

COLLEGE OF EUROPE
BRUGES CAMPUS
Economics

Estimating the Importance of Non-Tariff Barriers in a Transatlantic Trade and Investment Partnership between the EU and the US

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Academic Year 2013-2014

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for the Degree of Master of Arts in
European Economic Studies

Abstract

In light of the ongoing TTIP (Transatlantic Trade and Investment Partnership) negotiations, this paper intends to analyse the impact of non-tariff barriers (NTB) on transatlantic trade relations. Especially in recent years, bilateral trade agreements have increased in numbers, but the TTIP is considered as a game changer. Not only will the TTIP encompass most of world's trade flows, but because of the goal to reduce NTBs, it is also seen as an important standards' and global trade rules' setter.

Theory suggests many ways in which a free trade agreement could boost the EUs economy: by its direct effects on trade flows related to tariff cuts. By for example leading to a sort out of less efficient companies and helping the more efficient ones to grow (as suggested by Melitz (2003)). Or by facilitating the trade in intermediate goods in a world in which production chains are increasingly fragmented and in which the tasks are distributed across the globe (Grossman and Rossi-Hansberg 2008). While all these effects might contribute to the benefits of the TTIP, the biggest potentials are attributed to the reduction of NTBs.

With the use of a gravity model and the tariff equivalents of NTBs calculated by ECORYS in 2009, a cross-industry analysis of transatlantic trade was conducted with the use of a panel data set for the years 2000 to 2012. Along with the use of imports flows for 13 EU countries and the US, tariffs and NTBs for nine goods sectors, GDP and distance measures and finally remoteness variables was the model estimated.

The obtained results suggested that a decrease of these barriers by 1% could lead to an increase of imports by 5.2%. While these coefficients overestimate the impact of NTBs, it still clearly shows that they have an important impact on today's transatlantic trade relations. Tackling these barriers could not only lead to enormous benefits for the EU and the US, but also for third countries that trade with these two entities. They should therefore not only be given more attention by researchers, but also be included as key targets in future trading agreements, as is already the case for the TTIP.

Keywords

Transatlantic Trade and Investment Partnership (TTIP)

Non-tariff barriers (NTB)

The gravity model

Transatlantic trade

Free Trade Agreement (FTA)