Updated Malta results – TTIP and the EU Member States

On January 27, 2016 the WTI study 'TTIP and the EU Member States' came out. In that report, the WTI-research team, based on GTAP9 data, found that for Malta a negative GDP impact for Malta was found (- 0.3 percent). Real household consumption was expected to rise by 0.1%, exports to the US by 23% while low- and high-skilled wages would both go up by 0.7%. Investment was expected to decline by 0.7% and consumer prices by -0.2%. This is a mixed picture: the wage effects, household consumption effects and consumer prices show positive effects, while GDP and investment changes are negative. Upon closer inspection, there are two main drivers for these Malta-specific findings that give Malta de dubious honour of being the only EU Member State that is set to see a decline in GDP from TTIP. The first reason is the large share and importance of the electrical machinery sector in the Maltese economy. The electrical machinery sector is expected to decline significantly in both the EU and US – so a high production and value added share of Malta in that sector hurts GDP. The second reason is the significant trade flow of Malta with countries like China, Singapore, Japan and Malaysia (with the US being the second most-important trading partner, but far behind China). These countries are not expected to gain in terms of trade from TTIP – hence Maltese gains are also depressed.

Despite these two drivers, or maybe because of them, the results have led to a debate in Malta and the WTI research team has met with a Maltese delegation to discuss the results. Upon discussing and dissecting the effects, one very Malta-specific effect stood out. The GTAP9 base year is 2011. For the EU Member States this 4-year data lag did not matter much as the relative shares of sectors in the Social Accounting Matrix (the input-output matrix linking different sectors to each other) were changing only marginally – except for Malta. For Malta we witness a significant shift in the relevance of the electrical machinery sector between 2011 and 2015. The rapid decrease in relevance of the electrical machinery is highly unusual, but if one investigates, it becomes clear that the sector in Malta is highly concentrated with one main and a small number of smaller firms constituting the electrical machinery sector. The main firm has divested in Malta over the past years, reducing significantly the production and value added share of the sector for Malta. This is illustrated in Table 1 (sector 5 ELM = Electrical Machinery) where the value added share in the Maltese economy coming from the electrical machinery sector was 24.5% in 2011 according to GTAP, but only 1.0% in 2015 according to Eurostat. Hence the first driver for the negative GDP results does not seem to hold anymore in 2015.

Table 1: Value Added shares in GTAP (2011) and Eurostat (2015)

	GTAP (2011)	Eurostat (2015)
1 AFF	3,14	10,93
2 OPS	0,11	0,07
3 PRF	1,78	1,77
4 CHM	1,13	2,10
5 ELM	24,45	0,96
6 MVH	1,26	0,69
7 OTN	1,80	0,01
8 OMC	5,98	0,13
9 MTL	0,02	0,36
10 WPP	0,99	0,84

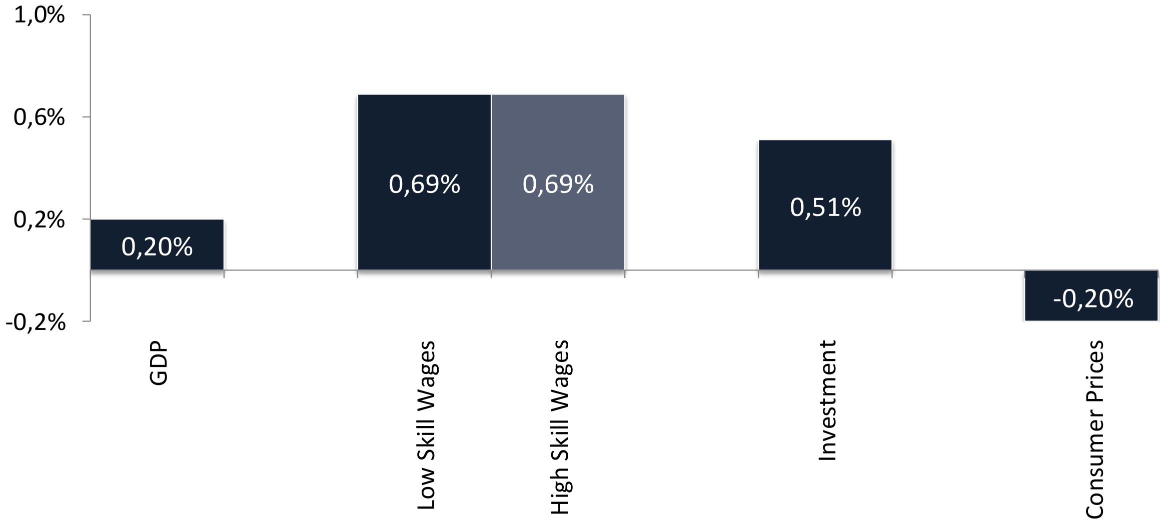
	GTAP	Eurostat
	(2011)	(2015)
11 OMG	4,68	2,67
12 WTP	0,02	0,25
13 ATP	0,35	6,01
14 FIN	2,92	6,07
15 INS	0,34	1,17
16 BUS	8,15	18,02
17 CMN	1,96	5,86
18 CNS	2,34	4,19
19 ROS	10,97	10,44
20 OSV	27,62	27,49
TOTAL	**100,00**	**100,00**

We observe that there is a big difference between Eurostat value added data and Eurostat input-output tables. However, for the sake of including the significant change in electrical machinery for Malta between 2011 and 2015, we use the updated value added shares for Malta (Eurostat, 2015) combined with the EU-wide changes in output by industry. From these, we can recalculate the value added chare of GDP change for Malta. We have not changed wage effects and consumer price effects because they depend on EU-level price changes and the impact of the value-added change for Malta will have an insignificant impact on the EU-level. Investments now exclude the divestment that happened between 2011 and 2015 in electrical machinery and is benchmarked on EU-level investments that are consistent with EU-level output. This leads to the macro-economic results that are reported in Figure 1.

Figure 1: TTIP effect on Maltese macro-economic variables (% change)

The changes are significant. The GDP effect, when using 2015 Eurostat data for value added – thus including the significant shift in the Maltese economy between 2011 and 2015 (that did not occur in other EU Member States) – is a positive 0.2% change. Investments are expected to increase by 0.5%. In the below Figure 2, we repeat only the updated results in the same format as done in the WTI (2016) original report 'TTIP and the EU Member States'.

Figure 2: Macro-economic changes in Malta due to TTIP (% change)



WTI team
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