, 2014). The Ferrero group has announced plans to build its first plant in Mexico. It's expected to increase the company's total production by 35,000 tons (Lindell, 2012). Ericsson, Swedish telecom giant, has invested more than $20 million in a network operations center located in Mexico City (Investment Properties Mexico, 2012). Also, a new vehicle production facility jointly owned by Sumitomo Corporation (SC) and Mazda Motor Corporation called Mazda Motor Manufacturing S.A. de C.V. has begun construction in the city of Salamanca, in the state of Guanajuato, Mexico (Ramirez, 2014).

3.2.2. Overview of the relationship between Mexico and the United States:

Mexico and the US relationships are strong and vital. They share maritime and a 2,000-mile land border in North America, and mutual relations among the two have a direct effect on society about many issues such as; trade, economics, education exchange, citizen security, drug control, migration, the environment, entrepreneurship and innovation. The scope of U.S. – Mexican relations is wide and extends beyond diplomatic and official relations. It involves extensive commercial, cultural, and educational ties, with some $1.4 billion of two-way trade and hundreds of thousands of legal border crossing each day. Additionally, a million American citizens live in Mexico and as of 2013, approximately 11.6 million Mexican immigrants resided in the US –up from 2.2 million in 1980- and Mexicans accounted for 28 percent of the country's 41.3 million foreign born (Zong & Batalova, 2014). U.S. tourists amounted over 20 million in 2013 making Mexico the top destination of U.S. travelers. Mexican tourists to the US were over 14 million in 2013, and they spent an estimated $10.5 billion (U.S. Department of State, 2014).

The shared history between the two countries goes beyond to the Texas Revolution (1835-1836) and the Mexican American War (1846-1848). The Gadsden Purchase, or Treaty, was an agreement between the two nations, finalized in 1854, in which the US agreed to pay Mexico $10 million for a 29,670 square mile portion of Mexico that later became part of Arizona and New Mexico (U.S. Department of State. , 2014). Another important treaty was NAFTA, signed between the two countries and Canada in1994 with the goal of eliminating barriers to trade and investment.

In May 2013, President Barack Obama and President Enrique Peña Nieto have announced the formation of the High Level Economic Dialogue (HLED) to further elevate and strengthen the US-Mexico bilateral commercial and economic relationship. The HLED, which is led at the cabinet level by the Secretaries of State and Commerce and the U.S. Trade Representative, is envisioned as a flexible platform proposed to advance strategic economic and commercial priorities central to promoting mutual economic growth, job creation, and regional and global competitiveness. It also aims to enhance existing working group activities, while avoiding duplicate efforts. The Cabinet officials of the nations will meet each year, while sub-cabinet members work to achieve those goals during the year (International Trade Administration).

Mexico is the United States' 2nd largest goods export market and 3rd largest supplier of goods imports to the US in 2013 (Office of the United States Trade Representative, 2013) and 6 million US jobs depend on trade with Mexico. The economic integration between these two countries is highly intensive. The cross-border trade between the US and Mexico often happens in the context of production sharing. Industrialists in each countries work together to create goods and regional supply chains crisscross the border. For example, cars made in North America, are said to cross the US' borders eight times during production, integrating materials and parts generated in Mexico and Canada. Actually, 39.8% of US final good imports from Mexico consist of its own value added (Koopman, Powers, Wang, & Wei, 2010). Together with Canada, these two countries account for three quarters of all U.S. value added returned from abroad. So, a big share of the money US consumers depend on Mexican imports in reality goes to US firms and labors.

Many of the US states have particularly close economic ties to Mexico. Detroit-Michigan ranked as the largest exporter to Mexico with exports totaling $21.5 billion in 2013, which shows the importance of Mexico to regional motor vehicle manufacturing. Metropolitan areas in California, Texas, Wisconsin, Pennsylvania and South Carolina are ranked among the top 10 metropolitan exporters to Mexico in 2013 (International Trade Administration).

Although the US and Mexico have always been attached together by geography, the economic relationship is accelerated after the entered into force of NAFTA on January 1, 1994. All remaining duties and quantitative restrictions were eliminated on January 1, 2008. NAFTA created the world's largest FTA that currently associates 450 million people producing $17 trillion worth of goods and services (Office of the United States Trade Representative, 2013).The objectives of the NAFTA are the following (Organization of American States, 2015) :

- Eliminate barriers to trade in, and facilitate the cross-border movement, of goods and services between the territories of the Parties;
- Promote conditions of fair competition in the free trade area;
- Increase substantially investment opportunities in the territories of the Parties;
- Provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory;
- Create effective procedures for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and
- Establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement.

NAFTA was a revolutionary agreement in many aspects. It was the first comprehensive FTA between advanced countries and a developing economy. It also generated the world's largest FTA in terms of total gross domestic product (GDP) and it is the second largest, in terms of total trade volume, after the EU. NAFTA's reach was uncommon since it liberalized trade flows in a broad range of sectors, introduced a unique dispute settlement mechanism, and included side agreements on labor and environmental issues (Kose, Meredith, & Towe, 2014).

The trade relations among North American countries were regulated before NAFTA entered into force. One of the former US Presidents, Ronald Reagan campaigned on a North American market in 1979. Canadian Prime Minister Mulroney agreed with Reagan to start negotiations for the Canada-US Free Trade Agreement, and the Agreement had existed since 1989. In mid-1980s, Mexico was liberalizing its protectionist trade and investment policies that had been in place for years and this process shifted one of the world's most protected economies into one of the most open systems in a few years. By 1986, Mexico joined to the General Agreement on Tariffs and Trade (GATT). As a requirement of its GATT membership, Mexico agreed to lower its maximum tariff rates to 50%. Mexico went further by reducing its highest tariff rate to 20%, down from 100% in the mid-1980s. Mexico's trade-weighted average tariff fell from 25% in 1985 to about 10% in 1989. In 1989, Mexico made agricultural reforms which modifies agricultural policy to diminish state intervention, strengthens the role of the market, and opens up agriculture to commerce and investment.

Although Mexico has significantly reduced its trade barriers, the number of remaining barriers for US exports remained high at the time of the NAFTA negotiations. Mexico required import licenses, which still affect about 7% of the value of US exports to Mexico. Before the GATT membership, Mexico required import licenses on all imports. At the time of NAFTA negotiations, some 60% of US agricultural exports to Mexico required import licenses. Mexico also abolished numerous other non-tariff barriers, including its ‘official import prices’, an arbitrary customs valuation system that raised duty assessments (United States International Trade Commission, 1991).

In early 1994, Mexico was facing important macroeconomic imbalances such as; a widening current account deficit in the face of strong domestic spending, emerging problems in the financial sector, increasing concerns about the fiscal outlook, and outflows of private capital. The primary reaction of the authorities to market pressures was to shift toward increasingly risky financing instruments since other credit channels wasted. At the end of 1994, when the crisis hit, the impact was amplified by the balance-sheet effects of exchange rate depreciation, which required extensive government intervention in support of financial institutions. This financial crisis resulted in Mexico’s deepest recession in more than sixty years, a collapse of the Mexican peso, and a substantial decline in foreign investment inflows. The rapid recovery from the 1994-1995 crisis partially stemmed from the credibility offered to the Mexican reform process by participation in NAFTA. During these years, while Mexico increased some tariffs on imports from non-NAFTA countries, it respected its NAFTA obligations and continued to implement the reform program. As a result, the growth of exports and imports increased rapidly. Also, the US fully supported Mexico’s stabilization and reform programs by providing a large loan to help Mexico to deal with its balance of payment problems (Kose, Meredith, & Towe, 2014).

For the US, NAFTA was an economic opportunity to expand the growing export market to the south and a political opportunity to resolve tensions with Mexico.

The FTA would also support the growth of political pluralism and deepening of democratic processes in Mexico. Additionally, NAFTA was an opportunity for the US to spur the slow progress on the Uruguay Round of multilateral negotiations. NAFTA would support US businesses expand exports to a growing market of almost 100 million people. US officials also recognized that imports from Mexico would likely include higher US content than imports from Asian countries (Hufbauer & Schott , 2005).

When NAFTA was implemented, US tariffs on Mexican goods were low and the US–Canada FTA was already in effect. Some of the main NAFTA provisions included tariff and nontariff trade liberalization, rules of origin, services trade, foreign investment, intellectual property rights protection, government procurement, and dispute resolution. Labor and environmental provisions were involved in separate NAFTA side agreements (Villarreal & Fergusson , 2014).

There are many arguments regarding NAFTA’s contributions. Some studies suggest that NAFTA brought many economic and trade benefits. A research done by the US Chamber of Commerce suggests that most of the gains of the US from the FTAs result from the NAFTA. NAFTA trade represents 92% of the new employment gains associated with the 14 FTAs in 2008; 92% of the output gain, and 80% of the total US goods and services export increases (Baughman & Francois, 2010). According to an article published by the Economist, Mexico has been NAFTA’s biggest beneficiary. Import competition has improved the country’s manufacturing productivity; foreign direct investment has surged. Membership of NAFTA has also shored up Mexico’s domestic political commitment to open markets, and provided a template for its other FTAs. NAFTA helped make Mexico more stable and prosperous as well (The Economist, 2014). Between 1993 and 2002, Mexico’s exports to the US and Canada tripled in dollar terms. Although the trade growth has slowed since 2000, Mexico’s trade (exports plus imports) with NAFTA partners still accounted for around 40% of its GDP in 2002. The FTA also has significantly improved the nature of trade flows, with a substantial increase in intra-industry trade between Mexico and its NAFTA partners. Likewise, the agreement helped boost FDI flows to Mexico, which rose from $12 billion over 1991-93 to roughly $54 billion in between 2000 and 2002 (Kose, Meredith,

& Towe, 2014). On the other hand other studies suggest that NAFTA has come at a cost to US workers. For instance Scott (2011) claims that US trade deficits with Mexico of 2010 displaced production that could have supported 682,900 US jobs; given the pre-NAFTA trade surplus, all of those jobs have been lost or displaced since NAFTA (Scott , 2011). From the Mexican side, it is argued that Mexican agriculture has been a net loser in trade with the US, and 2 million farm workers lost their jobs and 8 million small-scale farmers were forced to sell their land at tragically low prices, or desert it, because of sharply declining food prices (COHA, 2012).

Yet, NAFTA plays an important role in economic relations between Mexico and the US. NAFTA eliminated many barriers to trade and investment, supporting a quadrupling of US-Mexico trade since it was put in place (Figure 18). The two economies are strongly connected, with goods, services, capital and people traveling to and from between two countries at exceptional rates. Mexico is the 3rd largest total goods trading (after Canada and China) partner of USA by constituting 13.5% of total (two ways) goods trade of the US in 2014. In the same year, Mexico is also 2nd most important destination for US exports (with $201.7 billion) and 3rd largest source of US imports (with $290.6 billion) (The United States Census Bureau, 2014). For Mexico, the US is the 1st biggest trading partner. In 2012, 77.5% of Mexico’s total exports (valued at $370.914 million) went to the US (valued at $287.824 million). During the same period, almost 50% of Mexico’s total imports came from the US (valued at $185.109 million), 15% arrived from China; and 11% from the EU (Mexican Ministry of Economy, 2014). Mexico’s imports to and exports from the US have been increasing gradually; import level is now 4 times, export level is 6.7 times more than its 1993 level (Pre-NAFTA) (Figure 18).

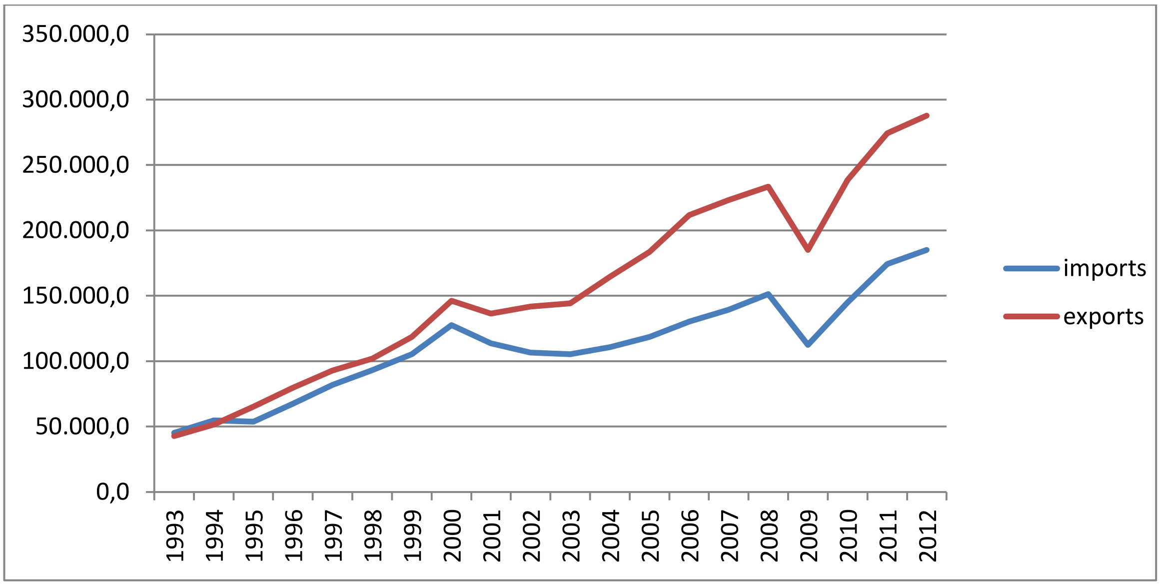

Figure 18 Mexico's Imports and Exports with the US (millions of dollars)
Source: Data from Mexican Ministry of the Economy

Mexican goods imports from the US in 2013 were $226.2 billion, up 4.7% from 2012, and up 132% from 2003. It is up 444% since 1993. US exports to Mexico value for 14.3% of overall US exports in 2013.

The top Mexican import categories (2-digit HS) from the US in 2013 were: Machinery ($38.5 billion), Electrical Machinery ($36.7 billion), Mineral Fuel and Oil ($23.0 billion), Vehicles ($21.6 billion), and Plastic ($15.3 billion).

Mexican imports of agricultural products from the US totaled $18.1 billion in 2013, the 3rd largest US Ag export market. Leading categories include: corn ($1.8 billion), soybeans ($1.5 billion), dairy products ($1.4 billion), pork and port products ($1.2 billion), and poultry meat (excluding eggs) ($1.2 billion).

Mexican imports of private commercial services[33] (i.e. excluding military and government) from the US were $27.4 billion in 2012 (latest data available), 6.8% ($1.7 billion) more than 2011 and 57% greater than 2002. It was up 163% from 2003 (Pre-NAFTA). The other private services (business, professional and technical services and

[33] NOTE: Refers to private services trade not including US military sales, direct defense expenditures and other miscellaneous US government services.

financial services), and the travel categories accounted for most of Mexican services imports from the US.

Mexican goods exports to the US amount to $280.5 billion in 2013, up 1.0% from 2012, and up 103% from 2003. It was up 603% since 1993 (Pre-NAFTA).

The important export categories in 2013 were: Vehicles (cars, trucks and parts) ($59.6 billion), Electrical Machinery ($57.4 billion), Machinery ($42.6 billion), Mineral Fuel and Oil (crude) ($34.8 billion), and Optic and Medical Instruments ($10.7 billion).

Mexican exports of agricultural products to the US totaled $17.7 billion in 2013, the 2nd largest US supplier. Leading categories include: fresh vegetables ($4.6 billion), fresh fruit (excluding bananas) ($3.1 billion), wine and beer ($1.9 billion), and snack foods (including chocolate) ($1.5 billion).

Mexican exports of private commercial services (i.e. excluding military and government) to the US were $15.1 billion in 2012 (latest data available), up 8.8% ($1.2 billion) from 2011, and up 30% from 2002. It was up 104% from 2003. Travel and other private services (business, professional, and technical services) accounted for most of Mexican services exports to the US in 2012 (Office of the United States Trade Representative, Mexico, 2013).

Mexico has being experiencing trade surplus with Mexico since NAFTA entered into force. In 1993 and 1994 Mexico had a trade deficit with the amounts of $2.443 and $3.145 million. After NAFTA, in 1995, the trade deficit turned into a trade surplus with the amount of $11.361 million. In 2012, Mexico recorded $102 thousand trade surplus[34] with the US (Figure 19). However, the US had a services trade surplus of an estimated $12.2 billion with Mexico in 2012, up 4.4% from 2011.

[34] Trade surplus means that exports are more than imports

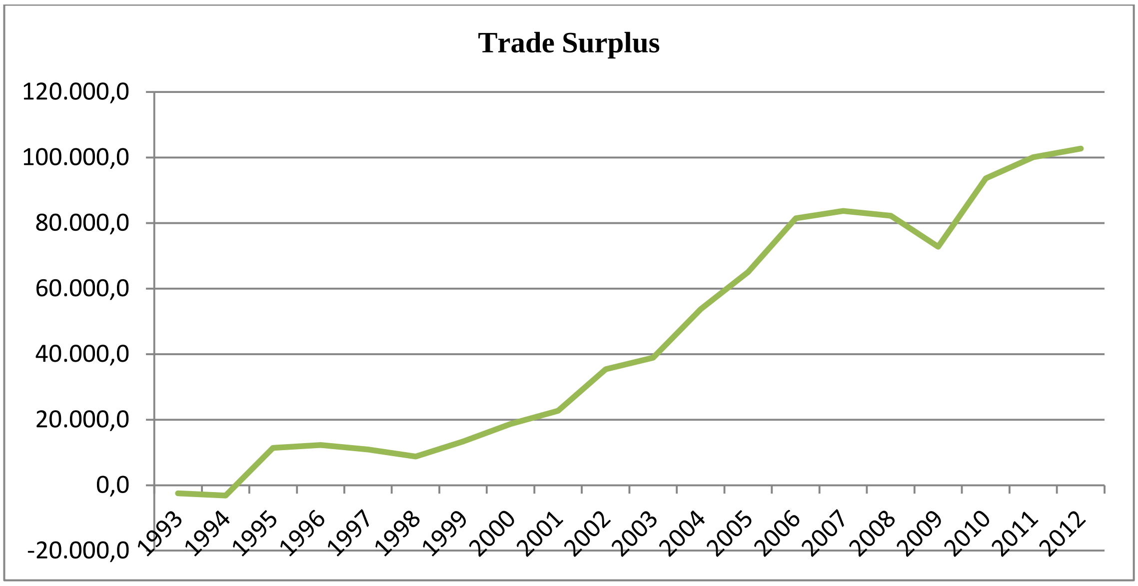

Figure 19 Mexico - US trade balance (millions of dollars)

Source: Data from Mexican Ministry of the Economy

In 1997, Steve Beckman, an international economist for the United Auto Workers labor union, reported on Testimony Before the Subcommittee on Trade of the House Ways and Means Committee that US's bilateral trade deficits with Canada and Mexico had created a 'trade debacle' costing the US economy more than 400,000 jobs (Ways and Means Committee, 1997). Yet, the US has the world's largest trade deficit, and has run a trade deficit since 1975. In 2013, the deficit in goods and services was $472 billion, 12% lesser than in 2012. This is because exports rose 2.8% while imports fell 1%. The US generally runs a deficit with countries for any of the following reasons: 1) the countries produce things more cheaply than the US, such as consumer products or oil. 2) They do not need what the US is good at making, such as agricultural products, industrial suppliers (like organic chemicals), capital goods (like transistors, aircraft, motor vehicle parts, computers, and telecommunications equipment), or high-end consumer goods (like automobiles and medicines). 3) The US trade a lot of everything with them, but the US is importing more than exporting. With many of the trading partners that US runs trade deficits including its NAFTA partners, Mexico and Canada (Amadeo, 2014).

Mexico is an important third energy supplier for the US partner; after Canada and Saudi Arabia. In 2014, Mexico provided %10.65 (285,111 thousand barrels) of U.S. imports of crude oil (Figure 20).

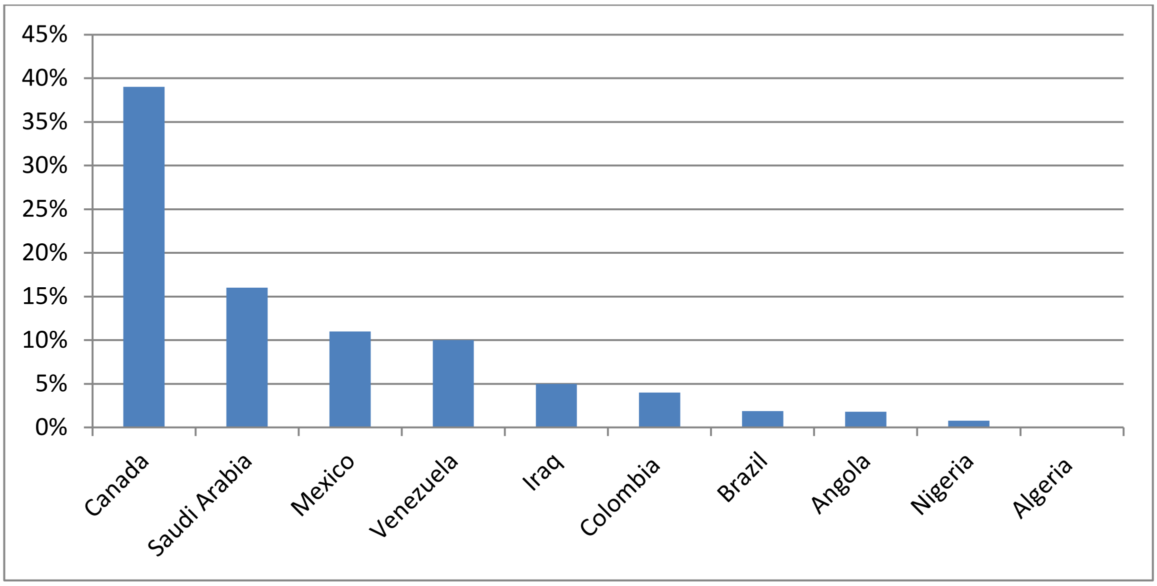

Figure 20 Imports of Crude Oil into the U.S. by County of origin, 2014

Source: U.S. Department of Energy, available at www.eia.doe.gov

About FDI matters, being close to the US, and macroeconomic stability make Mexico an attractive location for foreign direct investment. Additional reforms to improve competition, labor regulations, and education quality are needed to increase competitiveness and encourage more FDI. According to World Investment Report 2013, Mexico ranked 18th among the largest worldwide investment destinations and 7th among developing countries (United Nations Conference on Trade and Development, 2014). In 2012, Mexico received a total of the $12.66 billion in FDI. Of this total, 55.7% was concentrated on the manufacturing industry, 20% retail, 12.9% construction sector, and the rest to other sectors. The FDI came mainly from the US (58.5%), Japan (13.1%), Canada (8.2%), Germany (5.9%), Netherlands (5.7%) and France (2.6%) (U.S. Embassy Mexico City, 2014).

Over the last two decades, bilateral investment between the US and Mexico has grown even faster than bilateral trade. US foreign direct investment in Mexico (stock) was $101.0 billion in 2012, up 11.3% from 2011. At $101,454 million in 2013, the U.S. foreign direct investment position in Mexico is seven times what it was in 1992 (Figure 21). US FDI in Mexico is primarily led by the manufacturing, nonbank holding companies, and finance/insurance sectors.

Mexican FDI in the U.S., which reached $17 billion in 2013, has grown even faster. It is current level, even if still much smaller than U.S. FDI in Mexico, is more than 12 times greater than it was in 1992, as Figure 21 shows. Mexican FDI in the US (stock) was $14.9 billion in 2012; a 14.0% increase from 2011. Mexican direct investment in the U.S is concentrated on the manufacturing, banking and wholesale trade sectors.

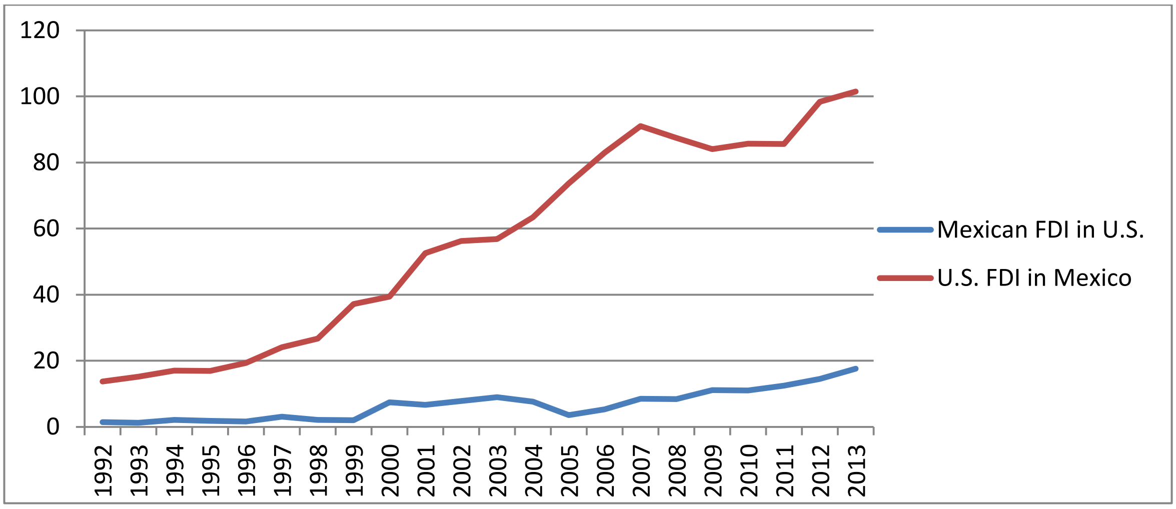

Figure 21 U.S.-Mexico Foreign Direct Investment Positions, 1992–2013, (Millions of Dollars)
Source: Department of Commerce, Bureau of Economic Analysis 2014.

Also, sales of services in the US by majority Mexico-owned firms were $4.9 billion in 2011, while sales of services in Mexico by majority U.S.-owned affiliates were $37.6 billion (Office of the United States Trade Representative, 2013).

The economic links between Mexico and the US are strengthened by a many social connections. According to US Census Bureau, the Mexican population is the largest Hispanic[35] group in the US. Between 2000 and 2010, the Mexican origin

[35] Hispanic refers to a person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture of origin regardless of race.

population increased by 54 percent and had the largest numeric change (11.2 million), growing from 20.6 million to 31.8 million. Mexicans valued for about three-quarters of the 15.2 million increases in the Hispanic population between these years (The United States Census Bureau, 2014). As discussed above, they are also top sources of both immigrants and tourists for each other, along with important destinations for foreign investment and services exports. Deep social interactions between the two countries contribute the development of economic relationships. Trade relation, production sharing arrangements, and investment possibilities are other factors that strengthen this relationship (Wilson, 2011).

3.2.3. Effects of TTIP on Mexico

The anticipations for a positive influence of TTIP are high on both Atlantic sides. Yet, a TTIP is not without risks for global trade and multilateral trade system. Frequently, discrimination against third countries with trade-diversions effects is the main problem of PTAs (Mildner & Schmucker, 2013).

According to a research by ifo-Institut, countries geographically close to the US or the EU, countries with a high volume of trade with either or both of them, and countries with FTAs with either of both must expect to lose trade through a TTIP. For the US, this means in the first place Mexico and Canada, mainly through erosion of the preferential access to the US market both enjoy through the NAFTA, but also trade-diverting effects (Felbermayr & Larch, 2013).

Mexico, which sees itself as a privileged US partner, is concerned about the potential consequences of the Atlantic Partnership. Spanish MEP (Member of the European Parliament) Ricardo Cortés Lastra, who is the author of the report on the basis of which the European Parliament Resolution 'On defining a new development cooperation policy with Latin America' adopted in 2012, shared his impression from his recent visit to Mexico, where he held talks. The Socialist and Democrat MEP said that '…the EU could develop so important in the US and US could reach more strongly to the EU. Logically Mexico, which has the US as a great business partner, and has a little diversified market, watches with some concern what kind of consequence these agreements might have', he said (EurActiv, 2013).

Yet, Mexico seems to have legitimate reasons to be concerned. A recent research made by Felbermayr et al. focused on the potential welfare gains from a TTIP for European member states, the US, and third countries. They found that, TTIP increases real income by 3.9% in the EU 28, by 4.9% in the US, but lowers 0.9% in the rest of the world. They also predicted larger potential welfare gains in the EU member states with peripheral geographical positions compared to more central states. For example, in the long run Germany could gain 3.5%, while the gains in Spain around 5.6%. They also found that the US systematically gains more from a TTIP than the EU. On the global level, countries having preferential trade agreements with the EU or the US would lose due to preference erosion[36]. These losses rise strongly in the relative importance of the EU or the US in those countries' exports. The authors found losses of about 2.6% in Mexico, 3.1% in Canada and 1.6% in Turkey. On average, real world GDP increases by 1.6%, but non-TTIP countries register losses of -0.9% (Felbermayr, Heid, Larch & Yalcin, 2014).

An unpublished manuscript by Anderson, J.E., Mario Larch and Yoto V. Yotov (2014) found that the TTIP will have economically strong and significant static and dynamic effects on trade and capital accumulation in member and non-member countries. The sample of the study covers a total of 89 countries over the period 1990-2011. The authors estimate *static* gains for TTIP members in terms of change in total exports of about 57%. The biggest winners in terms of trade creation among the TTIP member countries are USA, Germany and Great Britain. They estimate an average negative effect on exports in the rest of the world of about -5.7%. The biggest losers in terms of trade diversion are Australia (-1.95%), Japan (-1.17%), Canada (-3.2%) and Mexico (-2.84%). According to them, the explanation for relatively strong effect on Mexico is that this country has FTAs with both the USA and the EU. Also, it would be expected to see Canada and Mexico pushing toward further integration with the rest of the world. This is actually the case with Canada and Mexico participating in the TPP

[36] Preference erosion is a problem for countries which enjoy preferential trading conditions with either or both the EU and the US.

negotiations along with the USA and nine other countries from the Asia-Pacific region. In the *dynamic* setting, they find that the USA is the biggest winners with total gains in exports of 33.9%, followed by Great Britain with trade gains of 29.9%. However, Mexico and Canada are the biggest losers in their total export loss of -3.62% and -4.66%, respectively. The evaluation of the effects of TTIP on *capital accumulating* reveals the following. They found that, TTIP will promote capital accumulation in member countries. Some of the largest capital accumulation effects are for the largest and most developed TTIP members including Great Britain (41.4%), France (28.6%) and USA (27.6%). Conversely, TTIP will deter capital accumulation in non-member countries. Canada (-7.6%) and Mexico (-5.8) are among the most affected countries. The negative effects on capital accumulation for outsiders are, on average, twice larger as compared to the negative effects on trade. The studies points that; mainly Mexico and many other third countries' economies could be adversely affected from the transatlantic agreement.

From the Mexican and Canadian governments' perspective, becoming a part of TTIP brings many advantages. Firstly, they would be joining an agreement with the potential for high degrees of liberalization and one that was compatible with on-going efforts to address regulatory barriers in their own North American market. Secondly, rather than proceeding through bilateral liberalization, that has been the strategy of US-Mexico and US-Canada on regulatory issues; it could compel the three North American countries to reach a tipping point and deepen their own integration efforts. Thirdly, the accession of Canada and Mexico to the FTA would provide the possibility of a genuine transatlantic market that delivers significant benefits in terms of rules of origin and tariffs between the North American neighbors, and improved regulatory coordination and harmonization. In looking to foster growth, the US should not disregard its North American neighbors, Mexico and Canada given the large volume of trade and investment ties and integrated supply chains. Certainly the Obama Administration is pursing both an Atlantic and Asia pivot in terms of trade policy. In order to promote deep integration, the US is seeking to achieve high levels of economic liberalization through addressing specific sectorial issues as well as cross-cutting issues of market access, competitiveness, state owned enterprises, and rules of origin.

On the other hand including Mexico may be very beneficial for the US-Mexico economic integration. Beyond the trade and investment numbers, the reality of trade and investment is that the US and Mexico compete together in the global economy. There exist a growing integrated platform that takes advantage of geography, time zones and cultural affinity (Wilson, 2011). US-Mexico economic integration is key to competitiveness. The US and Mexican manufacturing economies build products together for the North American market and globally. Mexico is not only one of the US' most important markets and the largest source of energy imports, but also has vital links in North American supply chains. Improving this relationship has allowed the nations' citizens to realize the key benefits of economic integration –increased competitiveness- that forms the basis for good jobs and prosperity (Jacobson, 2014). Some stakeholders contend that the US, Canada, and Mexico can enhance their negotiating positions relative to the EU if they force their weight collectively by negotiating together. Some also claim that TTIP presents an opportunity to 'update' NAFTA and the EU-Mexico FTA (Akhtar & Jones , 2014), just like the need to upgrade CU for Turkey with the EU.

CHAPTER IV

THE PROSPECTS FOR TURKEY AND MEXICO

4.1. TURKEY'S INTEGRATION WITH THE TTIP

Turkey, as an emerging economy in the global economy, will be certainly influenced by the changes instigated by the Transatlantic partnership. To be isolated from the process of new-rule making will be more costly to Turkey in the medium to long term. Moreover, in order to prevent trade diversion and deterioration of bilateral trade balances Turkey should participate in TTIP initiative from the beginning of the development. It could be claimed that, Turkish involvement in this deal (or constituting a FTA with the USA) would be *more beneficial* for herself or at least *less harmful* comparing to not participating in this process (Akman S. , 2014).

Not very substantial steps have been taken so far. Once the Transatlantic partners launched negotiations, Turkey requested a seat at the table as a country having a CU with the EU. This request was duly rejected by both parties due Turkey's inclusion would 'complicate the process'. All Turkey received were 'assurances' from American and EU leaders that Turkey would regularly be informed about relevant developments on TTIP negotiations. The US-Turkey HLC continues to hold meetings, but without making any substantial progress (Ay, 2014). So what are Turkey's options?

Hitherto, there have been several kinds of quests regarding Turkey's inclusion to the TTIP process (The Economic Policy Research Foundation of Turkey , 2013):

First of all, **Turkey's participation to TTIP negotiations** can be seen as the ideal choice for entering Turkey to bring equal rights and obligations to the EU and Turkey. However; considering the absence of EU's requests and initiatives in this direction, EU's limited negotiating power received from the Council and EU's start to the negotiations without Turkey; makes this quest a weak option.

In order to compensate Turkey's inability to take part in negotiations, another different option expressed from time to time is European Commission's conducting the negotiations on behalf of Turkey. Accordingly, it will be necessary that, by keeping in mind the Customs Union Agreement, the EU will request from the US to remove barriers such as customs duties, etc. with Turkey. Such a provision is called '**Andorra – San Marino model**', and provides Turkey to have the same rights automatically in case of EU's FTA with any third country. This situation will continue until completion of the process of Turkey-US FTA and thus, confrontation of Turkish products with different (higher) custom duties than the EU in the US market will be avoided. This case will be applied to the products that take part in sections 25 to 97 of the Standard International Trade Classification (SITC) and industrial products covered by the Customs Union. However, there is no clear progress in this approach. Considering EU Officials' own benefits, it is unlikely that they want to include Turkish case in the complex negotiations with the USA. When take into account Turkey's competitiveness comparing to small countries as Andorra or San Marino and its economic size, it is obvious that this approach is unlikely will find acceptance in the eyes of the US authorities. Moreover, the narrow scope of the CU and the existence of uncertainty about how to distinguish in the matters for which keep in and keep out of the CU, puts this approach in difficult position.

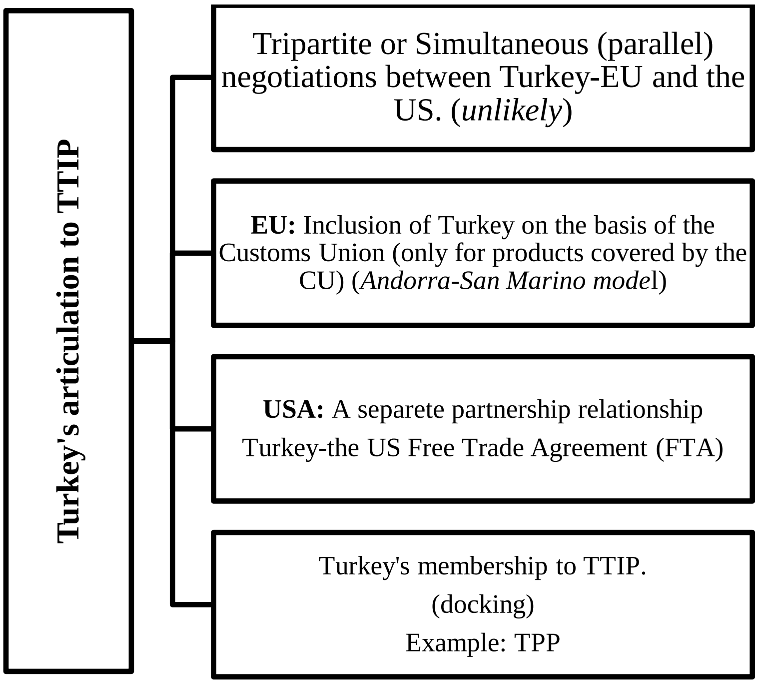

Figure 22 Alternative quests of Turkey's integration to TTIP

Source: Akman, S. (2014b), ibid.

In addition to this option, another approach could be **a separate FTA between Turkey and the US**. Accordingly, the EU will invite the counterparty, i.e. the US, in order to start simultaneous and parallel negotiations with Turkey as soon as possible. During the period, Turkish export goods -which are in free circulation in the EU market-, will benefit from the EU FTA and be able to login to the US market with the exemption of barriers like customs duties. An FTA has also strong repercussions on Turkey which will be referred in 4.1.1.

Another proposal on the accession of Turkey to the TTIP is, after the completion of negotiations between the two sides, Turkey (and similarly other countries such as Canada, Mexico, and Norway…) will join to the TTIP. However, it should be noted that TTIP negotiations will be spread over the years and the Agreement requires a broad alignment with the acquis. In this context, since Turkey's aim is to eliminate asymmetric situation, she would not prefer to wait so long. In this case, alongside with this process, Turkey could somehow be involved to the negotiations after a certain stage (**docking**) - as was done in the process of TPP (Akman S., 2014b). The US has advocated for Japan’s eventual inclusion in the TPP negotiations through docking. The negotiations had started without Japanese participation, but Shinzo Abe’s election prompted a request by Japan to be included in TPP. Thus, the US Trade Representative office brought up the docking provision, which is written into the TPP draft agreement that would permit Japan and other countries to join the TPP afterwards without suffering any disadvantages (Ay, 2014). Therefore, the existence of provisions in TTIP which allow other countries to participate and confirmation of this participation by both the EU and US domestic processes, are required. In such a case, the EU and the US will require additional authorization from the Council and the Congress, respectively.

One strong option about finding a permanent solution of the problem is the revision of the Customs Union Decision. On the other hand this should be to upgrade the CU rather than converting it into a FTA, as proposed earlier (World Bank, 2014). The CU significantly contributed to the competitiveness of Turkish economy, Turkey has opened up its economy, and its trade volume has been growing. Moreover, in order to mitigate the negative effects of TTIP, Turkey and the EU might make a change in the legislation of the CU. For example, the Articles 16 and 54 that require Turkey to adapt its trade policy to the EU’ may be revised to allow Turkey to take further measures. In this way, the asymmetry can be eliminated. Yet, this is not an easy issue. In order to make a revision and revise the CU Decision, Turkish decision-makers would be required to expend considerable effort, the issue would have to be elucidated with empirical evidence, and the Transatlantic bloc would need to be convinced about the significance of the TTIP for Turkey (Keleş, 2014).

Consequently, the TTIP will be challenging process for Turkey. Turkey should manage to get itself in the TTIP. As of now, the most seriously emphasized approach for Turkey is starting FTA negotiations with the US. The new US-Turkey High Level Committee (HLC) was announced by President Obama in May during the visit of Turkish former Prime Minister Erdogan as a means to explore how Turkey might be affected by the TTIP negotiations and to assess ways to liberalize US-Turkey trade and investment (Office of the United States Trade Representative, 2013). However, it seems that the US side is not willing to launch a FTA. This is essentially because of US congressional politics. Traditional foes like the Armenian and Greek lobbies have already raised oppositions to Turkey's involvement in TTIP based on historical grievances. In addition, Turkey's incessant criticism of Israel in its conflict with Hamas and other differences with the US on Middle East policy do not make matters any easier (Ay, 2014). Hence, this process is not easy and may be costly. In addition to state-to-state relations, the involvement of business is essential to lobby for initiative. Intensive and steady interaction among the US and Turkish business cycles is crucial. The Turkish Union of Chambers of Commerce and Commodity Exchange (TOBB), Turkish Association of Businessman and Industrialist (TÜSİAD), Turkish Exporters' Association (TIM), Turkish American Business Association (TABA) and Turkish-American Business Council and other should take lead to lobby with their American counterparts. Also, the services of professional lobbying firms could be obtained for this purpose (Aran, 2013).

4.1.1. The Likely Broader Scope of a Potential Turkey-US FTA

The HLC is established in 2013 between Turkey and US with the ultimate objective of continuing to deepen US-Turkey economic relations and liberalize trade (The White House, 2013). The Committee is intended to help keep Turkish leaders updated on TTIP's progress, as well as its potential effects on US-Turkey trade (Consulate General of the United States, 2014). Accordingly, regulatory issues have central position in this relation, and here possible gaps within trade-related legislations will generally be explained. It is expected that several issues that go beyond traditional trade agreements will be in the agenda in case of a likely trade agreement between Turkey and the US which will cover deep and comprehensive issues.

A brief analysis of the US-Korea Free Trade Agreement (KORUS) and Turkey-Korea FTA could provide a template for a comprehensive agreement. Because an FTA with the US is not expected to be limited to tariffs issues only but more likely to cover comprehensive areas such as services, investments, government procurement, IPR, TBT, SPS, and so on with emphasis on more regulatory issues.

4.1.1.1. *Services*

Trade in services constitutes an important part of US-Korean trade relationship and is over 20% of US exports to Korea. Removing barriers to trade in services – everything from legal services, consulting, finance, telecommunications, transport, to tourism and retail distribution- is not as simple as phasing out a tariff. In this area the objective is to make sure that the business rules for service provides –banks, insurers, hotels, telecommunication provides, lawyers, architects, shipping lines, and others- apply in precisely the same way to US firms as they do to Korean firms. Some of the big improvements in this area include providing foreign legal consulting in Korea, financial and insurances advisory services, express delivery, eliminating discriminatory rules for professional services, and letting US firms compete for more of Korea's telecommunications market ((AMCHAM) & U.S.- Korea Business Council).

Turkey-Korea FTA just started to govern a chapter on services yet. Article 1.5 of the Agreement states '*The Parties shall begin negotiations on agreements on trade in services and on investment immediately after entry into force of the Agreement on Trade in Goods*' (Korea Customs Service, 2014). On 26 February 2015, Turkey's Economy Minister Nihat Zeybekci and his South Korean counterpart San-Jick Yoon signed agreement on Trade in Services and Agreement on Investment under the Turkey-Korea FTA, and will enter into force upon completion of ratification procedures of the Parties (Republic of Turkey Ministry of Economy, 2015).

Services are most significant contributor to Turkey's economy and account for %60 of GDP. Through the Customs Union, Turkey and the EU have eliminated all trade barriers excluding agriculture and services. Levels of services openness are similar between both parties; however there are important differences at the sectoral level. For instance, the EU has higher restrictiveness indices[37] than Turkey for retail services and some transportation services. But the biggest differences are for professional services (taken as the legal and accountancy sector) and rail services where Turkey is measured

[37] International Trade in services is often impeded by trade and investment barriers and domestic regulations. The Service Trade Restrictions Index (STRI) helps identify which policy measures restrict trade. The STRI indices take the value from 0 to 1, where 0 is completely open and 1 is completely closed.

as being more restrictive then the EU. Widening the Decision to cover these areas would bring important benefits to the EU and Turkey (World Bank, 2014).

Services are one of the important areas that can be addressed in a potential Turkey-US FTA. Especially financial services, legal services, telecommunications, postal and delivery services, audiovisual services, etc. are considerable areas of the USA. Though, considering that Turkey did not sign a bilateral services trade agreement yet, a potential negotiation on this area could be an uphill battle on services (Akman, 2014b, Bülbül & Orhon, 2014).

4.1.1.2. *Investments*

Investment is another type of export. The KORUS FTA designs the investment rules in order to protect the ability of US firms who invest in Korea to function under the same rules as Korean firms. The essential protections related to investment are the bedrock investment rights that exist under US law. Under the Agreement, US investors cannot have their property expropriated by the government without just compensation; they have freedom to repatriate profits to the US without restriction; and the freedom to hire managerial staff according to need and not nationality. According to the Agreement, US investors in key sectors such as express delivery and telecommunications can own 100% a Korean provider. US investors also have right to challenge arbitrary or illegal Korean Government actions in a neutral international arbitration venue ((AMCHAM) & U.S.- Korea Business Council).

As noted before, Agreement on Investment under the Turkey-Korea FTA was signed on 26 February 2015, and will enter into force upon completion of ratification procedures of the Parties.

The CU has been a major instrument of integration for the Turkish economy into both European and global markets. The EU is the largest foreign investor in Turkey, accounting for three-quarters of total FDI inflows during the last five years. The CU has closely integrated Turkish automobiles and clothing companies in European production networks. It has promoted raise the quality and sophistication of Turkey's exports (World Bank, 2014).

Investment is one of the possible negotiation issues under the Turkey-USA FTA. According to 2014 National Trade Estimate Report, energy and real estate are two specific sectors where investment barriers exist in Turkey. These sectors may also be subject to discussion during the negotiation progress. On the other hand, Turkey attracted $6.8 billion worth of FDI in the first half of 2014, increasing 28% as compared with the same period of 2013 (Investment Support and Promotion Agency of Turkey , 2014) and Turkey’s performance in this area has been increasing by years. The stock of US FDI in Turkey was $6.0 billion in 2012, up from $4.9 billion in 2011. A prospective FTA between Turkey and the US is expected to take into account investment issues and may increase investment interests for each other.

4.1.1.3. *Intellectual Property Rights*

Intellectual Property (IP) Rights are a fundamental area in which US have strength in the global economy. TRIPS Agreement of the WTO protects IP rights in trade. The KORUS FTA has the strongest IPR protection and enforcement mechanisms compared to all other FTAs signed by the US so far. It includes some protections for copyrights and patents, mainly in the form of improved provisions in Korean law and enforcement measures against counterfeiting and piracy. Regarding trademarks, the Agreement includes new protections for sound and scent marks to go beyond what is required under global IP treaties. In copyright, it extends terms of protection to life plus 70 years. Patent rights are also extended, including by providing additional protection against potential competitors using pharmaceutical patent data for seeking marketing approval ((AMCHAM) & U.S.- Korea Business Council).

In case of Turkey-Korea FTA, the Parties shall ensure an effective implementation of the international treaties dealing with IP to which they are party, including the TRIPS Agreement. Article 2.1 of the Agreement embodies copyrights, patents, trademarks, service marks, designs, topographies of integrated circuits, geographical indications, plant varieties as well as protection of undisclosed information. The Agreement also requires compliance with several multinational agreements on copyright protection. Similar to KORUS, it enables for 10 years initial registration and renewal terms for trademarks.

Article 54 of the CU Decision sets the coverage of areas for which harmonization is set and of direct relevance to the CU: commercial policy and agreements with third countries for industrial products; TBTs on industrial products; customs legislation; **intellectual property law** and competition policy. Turkey has made some progress in handling enforcement of IPD but more needs to be done. For example, further steps are needed to better target and intercept IPR infringing shipments that are entering, transiting and being exported from Turkey (World Bank, 2014).

In 2014, Turkey still remains on the USTR's Special 301 Report watch list. Main concerns against Turkey on IPR protection focus on export from, and transshipment through, Turkey of counterfeit and pirated products. In particular, concerns about the manufacture of counterfeited luxury goods, digital media, textiles and software piracy. Generally, Turkey is criticized for having inadequate, nontransparent, and ineffective IPR enforcement many due to judicial delays, rarity of deterrent-level penalties, and the lack of ex-officio authority of Turkish National Police. On the other hand, Turkey's successful enforcement initiatives, coordination in many Turkish governmental agencies and public education initiatives are praised by the USTR (Office of the United States Trade Representative , 2014). So, in potential Turkey-US, IP rights chapter can be a forceful area in negotiations.

4.1.1.3. *Government Procurement (GP)*

The Korean Government is the biggest buyer of goods and services in Korea. The KORUS Agreement seeks to make it possible for US firms to have the same access to Korean government procurement as Korean firms. Therefore, under the Agreement, US firms are enabling to bid for contracts with 51 Korean Government agencies, more than any other country. This commitment goes well beyond what Korea has offered to other WTO members through the WTO GP Agreement. Some areas, for example sensitive military procurement, are not included in the scope of the commitments. Also, the KORUS FTA lowers the minimum size of contracts US firms can bid on to $100,000 from the $200,000 it requires for bidders from other countries; which is an important opportunity to help smaller and medium sized business contract with the Korean Government ((AMCHAM) & U.S.- Korea Business Council).

Turkey-Korea FTA does not regulate GP. There is only a statement such as '*government procurement may be concluded*'. In the Customs Union side, Article 48 of Decision 1/95 states that "as soon as possible after the date of entry into force of the Decision, the Association Council will set a date for the initiation of negotiations aiming at the mutual opening of the Parties' respective government procurement markets". Nevertheless, this statement has been understood as keeping procurement outside the scope of the CU and instead, reform of public procurement in Turkey has taken place in the context of accession negotiations. Modeled on EU Directives, new instruments have been introduced covering prior notice, standstill periods between the award of a decision and issuing of a contract, e-procurement including electronic auctions, shorter time limits for publication of procurement notices, simplified procedures involving shorter time limits for suppliers and tighter review (World Bank, 2014).

The USTR report reveals that the US companies have concerns about the authority of Turkish contracting agencies to insert provisions in tender documents that restrict foreign companies' participation in public procurement as well as up to 15% price advantage that could be granted to Turkish bidders in public tenders. Further concerns about Turkish government procurement market are related to offset and localization requirements, restrictive technical specifications, burdensome liability clauses in tenders and pre-licensing requirements (Office of the United States Trade Representative, 2014). On the other hand, there are some concerns against US government procurement market too. Especially, the Federal Acquisition Regulation (FAR), Trade Agreements Act (TAA) and Buy America Act (BAA) are the main legislation outlining the restriction in the US market. The BAA requires the federal government to prefer American-made products in its purchases. The TAA restricts foreign participation in the US government procurement market with country specific exceptions applicable only for WTO GPA signatories and US FTA partners. In this context, bearing in mind the potential it carries to liberalize the GP markets for both Parties, a prospective FTA between Turkey and the US is expected to have a chapter on GP, Turkey is expected to sign GPA in the WTO (Bülbül & Orhon, 2014).

4.2. MEXICO’S INTEGRATION WITH THE TTIP

Mexico is concerned about the possible consequences of the transatlantic deal and wants to be a part of the negotiations. Mexico has NAFTA agreement with the US and MEUFTA with the EU. However, according to the researches, Mexico is one of the countries which have the largest losses due to the TTIP. It seems like; becoming a member of this agreement is the only way to prevent the trade diversion and being left out.

Actually, ‘trade’ is not the only problem. As stated before, US-Mexico economic integration is essential to competitiveness. Trade between the US and Mexico is of a qualitatively different nature than trade with any other country in the world. While Chinese or European imports are produced almost entirely with inputs from non-North American sources, imports from Mexico are 40% U.S. made. This is because the US and Mexico do not just trade goods; they work together to build them. So, what may happen if the US turns its back to Mexico? It can create a big conflict inside Mexico which may directly affect USA.

In these times, concern has grown in both the US and Mexico about the high levels of violence being experienced in many parts of Mexico because of drug trafficking and organized crime (Wilson, 2011). Currently, Mexico is a main supplier of heroin to the US market, and the largest foreign supplier of methamphetamine and marijuana. According to the US Department of Justice, Mexican production of all three of these drugs increased since 2005, as the amount of drugs has seized at the southwest border. More than %90 of cocaine now travels through Mexico in the US, up from 77% in 2003. Officials evaluate that the drug trade makes up to 3% to 4% of Mexico’s $1.2 trillion annual GDP- totaling as much as $30 billion – and employs at least half a million people.

Security cooperation between the US and Mexico expanded significantly with the Merida Initiative, launched in 2007, which designated nearly $1.4 billion in US funds for Mexico, Central America, Haiti, and the Dominican Republic. According to the Shannon O'Neil[38], the bulk of the money went to Mexico, with a mandate to 'break the power of organized crime, strengthen the US southern border, improve Mexican institutional capacity, and reduce the demand for drugs'. Over the last years, the US has sent unarmed drones to collect intelligence of traffickers, and has also sent CIA operatives and retired military personnel to a Mexican military, while training Mexican federal police agents to assist in wiretaps, interrogations, and running informants (Lee, 2014).

The expected trade diversion an economic downtown may lead to increase social crisis in Mexico and create a bigger problem for itself and the US. Rather than being left and alone, integrating Mexico with the TTIP community is much more favorable in terms of economic competitiveness and peace and security.

Ideally Mexicans would like to be at the TTIP negotiating table. Susan Segal, President and CEO of the Consulate of the Americas, directly mentioned that they are interested in integrating Mexico and Canada with TTIP relationship (El Financiero, 2014). However, that is improbable. More possibly is a commitment from President Obama to consult closely with the Mexican delegation. This could include both pre-talks and post-talk briefings, reinforcing Obama's call 'to maintain the economic dialogue over a long period of time' (Negroponte, 2013).

As mentioned by Anabel González, Chair in World Economic Forum, it is essential that TTIP be crafted as an 'inclusive agreement', where other nations may be invited to become members. If this were to be the case, Mexico would be provided with a strong integration possibility with the US and the fact that it already has an agreement with the EU- which it aims to update (González, 2014).

Besides all, through TTIP, Mexico's FTAs may be revised. Mexico's benefits depend on rationalizing the rules of origin on the EU side and whether the current EU economic partnership agreement with Mexico is updated. The TTIP will not directly modify NAFTA because only the US and EU would be the parties. The EU-Mexico FTA is now fifteen years old; the 'Comprehensive Economic and Trade Agreement'

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(CETA) was concluded 'in principle' between the EU and Canada recently; and the negotiations for the TTIP have only begun. Therefore, the three NAFTA nations could have potentially conflicting FTA obligations among the three EU bilateral agreements while conversely, the 28 EU nations negotiate as a bloc through the Commission. Hence, the RoO issues arise in economic relations between the EU Members as a group but with the three NAFTA nations individually, in the case of having separate FTAs with NAFTA members.

Various potential areas of conflict exist including investment, electronic commerce and privacy issues, but the most significant is likely with manufactured goods rules of origin. So-called 'preferential rules of origin' are designed to ensure that only goods originating in countries that are part to the FTA enjoy duty preferences. For instance, under NAFTA a TV assembled in Mexico will not qualify for duty-free agreement into the U.S. and Canada unless certain components are manufactured within the region rather than imported from other country, like China.

Automobiles are one of the sectors in which rules of origin may cause the NAFTA countries individually to lose benefits from the trade agreements with the EU. The North American auto industry is broadly integrated, with most producers assembling finished autos along with sourcing parts in all three countries. In order to be traded duty free in NAFTA, an automobile must have 62.5% regional value content (net cost method), but whether that 62.5% is made up of content of Mexico, the US or Canada is immaterial.

It is certainly to the concern of each of the three NAFTA members to be able to export autos made in its territory to the EU member countries under the respective FTAs free of the EU's customs duty. Then what might happen when the EU has separate rules of origin in agreements with Canada, Mexico and the US? For instance, CETA will allow Canadian automobiles that meet a minimum of 50% Canadian content to qualify for duty-free entry[39]. However, in the current North American manufacturing processes, it is unlikely that any automobile made in Canada contains 50-55% Canadian and EU content, while almost all of them contain 62.5% or more North American

[39] This will move up to %55 after 7 years.

content. Most of the motor vehicles would not meet the requirement if the TTIP incorporate similar restrictions requiring 50-55% US and EU content. For example, a Ford assembled in Dearborn, MI-USA, may incorporate a transmission manufactured in Hermosillo, SON-Mexico and other parts produced in Windsor, ON- Canada. Auto and auto parts trade assesses for 20% of total NAFTA merchandise trade, with several parts crossing the frontiers multiple times before appearing in finished vehicles. Per contra in the EU, where a Fiat assembled in Italy using parts and subassemblies sources from other member states would be much likely subject to duty-free entry into the US or Canada or Mexico (Gantz, 2014).

Some optimistic suggestions are about Commission's adjustments about this situation. However, there are other industries integrated in NAFTA other than automotive. Yet, there has been no indication like such arrangements would be extended to Mexico in a series of amendments to the existing EU-Mexico FTA, which almost certainly would be demanded by Mexico when TTIP will be completed. Better option would be, the three EU FTAs would treat 'originating' motor vehicles qualify for duty-free entry into all EU Member countries as long as they meet the NAFTA rules. Nonetheless, for many political reasons it would not be feasible for the EU to be negotiating as a group with the NAFTA members, even though North American industrial sectors are extremely integrated. With the lack of a single FTA between the NAFTA Parties and EU every effort should be made the US negotiators, in consultation with their counterparts in Mexico and Canada, to get rid of feasible problems relating to rules of origin, in order to avoid undue restrictions on potentially hundreds of millions of dollars/Euros of affected trade.

Since the tariffs in the US, the EU and Canada, and currently (comparing to 20 years ago) in Mexico are low, many of the significant barriers to trade between the EU and NAFTA member relate more to regulatory coordination and coherence, together with mutual recognition of regulatory procedures and address anti-competition challenges. Regrettably NAFTA and the EU-Mexico FTA do not deal significantly with such issues. Rules of origin in the TTIP, the EU-Mexico FTA and CETA, to the extent they fail to recognize the integrated nature of the NAFTA market could put the NAFTA exporters at a significant competitive disadvantage vis-à-vis competitors in the EU (Gantz, 2014).

CONCLUSION

Transatlantic Trade and Investment Partnership, serving the world's first and second largest markets - the EU and the USA- is proposed to deepen transatlantic relationship and assert global trade policy leadership, and is expected to have important implications on the multilateral WTO negotiations.

Beyond all its significant impacts, it is criticized that such a trade deal would have tremendous repercussions on countries that have special arrangements with the Parties of the TTIP. This is especially the case for *Mexico* which is a member of NAFTA and *Turkey* that has a Customs Union with the EU.

Considering Turkey's close relations with transatlantic Parties, it is important for Turkey to become a part of this TTIP process. This is beneficial for Turkey and also for the Parties. With the lack of integration, Turkey is projected to have noteworthy welfare loss. This may force Turkey to be out of step with West and seize upon new political and economic environment. The EU and the US also should be aware of weakening of Turkey's commitment to Western economic institutions and values would be also costly for them. This would be a loss regarding growth and job creation not just for Turkey but also for the EU, the US also for the neighbors of Turkey. Under such circumstances, Turkey could become less stable and less committed to democratic reforms (Kirişçi K. , 2013). If Turkey would like to be integrated to the TTIP, first of all, it should enter the required transformation that is complying with TTIP standards. To do so, the easiest way is to upgrade the CU. Moreover, it should take into account the comprehensive trade agreements for the subsequent trade issues and trade agreements. When Turkey and both Parties work together on how Turkey can be involved in TTIP, unarguably a win-win solution can be found. Yet, several works should be done by Turkish policy makers. There is demand a for; (i) re-designing CU Agreement and go further in European Union integration, (ii) a long-term plan for Turkey's inclusion in EU-US FTA (iii) a strategy to compensate Turkey's loss until the processes done (iv) analyzing other US and EU's FTAs with the other large economies and make a policy method for Turkey, i.e. KORUS Agreement.

With respect to Mexico, in case of staying outside of the deal has more welfare loss than Turkey. Having separate agreements with the US (NAFTA) and the EU (MEUFTA) organizes the arrangements much more complicated, since these two agreements are very different from each other in terms their scopes. Living Mexico aside, tosses Mexico in political and internal endanger which may have more damaging and severe effects on the US which shares a maritime and a 2,000-mile land border in North America along with a history with Mexico. US-Mexico economic integration is key to competitiveness and this should be supported. The effects of MEUFTA have been positive in terms of trade flows, foreign direct investment and improvement of the opportunities for FDI in Mexico (for ex., the accurate transport network would provide firms to reduce their costs and increase efficiency in production processes) (Serrano et. al 2015). In order to prevent the loss off Mexico, further liberalization in MEUFTA (especially agricultural goods, services and investments) is necessary. Meanwhile, Mexico should secure its place in NAFTA and its regional supply chains against TTIP's diversionary effects. Similarly, there is excessive effort needed for: (i) more improved and liberalized NAFTA (ii) Revised EU-Mexico FTA (MEUFTA) (iii) working on rules of origin complications between NAFTA, MEUFTA and CETA (iv) a comprehensive policy to make a single FTA between the NAFTA and the EU (v) a strategy to compensate Mexico's loss until the processes are done.

Definitely, numerous steps should be taken in Turkey and Mexico. First of all, improvement of regulations in both countries in order to reach TTIP levels would be helpful for their own development and would support their integration with TTIP. On the other hand, TTIP should be accessible for the new members –especially the countries that have close trade relations with Transatlantic parts- to prevent potential losses in market shares and competitiveness. Another important point is extending mutual recognition of standards to third countries. Regulatory cooperation will account for most of TTIP's possible benefits. If mutual recognition is not extended to outsiders, the TTIP members would enjoy the benefits of complying with a single standard, while third country exporters face the additional costs of cope with separate EU and US standards. Simplification and standardization of rules of origin would also help access of outsiders to TTIP market. For non-TTIP countries, the threshold at which inputs are considered of domestic origin should be set as low as possible in order to reduce damages on these countries, and allow EU and US businesses to source more raw materials or components from 3rd country suppliers without endangering the preferential treatment of the final goods (Bohnenberger & Weinhardt, 2015).In addition to these, all countries would gain from a strengthened and effective WTO. The WTO needs to reconsider its mission and to give importance to what it can exclusively offer trough global governance in a role of consolidation and control mechanism (Low, 2015).

Regional trade arrangements are very complex. However, the stability and welfare increase are inevitable for everyone in the world. The arrangements should be organized in a fair way which does not pose negative consequences for any country so they are not sidelined and the multilateral system works smoothly.

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