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The TTIP and Its Potential Effects over the Labor Force in the European Union

Ioana GUTU¹

Abstract

The traditional relation between the European Union (EU) and the United States of America (USA) emerged in 2013 under the form of the Transatlantic Trade and Investment Partnership (TTIP) negotiations. After numerous rounds of talks, and taking into consideration the current political developments that characterize both of the powers involved, it appears that the process of reaching an agreement has unofficially stopped. Aiming towards a total liberalization of the transatlantic trade, the potential effects of the completely negotiated TTIP would affect the labor force on both sides of the Atlantic, both from the legal and administrative point of view. This situation could be developed in accordance to each of the 28 Member States current trade and investment situation with the USA, while for the other partner, the number of jobs created as a result of TTIP will reflect the individual trade situation of each of the 50 federal states with the European Union. If fully negotiated, ratified and implemented, TTIP is susceptible of creating over two million jobs on both sides of the Atlantic, the winners of the process comprising both the large and small economies that will encourage the export activities of the small and medium sized enterprises. With an ongoing Brexit process, followed by the political instability from the EU territory, and adding the instability of the decisional process of the USA Administration, the negotiation of TTIP appears, at least for the following four years, as an impossible task to achieve.

Keywords: EU, US, TTIP, Jobs.

1. Introduction

The Transatlantic Trade and Investment Partnership (abbreviated TTIP) is an ongoing bilateral negotiation between two of the most important traditional powers of the world, namely the European Union

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(EU) and the United States of America (USA). Its uniqueness resides within the core objectives that follow the idea of reshaping the trading processes across the Atlantic Ocean, through speed and legislative standardization.

After more than three years and 15 complete rounds of negotiation, TTIP seems to have stopped its process, mainly because of the instability of the political system, both in Europe and America. After introducing a formal initiative of exiting the European Union, the Great Britain destabilizes the European unity and becomes the first state to have ever left the European Union; from an opposite angle, according to the European Commission [1] five other states expressed their desire of becoming a Member State, while two other aspire of becoming a candidate country. The current situation from the other side of the Atlantic Ocean shows that the newly installed USA Administration had an immediate effect of destabilizing the external economic actions of the Obama Administration, by withdrawing USA from the Trans-Pacific deal, fact that stays at the origin of freezing the TTIP negotiations; as the European Union representatives publicly stated, this situation may continue until the end of the Trump presidential mandate; the civil society commonly agrees that by continuing the TTIP process, the risk of following the TPP to a fatal end would be too high.

This research takes into consideration the European Union as 28 Member States. Since Brexit currently represents an international negotiation process between the United Kingdom and EU, the Internal Market conditions still apply for all the Members, together with the external trade european conditions, until further notice.

The effect of TTIP in regard with labor force is one of the worrying topics, both for the civil society representatives, but also for the negotiators. Since the majority of the studies concluded around TTIP promote the idea that the real gains from the elimination of the transatlantic tariff and non-tariff barriers will be in favor of USA and not EU, losing jobs across the 28 economies can be one effect that needs to be considered and prevented by the European negotiators.

An important number of jobs in EU depends on the intensity of trade and economic integration between the Member States and USA. Focusing on the factors that can determine an increase or a job loss from implementing TTIP, during the ongoing process of negotiations, states could influence its course, by promoting the national interests with the help of their representatives in the Council.

Even though TTIP promotes the increase of the transatlantic trade flows and encourages the internationalization of the SME activities, a proactive attitude could make the difference between the rule-makers and the rule-takers within the post-TTIP trading Members.

2. The general effects of TTIP

At the core of launching the TTIP negotiations stays the Final Report of the High Level Working Group [2] from 2013, a study that was conceived in parallel with other three public consultations of the European Commission, as part of the initial phase of the TTIP negotiations; the report predictions promoted the idea that by 2027 the EU GDP will increase with 0.5% annually, while the US GDP will be the subject of a surplus of 0.4%. Since the EU-US trade volume accounts for 30% of the world trade in goods, and 35% in services, the effects of TTIP on a long term were considered as favorable for both negotiating parties – EU and USA.

According to a series of studies in regard with the effects of TTIP (coming from publishers like CEPR 2013, CEPPI, ECORYS 2009, GED Bertelsmann 2013), the gains of EU and USA will be disproportionate, the American federal states being susceptible for bigger gains than the European Member States. According to the study [3] of Akman et. al., in the case of eliminating 10% of the non-tariff barriers, 100% of the tariffs and 25% of the public acquisitions, TTIP will determine an increase of the EU-US exports by 15.3%, while the US-EU trade will increase by 22%.

According to the Fontagne (2013) [4], cutting off 25% of the tariff and non-tariff barriers, will lead to an increase of the EU-US exports in US by 48%, while the main winner will be the US, exporting to the EU with 52.5% more than in the current situation. Even though the results of this study are intensely criticized in literature, the results presented within this article in regard with labor force will support the presented point of view, since the situation is characterized by an interdependence in EU in regard with the US investments, trade and labor.

Despite the High Level Working Group (HLWG) estimations, we share the opinion that the USA will be the true winner of implementing TTIP, not only from the trade point of view, but also from the labor, consumer prices or production point of view. This affirmation will prove its validity in the case of the fully negotiated articles of TTIP and mainly considering the concerns that regard the effects of this agreement in Europe. Even though reduction of standards is unacceptable from the European point of view, the possibility of introducing GMOs, hormone-fed beef and generally cheap US food raise concerns among the representatives of the civil society, situation that does not exist in the case of the USA.

3. TTIP and the labor conditions

One of the core objectives of the transatlantic negotiation is the creation of a free market between the EU 28 Member States and the USA 50 federal states, where the benefits would result in an increase of the bilateral trade and investment flows; on a theoretical basis, in regard with the effects over labor law as a result of increased trade, the discussion leads for two possible scenarios: one comprising a positive situation, where the labor quality would increase because of the bilateral full recognition of the International Labor Standards (ILO) belonging to the [5] International Institute for Labor Studies (IILS), while the second situation would result in a decrease of the general working conditions for Europe.

According to the literature views, these circumstances are not only specific for TTIP, but for any attempted international free trade agreement; among the most relevant opinions can be found the ones of Flanagan (2006) [6] and Remi Bazilier (2008) [7] that write about three possible scenarios in regard with effects of TTIP over labor: (1) liberalizing the transatlantic trade implies an increase of the GDP per capita, resulting in an increase of the general labor standards; (2) the second case refers to the TTIP effects on long term, when increasing the labor standards would result in more productive and more competitive employee behavior; (3) a deep integration of the Member States within the transatlantic trade could raise the consumption of goods produced under the same legislative umbrella, resulting in a possible connection among the trade liberalization and the export dependent employment.

Not on the same opinion is Robert Stern (2000) [8] who states that TTIP as any other free trade agreement, could have negative effects over the employment and the European and American labor force due to an increased competition among companies that could result in a neglect of the labor force conditions.

Analyzing the EU intentions within the TTIP released texts in connection with the labor conditions, it results that there are separate articles that regard this situation, mainly comprised within the Trade and Sustainable Development Chapter, where the aim consists in granting with mutual bilateral support the labor organizations from both sides of the Atlantic, by promoting active dialogs [9] Contrary of this apparent favorable situation, the European Commission, as the coordinator of the negotiations, did not approve the Parliament request of ratifying the ILO Conventions under the section of applying sanctions, as USA did.

Except for this chapters, due to the comprehensiveness of the TTIP, there could be discussed many other sections that could affect the

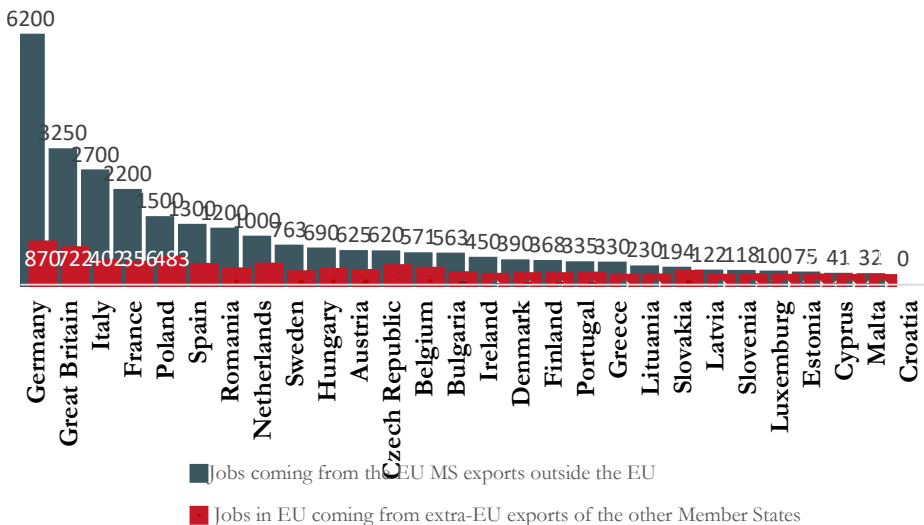
development of the labor force conditions for both sides of the negotiation, situation whose negative effects could be avoided by granting the EU Member States with the right of promoting and protecting their national labor force conditions in respect with the effects of TTIP.

4. Jobs between EU and USA

Currently, as a consequence of the transatlantic trade, in the European Union there are two employment categories: (1) resulting from the exports of the Member State in USA for the citizens that have a stable address on the national territory, and (2) jobs that result from the exports of the Member State in USA for citizens of the same nationality, but living in other EU states.

The data from the Graph 1.1. reveal the fact that Germany has the highest rate of employment coming from exports, both on a national and European level, while states as Estonia, Cyprus, Malta and Croatia have the weakest connection between the exports and the number of jobs, both on a national and international-European level.

Graph 1. Jobs situation in EU Member States coming from extra-EU exports, 2016

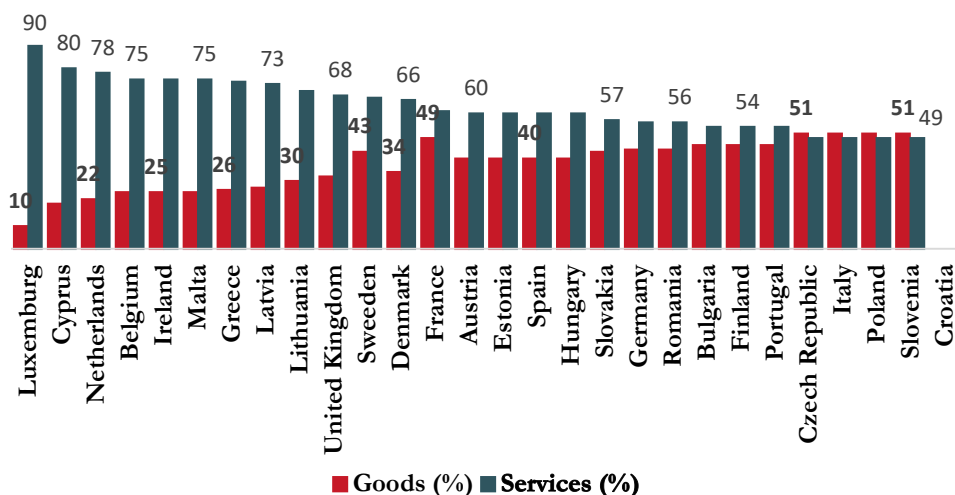


**except Croatia*

Source: own calculation based on data from EC-DG Trade, 2017 [10]

From the export sectors point of view (goods and services) the analysis showed that the most jobs come from the export of services, rather than goods; one possible explanation might be the fact that all the 28 economies of the European Union are primarily services economies, determining a higher employment level from services, compared to the one of goods production.

Graph 2. Jobs on EU level coming from the exports of goods and services of the EU Member States (2016, Thousands)



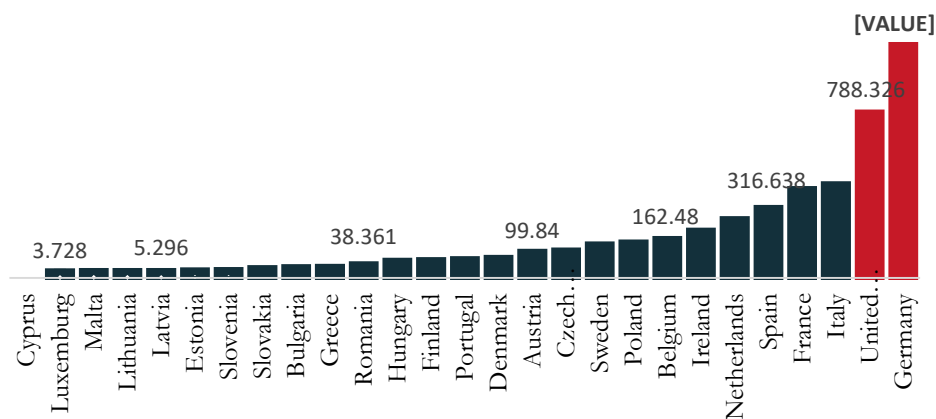
Source: own calculation based on data from European Commission – DG Trade, 2017 [10]

The analysis revealed that the EU Member States with the highest number of jobs coming from the services exports are Luxembourg, Cyprus, Netherlands and Belgium; when talking about the number of jobs coming from the export of goods in some states like Slovenia, Poland and Italy, the number of jobs coming from the export of services is lower than the one ensured by the export of goods, but the gap is relatively low (except the case of Croatia that joined EU in 2013, fact that determined the lack of information in regard with the labor force).

A partial conclusion shows that the connection between the potential effects of TTIP over each of the EU Member States and the labor force is in close connection with the degree of integration and bilateral cooperation of each economy with the United States. This observation comes while the statistics show that the European Union is subject to an increase in exports to USA, fact that encourages the process of reaching an agreement for a free Atlantic market with the United States.

It is important to remember that the countries that have the highest number of jobs from exporting in the United States are Germany, Great Britain and Italy, countries that, from the employment conditions point of view, will probably be the subjects of the highest jobs impact from implementing TTIP; on the opposite side are Cyprus, Luxembourg and Malta, whose number of jobs related to the exports to the United States are the lowest, and therefore, showing a smaller risk for a negative impact from TTIP.

Graph 3. EU jobs coming from MS exports to USA



Reference year - 2011

Source: own calculation based on data from Arto, Inaki et. al., 2015 [11]

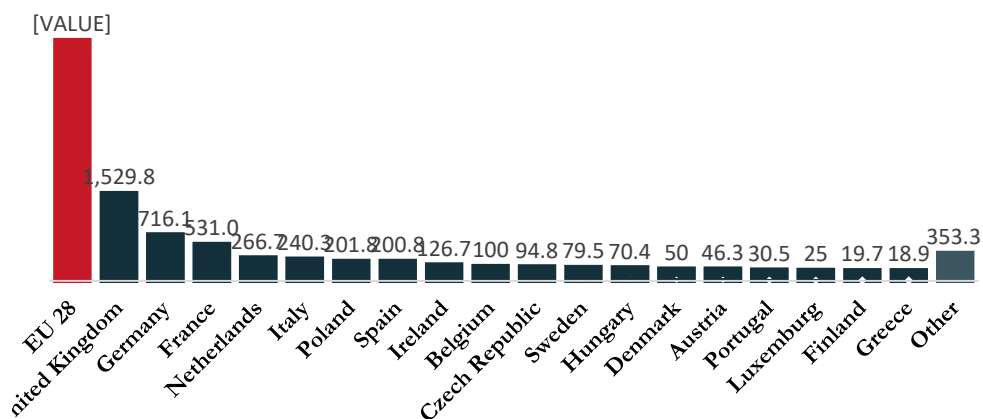
In order to have a full view of the TTIP effects over the working conditions and number of jobs as a consequence of its implementation, it is necessary to take into consideration the different views of the situation. As it can be seen, there is a strong correlation between the bilateral cooperation of each Member State of the European Union with the United States, and the number of jobs supported by the exports over the Atlantic. But the effects of TTIP will take into consideration the American market as well, seen both as a total and separate, for each of the 50 federate states. The amplitude of the implications of the US-EU trade has the potential to bias the real effects of implementing the agreement towards the job market in Europe. On another side, not reaching an agreement with the USA and orienting towards the emerging Asian markets, could lead to a loss of the investment flows in Europe, creating a great job loss across the Member States.

From a theoretical point of view, TTIP implies the creation of over two million jobs, equally split between the two continents; this means that in

the United States, the current export situation reveals a similar dependence of number of jobs created and/or maintained as a result of each of the federal state exports towards the European Union.

This situation is equally influenced by the number of the US affiliated companies that develop actions in the EU, issue that reflects the preference of the US investors among the European national markets. As for this point of view, the countries with the highest American investments and the larger US presence in the European Union are Great Britain, Netherlands and Germany, while countries as Latvia, Lithuania, Estonia or Croatia do not represent a promiscuous market, as the investors actions show. As a result, Great Britain and Germany are the countries that have the highest number of jobs coming from the US affiliates in EU, with over 1.5 million and 716K respectively. Countries like Finland are beneficiary of only 19.7K of employees, while in Greece work slightly over 18K people in US affiliates.

Graph 4. Jobs created by the actions of USA affiliates in EU



Source: own calculations based on data from USA International Trade Administration, 2017 [12]

As the data reveals, the effects of TTIP over the employment and number of jobs both in the European Union and in the United States may vary as a consequence of a number of factors; as numerous studies that refer to the potential effects of this agreement show (ECORYS 2009, GED Bertelsmann 2010, CEPR 2013 etc.), the situation will reflect in the end the conditions negotiated in the final agreement: (1) in the case of a partial liberalization, that comes with a reduction or an elimination of the tariffs, the beneficiaries will count the majority of the Member States, due to the decrease of the costs of the commerce; (2) the case of a full liberalization

will lead to even higher benefits for both negotiators, on a national and on international level.

From the jobs perspective, the deeper the liberalization, the higher the number of jobs created, and the bigger the risk from the businesses perspective for not correctly or fully applying the labor law, as negotiated in TTIP. As previously noted, the jobs situation both on the European Union territory and in the United States of America developed a pattern that reflects the volume of bilateral exports, and the investments situation.

TTIP may be seen as an European strategy for creating jobs [13] and to keep a leading position among the Asian emerging economies, in a context where Russia and two other countries created the Eurasian Economic Union, and China, India and Brazil expanded their economies without precedent.

5. Conclusions

After one year of break, TTIP seems to face a deep negotiations crisis. The current European political instability, added to the global interventions of Russia, China or Brazil in the general conditions of performing trade, have unquantified effects over the European attempt of creating a free transatlantic market that seems to track the destiny of the Doha Round.

Even though none of the representatives of the powers involved agrees publicly, reaching an agreement over TTIP will not happen very soon. The process of Brexit will consume a great part of the negotiation resources of the European Commission; in addition to this point comes the need for the European Union to present a stable trade connection with this potential ex-member, so an agreement with an impact like TTIP can be negotiated. It results that against TTIP there are two situations: one that results from Brexit and that includes creating a stable environment in EU and consolidating the Internal Market conditions, while the second regards the Trump Administration and the lack of predictability in regard with its actions.

Until the clarification of the general circumstances, it is presumed that freezing TTIP will not have any additional consequences over the labor market, both in EU and US, at least until 2019, the point in time when UK should definitively leave the European Union. Given these changes, TTIP numbers in regard with the effects over labor will change, presuming that until then, the negotiations will not officially be ended.

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