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THE EU-USA TRANSATLATIC TRADE AND INVESTMENT PARTNERSHIP (TTIP) AND ITS LIKELY IMPLICATIONS ON EAC'S STRUCTURAL TRANSFORMATION AND SUSTAINABLE DEVELOPMENT

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Background to the negotiations

A transatlantic free trade area is not a new idea. The project was first proposed in the 1990s, and resurfaced in 2006/2007 under the German EU Presidency (Stormy-Annika Mildner *et al*)**.** On 13 February 2013, the President of the United States of America, the President of the European Commission and the President of the European Council jointly announced that the EU and the USA had agreed to launch negotiations on a Transatlantic Trade and Investment Partnership (TTIP). Subsequently, at the G8 summit in Northern Ireland on June 17, the European Union and the United States kicked off the negotiations for a comprehensive Transatlantic Trade and Investment Partnership (TTIP) to reduce tariffs and non-tariff trade barriers**.**

The TTIP will aim at the:

- 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" NTBs 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 economic goals.

According to a paper by the European University Association (2014), TTIP is driven by a number of factors: the global financial crisis; the excessively slow progress of the World Trade Organisation (WTO)'s Doha Round; high commodity prices; the long-term project to reform the EU's Common Agricultural Policy (CAP); the EU's strategic intent to complement the ongoing negotiations of the Trans-Pacific Partnership (TPP), which involves 12 countries.

Scope of the negotiations

The TTIP negotiations cover a broad spectrum and can be divided into a few key areas. Firstly, they look to abolish customs tariffs and fees in trade between the EU and the US. The EU and the US also want to deepen their regulatory cooperation and remove non-tariff barriers.

The agreement also covers services and investments. The EU and the US want to create increased trade in services in areas such as environmental services, business services and IT services. An increasing proportion of trade currently consists of services.

The negotiations also cover public procurement, intellectual property rights, sustainable development, regulations on effective controls of trade and customs cooperation, competition, issues concerning energy and raw materials, trade-related aspects related to small and medium-sized enterprises, capital movements and payments, and an institutional framework, including a dispute settlement mechanism.

Implications on LDCs

Current research indicates that the Transatlantic Trade and Investment Partnership (TTIP) is an ambitious trade deal designed to reinforce ties between the two largest economies. If successful, the transatlantic bloc would become the largest integrated market in the world, with both sides already accounting for half of the world's GDP and 30% of global trade. The partnership would undoubtedly boost US and EU firms' ability to compete in other markets. Last but certainly not least, TTIP has the potential to set the global trade agenda for decades (*Annie Mutamba April 2014)*.

However, TTIP is not entirely without risks for global trade and the multilateral trading system as the talks could tie up a considerable portion of EU and US negotiating capacity and divert attention from the WTO Doha Round. TTIP wants to create a transatlantic common market with its liberalisation agenda for the EU and U.S.A economies which poses a great potential of a global spill over. Moreover, the whole process is business driven leading to further deregulation, privatization of services, a replica of corporate control is the biggest threat posed by this treaty. More broadly, potential trade-diverting effects could function to the detriment of other trading partners.

It is therefore important that we ask the following critical questions of the TTIP;

- To what extent will a TTIP lead to trade diversion at the expense of third countries, especially poor ones?
- Will there be offsetting positive effects?
- How can the TTIP be used to help rather than hinder Sub-Sahara Africa's trade with the USA and EU; and especially in upgrading her products to a balanced competitive edge with the latter's products?

According to Eveline Herfkens (2014), much less consideration has been given to the impact of the TTIP on third countries and the global trading system. It is critical to note that poor non-members, currently enjoying preferences see their preferential margins erode, as overall levels of protection are reduced. This is because preferential trade agreements (PTAs) discriminate against non-participants, as they may divert trade from cheaper non-member to more expensive member sources, and subsequently result into global trade diversion. This global trade diversion is likely to have negative consequences for GDP growth potential in low income countries. For example, it is expected that this could result into real GDP decline in Latin America (-2.8%) and Sub-Saharan Africa (-2.1%).

The highly concentrated nature of exports from Sub-Saharan Africa (SSA) implies that the erosion of preferences in a small set of specific product categories (textiles, clothing and footwear and specific agricultural products such as fish, bananas and sugar) can have important negative consequences for these countries. Analysts are concerned that more rigorous standards might be more difficult to comply with or even lock out SSA exporters. For example, more advanced intellectual property rules might affect the introduction and production of generic drugs and their supplies to SSA. Therefore, by providing preferences to U.S. and European exporters, the TTIP, would undercut SSA's access to both markets. How big the effect will depend on the TTIP design. The Bertelsmann report suggests that the poorer countries would suffer, particularly Africa, as their exports to Europe would be pushed out by goods from the United States. African countries will also be among the largest net losers from reduction in non-tariff barriers if the TTIP succeeds in creating "deep liberalization."

Discrimination against third countries is a central problem of preferential agreements. Contemporary literature on Free Trade Agreements (FTAs) indicates that one particular problem of preferential trade agreements is that they contain many different and contradictory rules. This applies to the rules of origin in FTAs, which define which goods are granted preferential treatment. To enjoy preferential market access a particular proportion of the product must be produced in one of the FTA signatory countries. This is intended to prevent non-signatories from profiting from preferential treatment without themselves making concessions. The multiplicity of preferential trade agreements has produced a confusion of different rules of origin that tangibly obstruct trade. In such a case, small and medium enterprises in Africa will suffer from high transaction costs.

When we relate the TTIP and the ACP-EU EPA negotiations, it is important that Africa keeps an eye out for TTIP's long-term implications, as it would then have to compete with the world's largest free trade zone in a marketplace of 800 million of the world's richest consumers. According to Stormy-Annika Mildner *et al* .Sub-Saharan Africa – which currently accounts for 2% of global trade and clearly needs wider access to developed consumer markets – stands to lose ground in the transatlantic market. For example, the major issue of contention is the harmonization of standards between the TTIP parties and how this will subsequently affect the third parties, and especially LDCs that with the USA ad EU.

If standards are harmonized, this will imply that non-parties to the agreement will be requested to meet those standards to remain competitive on the market. Subsequently, third countries (including African countries) will therefore face higher compliance and trade costs if they want to maintain access to these markets (despite their existing trade regimes with EU – EPA or not!!). Countries like Ghana, Kenya, Nigeria, Burkina Faso, Burundi, DR Congo, Malawi, Nigeria, Occupied Palestine Territories, Rwanda, Sierra Leone, Togo, and Uganda have ten or more of their top 20 exports subject to SPS regimes. These countries are potentially vulnerable if greater regulatory cooperation under the TTIP results in more restrictive SPS.

Conclusion

In conclusion, the proposed deal to reach an agreement by the end of 2014 on a transatlantic trade and investment partnership (TTIP), serving the world's first and second biggest markets the European Union and United States is intended to deepen transatlantic relationship, assert global trade policy leadership and advance a rules-based system for the global governance. Alongside the TTIP talks, the Transatlantic

Partners should continue to push for a conclusion of the Doha Round, and the TTIP must be designed to be compatible with WTO rules.

To salvage the multilateral trading system, the TTIP should:

Ensure WTO Compatibility

Their economic and political weight lends the European Union and United States a special responsibility for the world trade order. Thus, how must the TTIP be designed if it is to benefit rather than harm the multilateral trading system? In the first place it must be compatible with WTO rules to ensure an equitable multilateral trading system.

Strengthen the WTO

In order for the TTIP talks not to endanger the multilateral trade system it is not enough to ensure compatibility of rule-books. Rather, the European Union and the United States must work for a rapid conclusion of the Doha Round. Even if the negotiating capacities of both sides are likely to be stretched by transatlantic talks, the Doha Round should remain top priority.

This is because a strong WTO is important for the European Union and the United States, especially as China, Brazil and India gain weight in international trade policy. Even if the transatlantic partners agree to a TTIP, the importance of clear global trade rules that are accepted by the emerging economies and enforceable through the WTO will continue to increase. The European Union and the United States should there-fore design their agreement to be WTO-compatible and to incentivize the Doha Round, as NAFTA did in the 1990s for the Uruguay Round. A successful TTIP could thus also help achieve a breakthrough in the Doha Round.

Also, the current EU-US negotiations should be a wake-up call for African governments to be proactive and limit the burden that a trade deal of this magnitude will unquestionably bring along.

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