



Fact sheet on

The impact of the Transatlantic Trade and Investment Partnership on the business environment of Romania

The strategic importance of TTIP in the global context

Following the economic crisis of 2008, the world economy has become unstable and less predictable. According to the European Commission, the situation got worse due to phenomena such as terrorism, the refugee crisis or even Russia's revanchist attitude, reasons for which the international stability has become relative (European Commission, 2016, p. 2). These economic, geopolitical and security challenges have contributed to the reinforcement of the state of uncertainty worldwide. In this context, strengthening cooperation with key international actors for the European Union is a solution but also an opportunity for ensuring a secure and predictable economic and geopolitical environment. The target proposed by the Trade Commissioner, Cecilia Malmström, is to make the European Union the best platform in the world connected to the global value chains (European Commission, 2016, p.4); which is why the European Union is currently negotiating more than 20 agreements with over 60 countries. It is important to mention that the economic integration of Europe is the most ambitious peace process so far (European Commission, 2016, p.6).

Among the most significant economic and trading partners of the communitarian bloc is the United States of America, which is on the top of the EU export partners and ranks second after China in imports. In 2013, the European Union and the United States have launched the negotiations for the Transatlantic Trade and Investment Partnership, aiming to remove trade obstacles between the two markets by reducing tariff and non-tariff barriers. This agreement seeks to strengthen and harmonize relations between the two actors not only at the economic level, but also at the strategic level. Furthermore, TTIP has the potential to become a catalyst for trade liberalization worldwide (Hamilton, Blockmans, April 2015, p.1). The implementation of this partnership will contribute to the EU economic growth of 0.5% of the European GDP, equivalent to 120 billion Euros, while in the case of the United States of 0.4%, or 95 billion Euros. In addition, it is expected to create 13 million jobs, both in the United States and in the European Union (Office of the United States Trade Representative). It is expected that following the reduction of tariff and non-tariff trade barriers, the EU exports to the United States will increase by about 28%, while bilateral imports from the US will rise by 37% (Cernat, Lakatos, May 2015, p.2).

A part of the civil society argues that Transatlantic Trade and Investment Partnership is not negotiated openly and transparently. The Chamber of Commerce and Industry of Romania (CCIR) highly values the special mechanisms that ensure democratic scrutiny of trade policies. In the case of Europe, the European Parliament is the institution that is closely monitoring the negotiations, with the absolute veto on any trade agreement concluded by the EU (European Commission, 2016, p. 7). Moreover, for a more transparent negotiation process, the European Commission proposed the publication of negotiating texts, ensuring

access to TTIP texts for all members of Parliament, as well as holding public consultations on the impact it will have the future agreement.

To increase awareness about the impact of TTIP on the economy and on the business environment in Romania, CCIR recommends public debates and information events with the participation of public institutions, businesses and representatives of academia and civil society, aiming to ensure that through this dialogue all relevant actors will be represented.

Within the European Union there are contradictory and critical voices in relation to TTIP, particularly with regard to ISDS, environmental standards and food security. It is necessary that these issues are taken into consideration during the negotiation process, this having a constructive role for shaping a mutual beneficial agreement. In short, Europe seeks to create a common architecture of standards and norms in investment, industrial policies, state-owned enterprises and intellectual property rights (Hamilton, Blockmans, April 2015, p.3), that connects the United States to the European Union.

The results of the referendum in the UK for leaving the European Union have an important significance on the Transatlantic Trade and Investment Partnership. UK represents 16% of the European market, while the United States is an important trading partner for the United Kingdom, being the main export partner with 12.7% and the fourth partner in imports with 6.8%.

Given the favorable vote of Great Britain to leave the EU, the negotiation process could be prolonged and the United States could be tempted to rethink its strategy towards the European Union on the one hand and Great Britain on the other hand, in the context of negotiating the TTIP.

In case Article 50 of the Lisbon Treaty will be invoked and Great Britain will leave the European Union, companies, with European capital, in UK could be determined to move towards the United States, because once TTIP will be implemented, the current barriers will be eliminated and the non-tariff barriers on goods and services will be reduced.

The impact on the Romanian economy and business environment

The Transatlantic Trade and Investment Partnership represents a special opportunity for the business environment in Romania, considering the large volume of exports on the single market compared to the US, China or Japan. Thus, TTIP could contribute to the economic dynamism of Romania, leading to a better understanding of the competitive advantages of our country, reforming those sectors that need improvements and supporting, at the same time, the socio-economic development in the medium and long term (Colibășanu, Grigorescu, Vaș, November 2015, p. 24). This agreement would represent a tool to diversify markets for Romanian exporters, especially for SMEs.

At the end of 2015, the US ranks 12th place among states with foreign investment in Romania (2.41% of total foreign investment) (Romanian Embassy in USA). Industrial products represents about 75% of total Romanian imports from the USA (Romanian Embassy in USA), while Romanian exports to the US are concentrated in a few key sectors, such as machinery, parts and transport equipment, chemicals, metal and industrial products, as well as business services, ICT services, financial and banking services. Due to trade barriers, the agricultural sector is absent in the structure of Romanian exports to the United States.

However, the goal of this trade agreement is to eliminate one hundred percent the current tariffs between EU member states and the US, as well as to reduce by 25% the existing non-tariff barriers on goods and services (Cernat, Lakatos, May 2015, p.11). While tariff barriers represent reduced impediments to transatlantic trade relations, non-tariff barriers induce higher costs that could reduce the potential of the bilateral trade between Romania and the United States. Thus, non-tariff barriers can bring additional trade costs, between 2% and 70% (Cernat, Lakatos, May 2015, p.10). In Romania, tariff barriers in footwear industry reached 37.5% of FOB prices, but for ceramic products the tariff varies between 8.5% and 28% (Moisă, May – October 2015, p. 1). The weighted rate applied by Romania to agricultural imports from USA is over 10%, three times higher than the European average of 3.2 % (Cernat, Lakatos, May 2015, p.10). Thus, over 90% of the estimated economic benefits for Romania will result from reducing non-tariff barriers. Therefore, the elimination of tariffs will encourage the Romanian business environment to access American market more easily and without additional costs. Some areas will witness greater developments, such as the automotive industry with an estimated increase of 149% (taking into account the importance of trade exchanges in both directions and the convergence of the two industries).

Fully implemented, TTIP could increase Romania's GDP by 0.25% annually, representing 400 – 500 million dollars. At the same time, the trade balance of Romania with the United States is expected to improve, given that bilateral exports could increase by nearly 35 % and imports by 25%. At the same time, the growth of Romanian exports will be between 800 million and one billion dollars (Cernat, Lakatos, May 2015, p.13).

Despite these benefits, the low number of exporting companies to the US market and the reduced diversity of goods can lead to an increased vulnerability to both the failures of companies (Cernat, April 2016, p.3) and the external competition.

Recommendations and conclusions

According to Eurostat, in Romania there are around 6500 companies that export outside the European Union, of which less than 1000 are exporting to the United States of America, a very low number of companies compared to the potential of this trade relation and a clear indicator of the need for the acceleration of the exchange of goods and services.

For maximizing the potential benefits of this trade agreement is required a close collaboration between business environment and the authorities responsible for Romanian export and strategies, in order to comprehend the new regulations stipulated in the agreement.

The Chamber of Commerce and Industry of Romania supports the open dialogue between these institutions and considers that the long term benefits of the free trade agreement with the United States can be obtained by involving and consulting the business environment, and enhancing cooperation with institutions of economic expertise, who have the capacity to prepare the business environment for the new Transatlantic Trade and Investment Partnership. In this regard, CCIR recommends to the responsible authorities to raise awareness about TTIP's implications on the European and, in particular, on the Romanian economy. It will also be necessary to offer support to the companies interested in exporting to the US market, in the process of harmonizing standards in compliance with TTIP provisions. For these reasons, we fully support the engagement of all relevant actors in this forerunner process in order to capitalize the potential of this agreement for the Romanian business environment and the Romanian economy.

Beyond the economic component, we believe that Romania should also consider the security implications that will result from this agreement. In general, trade agreements have been used to strengthen friendly relationships between two countries and the resistance of alliances is directly relevant for the security domain. Thus, the economic progress of partners may have direct effects on the perspective of security. Although, in 2009 Obama administration has proposed a reorientation of foreign policy towards Asia, in the meantime we witnessed a strategic rebalancing, which involved Europe (Levy, September 2015). This change has occurred both due to the consequences caused by the financial crises and the geopolitical metamorphosis in the European Union's vicinity. By negotiating this trade agreement, the EU and the US have expressed their availability and the wish to renew the transatlantic commitment also on the economic level. In the security field, United States and Europe have cooperated for 67 years within NATO, which proved its efficiency as defense strategy during the Cold War. But on the economic front, the United States and a part of the European partners have cooperated for the creation of the General Agreement on Tariffs and Trade during 1947-1994, when they participated in eight multilateral rounds for trade liberalization (Levy, September 2015). Currently, TTIP could open new opportunities for economic and trade cooperation between the United States and Europe. Once implemented, TTIP will increase the degree of investments and trade. A stronger economic implication of the United States in the countries of Eastern Europe could contribute indirectly to increasing the degree of security, especially in a volatile geopolitical context. In these circumstances, Romania could become a promoter of the advantages of TTIP, as well as a security provider in the Eastern vicinity.

The Chamber of Commerce and Industry of Romania recommends to the Romanian private sector and potential exporters to pay a special attention to this agreement in order to enhance their competitiveness, a fact that would contribute to a greater integration of Romanian exports in global value chains.

The Chamber of Commerce and Industry of Romania recognizes the significant role and the need for consultation of the business environment in the formulation of strategies and directions of our country on the economic level. Thus, CCIR as an institutionalized representative of the national business community in relation with authorities supports a position that reflects the interests of businessmen.

In order to identify solutions and challenges in the way of transatlantic trade but also to raise awareness about TTIP within the Romanian companies, CCIR is organizing, in addition to the macroeconomic analysis, a national consultation and an international conference, with the participation of European and American experts.

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