

IN-DEPTH ANALYSIS

EU and US trade policy and its global implications (TPP, TTIP and China)

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Abstract

The focus of US foreign policy has shifted to Asia in a dramatic way. With the 'pivot' strategy, the US intends to reaffirm its political role in the region and secure a stronger economic position, not least by concluding an ambitious Trans-Pacific Partnership (TPP) agreement. The new strategy will inevitably have an impact on China, and may be seen as a US response to China's increasing assertiveness in world affairs.

As a result of the global economic crisis, the US has also adopted a forward-looking foreign trade strategy aimed at rebalancing external deficits, create new jobs and increase industrial production in the US. In pursuing these economic aims, the US has essentially turned towards Asia, apparently at the expense of its preferential relations with the EU.

With the launch of the US-EU Transatlantic Trade and Investment Partnership (TTIP) in 2013, the scenario changed dramatically, with the US negotiating two major deals at the same time. Its economic focus notwithstanding, the TTIP has strong and obvious political implications that are not without risks for the EU.

In this context, China faces a serious dilemma. As joining the TPP on the conditions set by the US does not seem to be a viable solution, Beijing is left with two alternatives: to strengthen its hold over Asian economies or to conclude an ambitious deal with the EU. Both options are feasible, but neither is without consequences.

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1 Introduction

The focus of US foreign policy has shifted to Asia in a dramatic way. With the 'pivot' strategy, the US intends to reaffirm its political role in the region and secure a stronger economic position, not least by concluding an ambitious Trans-Pacific Partnership (TPP) agreement. The new US strategy will inevitably have an impact on China, and may be seen as a US response to China's increasing assertiveness in world affairs.

As a result of the global economic crisis, the US have also adopted a forward-looking foreign trade strategy aimed at rebalancing external deficits, create new jobs and increase industrial production in the US. In pursuing these economic aims, the US has essentially turned towards Asia, apparently at the expense of its preferential relations with the EU.

With the launch of the US-EU Transatlantic Trade and Investment Partnership (TTIP) in 2013 the scenario changed dramatically, with the US negotiating two major deals at the same time. Its economic focus notwithstanding, the TTIP has strong and obvious political implications that are not without risks for the EU.

In this context, China faces a serious dilemma. As joining the TPP at the conditions set by the US does not seem to be a viable solution, Beijing is left with two alternatives: to strengthen its hold over Asian economies or to conclude an ambitious deal with the UE. Both options are feasible, but neither is without consequences.

This note describes the major shift that has taken place in US foreign and trade policy vis-à-vis Asia and Europe, and analyses the risks and opportunities that this new era of major trade agreements may entail, not least for the EU and China as they face the US's new and dynamic approach to foreign trade and global governance.

2 The new US foreign trade strategy

Both the EU and the US have given their strong support to the establishment of a working multilateral trading system

Over the past fifty years, the multilateral trading system and its governing institution – the General Agreement on Tariffs and Trade / the World Trade Organisation (GATT/WTO) – have largely been shaped by the US and its European allies. The US and the EU have tended to privilege a general approach to international trade rather than to focus on bilateral or plurilateral trade deals. It is therefore not surprising that the US, like the EU, for a long time refrained from entering into bilateral arrangements, with the remarkable exception of the North American Free Trade Agreement (NAFTA), concluded in 1994 and seen by many as a US response to the establishment of the EU Single Market.

The Bush presidency did not significantly alter the US foreign trade strategy, and the defensive measures implemented in the aftermath of the burst of the sub-prime bubble (such as the 'stimulus' package and the enhanced 'buy American' schemes in procurement) remained relatively limited, and tended

to protect the US internal market rather than increase the country's external trade performance.

It took time for the US to shift from a multilateral to a bilateral trade policy

Only at a later stage did the US open negotiations with third countries for the conclusion of ambitious trade deals (such as with South Korea, Colombia and Panama). Concomitantly, it started considering ways of increasing its presence on Asian markets by means of a new and coordinated set of initiatives, including the decision to take part in the TPP negotiations. Overall, however, the US trade policy 'ran on empty', and looked incapable of meeting the challenges posed by the crisis of multilateralism.¹

Efforts by the US Government to pursue new foreign trade initiatives have met with strong opposition from both Congress and the public. New trade agreements were in fact not very popular in the US. Many Americans believed that further trade liberalisation would inevitably weaken US labour and environment standards and result in further losses of American jobs. In this context, China faced strong allegations of 'currency manipulation' and was perceived as the main instigator of the US's huge trade deficit.

The aim of the new US strategy is to create new jobs in the US, increase industrial production and reduce chronic trade deficits

After a relatively shy start, the Obama Administration gradually developed a new trade strategy based on a 'strongly mercantilist tone centred on the prospects for export-led growth'. In his 2010 State of Union speech, president Obama stressed that the US needed to export more goods, and set the ambitious goal of doubling US exports in five years, with a view to creating more than two million jobs. To this end, the US Administration launched the National Export Initiative (NEI) and mobilised vast government resources towards an ambitious and comprehensive trade promotion strategy, actively promoting US exports of goods worldwide.²

In his speech, President Obama went even further. He stated that US had 'to seek new markets aggressively, just as our competitors are', and stressed that 'if America sits on the side-lines while other nations sign trade deals, we will lose the chance to create jobs on our shores'. In his discourse, President Obama gave special emphasis to the opening up of Asian markets but did not mention Europe at all.

3 The US 'pivot' to Asia

The US's top priority is to reaffirm its political and trade position in Asia

The shift of US trade policy towards the Asian continent is not surprising. The financial crisis has left profound scars on the economic structure of Europe and, to a lesser extent, of the US. The EU's internal demand dropped considerably, and most Member States were confronted with severe budget cuts and unprecedented economic and social difficulties.

¹ Kleimann, D., Guinan, J. and Small, A., European University Institute, 'What next in a post-Doha World? Lessons from the EU, US and Chinese trade policy strategies', *Global Governance Programme Policy Brief* 2012/1 (June 2012).

² The White House, Office of the Press Secretary, [Remarks by the President in State of the Union Address](#) (27 January 2010).

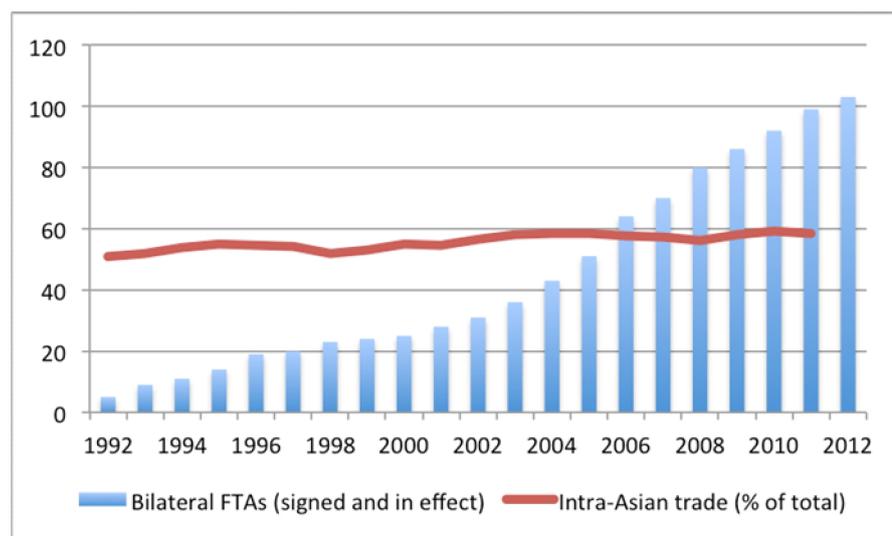
Asia, on the other hand, has performed relatively well. Thanks to its stimulus package, China was only partly hit by the global downturn, and recovered quickly from the collapse of international exchanges that occurred in 2008. Similarly, other Asian countries profited from the weakening of the Western weakness, *inter alia* by intercepting international investments and creating new market positions in key economic sectors. Internal difficulties, coupled with the recent gradual recovery of the US and EU economies and a softening in the monetary policies of the US Federal Reserve, have put a temporary end to this positive phase of growth, but there is little doubt that Asian countries are going to play an even more central role in the global economy and world trade.

The process of economic integration in Asia has increased dramatically over the past decade

The process of economic integration among Asian countries started more than a decade ago. A number of bilateral free trade agreements (FTAs) among various Asian countries were concluded in the 2000s. FTAs were concluded both within ASEAN and between ASEAN countries, on the one hand, and China, Japan and South Korea, on the other. Notable absentees from this process of bilateral negotiation and agreement included some of Asia's most important trading partners: the US and the EU. The EU and the US have only concluded FTAs with South Korea (entered into force in July 2011 and March 2012, respectively) and, in the case of the US, with Singapore (entered into force in January 2004).

As figure 1 illustrates, from 2000 onwards the Asia-Pacific region has experienced a dramatic increase in the number of signed and implemented bilateral, regional and trans-Pacific FTAs. The number of bilateral FTAs in effect in the region has more than quadrupled, from 25 in 2000 to 103 in 2012. In light of this, the decision by the US Administration to invest more heavily in the Pacific region is more than justified.

Figure 1:
Bilateral FTAs and intra-regional trade in Asia-Pacific (1992-2012)



Source: Asian Development Bank data.

The US 'rebalancing to Asia' strategy took the shape of a coordinated set of policies, and is obviously dictated by security and political considerations, including the perceived need to counter the political, military and economic

surge of China.

However, the new US Asia-Pacific strategy also has deep economic roots. While there is scope for improvement, EU-US economic relations are already well developed, and the gains expected from a deal such as the TTIP – although significant – are nevertheless limited. Gaining privileged access to Asian markets is therefore vital for the US, whose businesses are often in direct competition with European and, increasingly, Chinese companies.

In entering economic and trade dialogues with Asian countries, the US seeks to promote its domestic economic growth, generate new jobs and create a rule-based international trade environment that facilitate exchanges and investments and that supports US's long-term economic presence and central role in the region.³

The US Administration has adopted a multi-layered approach to increase its economic engagement in the Asia-Pacific region. The US has pursued its goals with great perseverance. Washington has opened a 'Strategic and Economic Dialogue' with China, has become a member of the Asia-Pacific Economic Cooperation Forum (APEC) and has also used the G-20 platform – half of whose members are Asia-Pacific countries – to discuss regional and global economic and financial issues of common interest.⁴ But there is no doubt that single the most important initiative undertaken by the US to secure these goals is the TPP.

The US Administration has adopted a multi-layered approach to increase its economic engagement in the Asia-Pacific region

4 The Trans-Pacific Partnership Agreement (TPP)

Together with TTIP, the Trans-Pacific Partnership Agreement (TPP) is the most ambitious trade initiative to have been launched in recent years, both as regards its scope and in the number of negotiating countries.

The origins of the TPP can be traced back to the Trans-Pacific Strategic Economic Partnership, also known as the 'Pacific 4' (P-4), concluded between Brunei Darussalam, Chile, New Zealand and Singapore in June 2005. The P-4 was a comprehensive free trade agreement, with a scope that reached beyond mere tariff removal and other trade-facilitating measures and included a wide range of economic and regulatory issues. The TPP negotiations currently include 12 negotiating parties, and South Korea and Taiwan have expressed their interest in joining the deal under negotiation.⁵

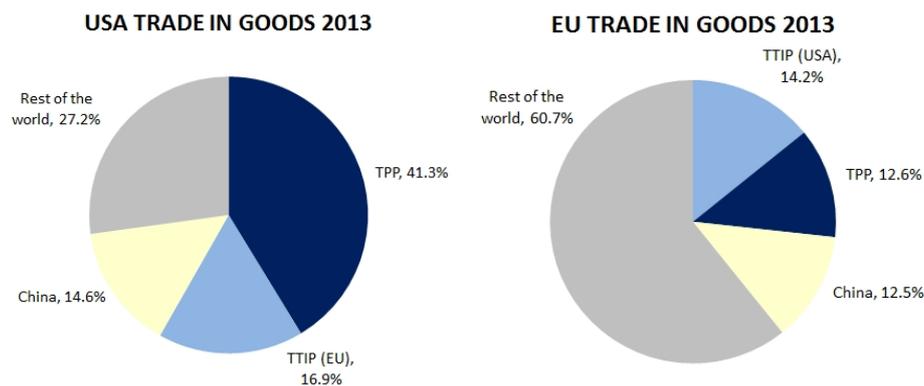
The TPP is the cornerstone of the US Asia-Pacific strategy

³ The US did not hesitate to 'provoke' China by imposing special safeguard measures – such as a Transitional Product Specific Safeguard Mechanism (TPSSM) – on Chinese products (such as tyres). Beijing has always opposed TPSSMs on the grounds that they are discriminatory. For more details, see Bendini, R., '[US, China Trade relations worsening after the tyres case](#)', p. 6 (January 2010).

⁴ Goodman, M., 'Economics and the rebalance', *CSIS Global Economics Monthly*, vol. 2, issue 12, Center for Strategic & International Studies, Washington, DC (December 2013).

⁵ In December 2008, Australia, Peru and Vietnam joined the TPP negotiations. They were followed by Malaysia in October 2010 and by Canada and Mexico two years later. Japan became a negotiating party in March 2013.

Figure 2:
USA and EU trade in goods by territory groups



Source: own calculations based on US Census Bureau data

Source: own calculations based on DG TRADE, European Commission data

The Asia-Pacific markets are already key destinations for US manufactured goods, agricultural products and services

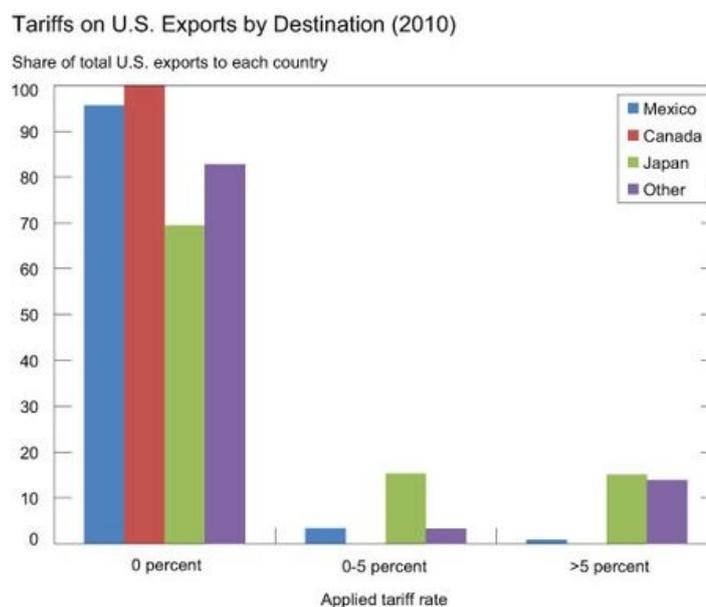
The Asia-Pacific markets are already key destinations for US manufactured goods, agricultural products and services. The purpose of the TPP is to deepen this trade and investment further. As a group, the TPP countries constitute the largest goods and services export market for the United States. US goods exports to the TPP countries totalled USD 711 billion in 2013, representing 41 % of total US exported goods.

The bulk of US trade with TPP partners (representing 40 % of US trade exchanges in 2012) is covered by FTAs

Notwithstanding the announcements made, the TPP does not represent a substantial opportunity to increase US market access abroad. The bulk of US trade with TPP partners (representing 33 % of US trade in goods exchanges in 2013) is covered by free trade agreements. FTAs are already in place with Canada, Mexico, Australia, Singapore, Chile and Peru. Almost 90 % of this trade is covered by NAFTA alone. Therefore, if the tariff levels negotiated under the TPP is comparable to the ones in place under NAFTA and other bilateral agreements, the scope for further tariff reductions in current US export destinations is limited. The only remarkable exception is Japan, which accounts for 4.1 % of US exports and which does not have a bilateral FTA in place with the United States.⁶

⁶ Amiti, M. and Mandel, B., [Will the United States Benefit from the Trans-Pacific Partnership?](#) *Global Economic Intersection (Econintersect)* 16 May 2014 and US Census Bureau data.

Figure 3:
Tariffs on US exports by destination (2010)



So, as with the TTIP, larger gains are not likely to result from tariff cuts but rather from tackling non-tariff, behind-the-border barriers. This goal is obviously more difficult to achieve than the one of removing customs tariffs, and the precise impact of such efforts would be difficult to calculate at this stage in the negotiations. Potential gains of the TPP depend as well on the actual number of countries that ultimately participate.

However, the TPP negotiations have lagged behind. Despite some progress, the agreement is still far from being ready to be finalised, and several key issues still prevent TPP-negotiating countries from reaching a deal.⁷

5 Political objectives behind the TPP

Despite reassurances, the US 'rebalancing to Asia' policy undeniably aims at keeping China at bay

The attitude of the Obama Administration vis-à-vis China remained at time open and suspicious. It knows it has to engage in dialogue with Beijing on a number of issues ranging from nuclear security in North Korea to global governance and economic recovery, but it is also worried about the surge in Chinese military power and diplomatic clout. The US 'rebalancing to Asia' policy is essentially a defensive stance that favours the status quo and aims to bolster traditional US allies such as Japan and South Korea. A symbolic detachment of US Marines has been deployed in Australia (for the first time since World War II), and the US Navy has increased its presence in disputed waters in the South China Sea.⁸

⁷ For more details on this issue, See Gajdos, L. and Bendini, R., [The Trans-Pacific Partnership and its impact on EU trade](#), DG EXPO/B/PolDep/Note/2013_3 (February 2013).

⁸ US Department of State, [The East Asia-Pacific Rebalance: Expanding U.S. Engagement](#), (May 2013).

The TPP is widely seen as a part of a US strategy to re-engage with the Asia-Pacific region and to contain China's influence there⁹. At the same time, the US has repeatedly denied that the policy specifically targets any one country in the region. US National Security Advisor Tom Donilon has stressed that the US interest in the Asia-Pacific region is neither an 'attempt to contain any nation' nor a 'rebalancing towards Asia'; instead, Donilon said, the US is 'rebalancing [...] within Asia [...] in a renewed way on Southeast Asia and ASEAN'¹⁰. Commenting on the TPP itself, former US Secretary of State Hillary Clinton has said that Washington 'welcome[s] the interest of any nation willing to meet the 21st century standards of the TPP – including China'¹¹.

TPP provisions effectively prevent China from joining TPP

That said, the provisions of the TPP – regarding environmental and labour standards as well as intellectual property rights and the reform of state-owned enterprises – seems effectively to preclude China from participating.¹² China would only join the initiative on its own terms, and any other scenario risks driving a wedge through the region, possibly provoking China into playing its own regionalism game.¹³ Some Chinese commentators have even gone so far as to argue that the TPP is 'superficially an economic agreement' with 'an obvious political purpose to constrain China's rise'.¹⁴

While these views are irreconcilable, they do underscore that the TPP has not only an economic dimension, but also important security and foreign policy ramifications. This is true not only for the US, but also for other participating countries – particularly some ASEAN members – which may see the agreement as a way of countering China's growing assertiveness.¹⁵

From this viewpoint, the TPP inevitably becomes a strategic tool aimed at supporting – beyond its obvious commercial objectives – foreign policy objectives such as strengthening the role of the US in the Asia-Pacific region and creating a partnership network alternative to the one that China has envisaged to build.

⁹ Capling, A. and Ravenhill, J., [Multilateralising regionalism: what role for the Trans-Pacific Partnership Agreement?](#), *The Pacific Review* 24 (5) (December 2011).

¹⁰ Quoted in Drysdale, P., [America's pivot to Asia and Asian akrasia](#), *East Asia Forum* (26 November 2012).

¹¹ Ten Kate, D. and Shamim, A., [Obama Heads to Asia as Clinton Touts Region's Importance](#), *Bloomberg* (17 November 2012).

¹² Bhagwati, J., *America's Threat to Trans-Pacific Trade* (30 December 2011); Armstrong, S., *Australia and the Future of the Trans-Pacific Partnership Agreement*, EABER Working Paper Series no. 71 (December 2011).

¹³ Armstrong, op. cit.; Matoo, A. and Subramanian, A., [Leave China out of a trade deal at your own peril](#), *Financial Times*, (08 December 2011).

¹⁴ Ding Gang quoted in Song, G. and Yuan, W. J., [China's Free Trade Agreement Strategies](#), *Survival* 35 (4) (Fall 2012).

¹⁵ Emmerson, D. K., [Challenging ASEAN: the American pivot in Southeast Asia](#), *East Asia Forum* (13 January 2013); for a more detailed discussion on security elements of US FTAs, see Denney, S. and Gleason, B. [The Political Economy of Trade Policy in the KORUS FTA](#), LSE East Asia blog (31 May 2012).

6 The TPP is not enough

The 'Pacific Nation' does not seem to intend to invest further in the EU-US partnership

The US policy shift towards its neighbours to the west seemed justified in light of both economic and strategic goals. The 'Pacific Nation', as Secretary of State John Kerry once defined the US, was ready to make the strategic commitment to rebalance the country's efforts and investments toward Asia.

This has also had some consequences for the EU. Unlike the US, the EU still lacks a coherent regional strategy and was forced to favour a bilateral approach to trade and economic cooperation, following the failure of its attempt to conclude a single undertaking with the ASEAN countries. The EU's response to the TPP has been rather weak, and the only tangible sign of a reaction has been the recent opening of FTA negotiations with Japan.

In Asia, the EU faced the risk of losing further ground to the US, and it appeared evident that the EU and the US, rather than enter a new era of partnership and economic cooperation, were destined to come to blows over dominance in the fast-growing Asian markets.

7 From TAFTA to TTIP

While the prospects for a EU-US FTA had been heralded in the past, for many reasons it never led to formal negotiations

The idea of a transatlantic trade agreement between Western Europe and the US is not new. The two economies share largely the same principles, and both consider a market economy and free trade as necessary corollaries to their democratic political system.

The belief that democracy cannot exist without an open economic system is deeply entrenched on both sides of the Atlantic. In consequence, the two parties have progressively liberalised their bilateral trade in goods and opened up their markets to foreign investments. However, the liberalisation in commercial exchanges has neither been total nor unconditional.

On its part, the European Communities, while proceeding at speed towards the creation of a functioning Single Market, remained relatively closed to foreign trade, earning the often deserved moniker 'Fortress Europa'¹⁶. At the same time, the US also sheltered some key domestic sectors from trade liberalisation.

Similarly, the development of an open and well-functioning global trading system was largely left to the goodwill of participating countries and to the initiative of private businesses. The GATT – a system based on consensus and governed *de facto* by the US and the European Communities (with Japan playing an increasingly important role thanks to its impressive economic growth) – served as a medium to secure further trade liberalisation.

The fall of the Berlin Wall and the end of Soviet Union gave the West the unprecedented chance to reshape the world economy and to create a new

¹⁶ Hanson, B., 'What happened to Fortress Europa? External trade policy liberalization in the European Union' *International Organization*, vol.52, no.1, (1998), pp.55-85.

system based on its own economic (and often political) values. This gave birth to the World Trade Organisation (WTO) in 1995. The set-up of the Geneva-based organisation – strongly backed by the two transatlantic partners – was largely inspired by market economy principles and liberal theories, and marked the triumph of a rule-based, multilateral approach to foreign trade.

It is not surprising that, in a similar scenario, the proposal made by two European ministers¹⁷ to launch talks on a Trans-Atlantic Free Trade Agreement (TAFTA), did not gain sufficient momentum and was promptly abandoned. In a recent paper, Charles Ries explains the reasons for this failure: ‘Some said that a TAFTA would be both “too small” and “too big”. Too small in that tariff barriers were already so low that they do not matter, and too big in that so many sensitive vested interests would be affected that it would not be worth the political capital to undertake.’¹⁸

The TAFTA project was abandoned because it was considered unfeasible as well as detrimental to the WTO

The scrapping of TAFTA was essentially due to the fact that such an agreement between the EU and the US (at the time accounting together for two-thirds of global GDP) was likely to damage EU and US interests in third countries and could ultimately undermine the recently established WTO. This potential political setback was not matched by expected bilateral economic gains. In fact, the estimated benefits of tariff cuts were rather limited (between 3-4 % on a trade-weighted basis), and it was not clear to what extent regulatory barriers could successfully have been removed.

Beyond these obvious considerations (which are still largely applicable to the TTIP currently under negotiation), the US and the EU decided not to enter negotiations as they believed that they had the situation in hand and expected to be able use, in particular, the WTO to open up emerging third markets, as indeed was the case for China when it acceded in 2001.

As a result, for more than 15 years the two parties multiplied their efforts towards further regulatory convergence and the fight against non-tariff barriers, but stopped any further initiative towards the conclusion of an ambitious bilateral deal. The idea of an FTA was not completely abandoned in Europe, mainly thanks to the United Kingdom and Germany, both of which countries for a number of reasons tended to favour a preferential partnership with the US. The 2007 German Presidency of the European Union promoted the launch of the Transatlantic Economic Council (TEC)¹⁹. Expectations notwithstanding, however, the results achieved were rather modest and did

¹⁷ Malcolm Rifkind and Klaus Kinkel, ministers of foreign affairs of the United Kingdom and of Germany, respectively.

¹⁸ Ries, C., [The Strategic Significance of TTIP](#), Transatlantic Partnership Forum Working Paper Series, Johns Hopkins University, Center for Transatlantic Relations (June 2014).

¹⁹ EU Commission President Barroso, German Chancellor Merkel and US President Bush signed the [‘Framework for Advancing Transatlantic Economic Integration between the United States of America and the European Union’](#) on 30 April 2007.

not prevent the two parties from submitting contrasting claims of alleged violations of WTO rules.²⁰

Over the past twenty years, the EU and the US have lost their dominant position in world economic affairs

The state of the global economy and trade relations has radically changed since the entry into force of the Uruguay Round Agreements. Even before the beginning of the crisis, industrialised countries had lost significant ground to emerging and developing countries. Today, the 'club' that had governed world trade and economy for 50 years (dominated by the US, the EU and Japan) is apparently no longer able to impose its views on other parties. New trading powers have emerged, and world trade maybe has become more 'democratic' but also more difficult to govern.

After a series of unsuccessful rounds in the so-called Doha Development Agenda (DDA) launched in 2001, the EU and, to a lesser extent, the US have been compelled to acknowledge that the multilateral approach that they had pursued for many years has not yielded genuine progress. In response, the EU and the US developed a new strategy, gradually replacing their multilateral approach with renewed efforts to forge bilateral trade deals.

The EU and the US negotiating agenda was increasingly influenced by the activities of other major trading partners, including China, that were quicker in opening negotiations on a new generation of plurilateral and bilateral trade agreements.²¹ The two partners initially focused on smaller deals with medium-sized industrialised countries such as South Korea, Mexico and, in the case of the US, Canada and Singapore. Until very recently, an advanced trade deal linking the US and the EU looked more like the dream of a handful of passionate Atlanticists than a concrete proposal for the integration of the two trading blocks.

8 EU trade policy in the 21st century: from multilateralism to bilateralism

'Global Europe' paves the way to a new phase for EU bilateral deals

In its 2006 communication 'Global Europe, competing in the world', the European Commission was for the first time compelled to acknowledge that the DDA talks had reached a stalemate and that it had no choice but to seek alternative ways of guaranteeing better access to third country markets, and to counter similar initiatives taken by competitors.

In 'Global Europe', the Commission argued for the introduction of a new generation of FTAs that went beyond tariff cuts and the liberalisation of trade in goods. However, the initial effort to forge these new agreements, though pursued for a long time, produced only modest results. In four years of intense negotiations, only an FTA with South Korea was finalised. The EU

²⁰ See e.g. WTO Dispute Settlement: [European Communities — Certain Measures Affecting Poultry Meat and Poultry Meat Products from the United States \(DS 389\)](#), in which the US has requested consultations but for which a panel has yet to be established.

²¹ Bendini, R., [The role of the EP in shaping the EU's trade policy after the entry into force of the Treaty of Lisbon](#) (March 2014).

failed to conclude deals with other important trading partners – such as Mercosur, the Gulf Cooperation Council (GCC) and India – and was also compelled to open separate negotiations with individual ASEAN members (notably Singapore, Vietnam and Malaysia) after a regional deal proved impossible to reach.

The Commission stressed that EU trade policy should pay particular attention to, *inter alia*, the US, but this statement did not lead to a formal commitment to open FTA negotiations with Washington. In the assessment report on ‘Global Europe’, the Commission had been compelled to acknowledge that, ‘despite some progress’, finding a common understanding on non-tariff barriers with the US had ‘proven to be difficult territory and a further injection of momentum is necessary’.

Despite efforts, ‘Global Europe’ did not result in a significant improvement in EU-US trade relations

‘Global Europe’ was superseded in 2010 by another Commission communication ‘Trade, Growth and World Affairs’ (TGWA).²² The communication on TGWA did not suggest significant changes in trade relations with the US, except with regard to enhancing regulatory cooperation: ‘It is equally important to deepen our trade and investment links with the other big economies in the world: the US, China, Japan, and Russia. [...] The prime focus with the US [...] should be on tackling non-tariff barriers to trade and investment, primarily through regulatory cooperation’.²³ According to the Commission, ‘our priority should be squarely on the avoidance of future barriers, and in particular in the innovation, energy efficiency and hi-tech sectors, a point which comes out clearly in our public consultation exercise’. This suggests that the decision to launch TTIP talks was only reached after the communication on TGWA was published, and that the initiative was essentially taken by the US after it had modified its previous, more restrictive approach to trade cooperation with the EU.

9 Why did the EU and the US decide to open TTIP negotiations?

As seen above, both the EU and the US did not seem to be ready to enter FTA negotiations. The decision by the Obama Administration has dramatically changed the scenario.

Many stakeholders and analysts welcomed the opening of TTIP negotiations with enthusiasm

The TTIP has enthusiastically been presented as the gateway to a fully fledged, transatlantic integrated market, and even as the first step towards an ‘economic NATO’. Some commenters even considered the TTIP as the ultimate remedy for halting the decline of the West, reaffirming its leading role in trade and economics, and healing the scars inflicted by the longest and most serious economic crisis since the Great Depression.

The US obviously expects to gain substantial advantage from the TTIP.

²² European Commission, ‘[Trade, Growth and World Affairs – Trade policy as a core component of the EU’s Europe 2020 strategy](#)’ (COM(2010)0612).

²³ Roberto Bendini (EP Policy Department), ‘Trade Growth and World Affairs: A brief outline’ (2011).

However, if concluded, the effects of the EU-US deal are likely to go beyond the creation of a transatlantic market. Despite their recent decline, the two trading partners have maintained leading positions in the global trade in goods and services, and in foreign direct investment. An enhanced transatlantic relationship is therefore likely to alter the shape of the global economy as a whole and contribute to the introduction of new technical standards on an unprecedented, global scale.

The EU and the US expect to gain major advantages from the conclusion of the TTIP

The TTIP, when concluded, is likely to mark a cornerstone in 21st-century international trade relations. While the topics under negotiations are not new to the transatlantic dialogue, or to any trade negotiators, the ambition level for the agreement is high, and its potential scope very large. Any deal between the EU and the US would have major international consequences, political as well as commercial, as it would set precedents, rules and standards that other countries would have to follow in order to trade with the EU and the US.

Similarly, the EU expects large gains from the TTIP, and most of the considerations that prompted the US decision to open negotiations apply to the EU as well. However, the positions of the two trading blocs are not the same.

While the US is advancing on two fronts – the Atlantic, with the TTIP, and the Pacific, with the TPP – the EU's strategy for the Asia-Pacific region has been less effective. At present it is not clear which of the two negotiations the US considers more important. The TTIP notwithstanding, the US is not ready to scrap its 'Rebalancing to Asia' policy, and probably intends to play the two trading blocs against one another with a view of securing maximum concessions from both negotiating parties. This is a risky strategy, but it certainly gives the US an unprecedented power of initiative on the international trade scene.

The decision to open TTIP negotiations was also consistent with the broad US trade strategy outlined above. The EU, still the US's biggest trading partner, enjoys a traditionally large trade surplus with Washington that is second only to that of Beijing. As outlined already in some early impact studies, in the TTIP talks the US is probably expecting to secure more concessions from its European counterparts than it is prepared to grant.

The EU negotiating position is weaker than that of the US

Despite the fact that the EU's Common Commercial Policy (CCP) is an exclusive competence of the Union, the role of the Member States in shaping the Union's external economic relations is still very relevant. Moreover, as demonstrated by the recent economic recession, the economic structure of the EU is far from being harmonised, and Member States do not always share the same economic and commercial foundations and objectives. International trade agreements are, by definition, supposed to bring benefits to the negotiating parties. However, as in the case of past international negotiations, the benefits to EU businesses are not going to be the same for all. In other words, there will be some winners and some losers, and the EU is going to have difficulties defining what is to be understood as a 'balanced'

negotiating position, especially in consideration of the fact that some Member States are already pushing for an expedited conclusion of the deal or even for the finalisation of an (interim) 'early harvest'.

As correctly outlined by Pierre Defraigne, 'there is a power asymmetry between the US and the EU'. The Transatlantic partnership will in fact be composed of 'a large, fully-fledged and united player on the one hand and a player of comparable size, but still nursing an incomplete single market an unbalanced single euro zone and a nascent foreign policy falling short of a common defence system on the other'.²⁴

Regulatory convergence and the approximation of technical standards may be done in accordance with US rules

Given the fact that the bilateral tariff rates between the EU and the US are already rather low, the bulk of the gains expected from the TTIP will be achieved through regulatory convergence and the approximation of technical standards. An evident risk is that, owing to the difference in bargaining power between the two parties, the harmonisation of norms and technical standards will be achieved in a manner that reflects US rather than EU concerns.

Another question not answered by the Commission is whether such a deep and comprehensive agreement is likely to either improve or undermine the construction of the EU's internal market. Most US analysts seem to be rather optimistic: 'By reducing non-tariff barriers and harmonizing regulations, TTIP would also help advance the extension of the single market within the EU, thereby promoting further economic gains'.²⁵ Others consider the TTIP to present more of a risk than an opportunity. If not properly negotiated and implemented, the TTIP may in fact lower the EU's standards in key sectors – such as the environment, energy, consumers' protection and internet issues – and even undermine the well-functioning of the internal market. Furthermore, early studies highlight the fact that the TTIP is likely to reduce intra-EU trade to the benefit of transatlantic exchanges (-2 % for industrial goods and -3 % for agriculture).²⁶

Benefits from the TTIP for the EU, while not negligible, are limited

As seen in this scenario, the expected economic gains for the EU, while not negligible, are limited. As shown in figure 4 below, TTIP benefits are only one third larger than those expected from the conclusion of the FTA with Japan, while the export gains expected are even more limited.

²⁴ Defraigne, P., '[Questioning the Transatlantic Partnership](#)', EU-Asia Centre (18 June 2013).

²⁵ Kupchan, C., '[Parsing TTIP's Geopolitical Implications](#)', Transatlantic Partnership Forum Working Paper Series, Johns Hopkins University, Center for Transatlantic Relations (June 2014).

²⁶ Fontagné, L., Gourdon, J. and Jean, S., '[Transatlantic trade: whither partnership. Which economic consequences?](#)' *CEPII Policy Brief*, no. 1 (September 2013).

Figure 4:
Potential impact of trade agreements on GDP, exports and jobs in the EU

	USA*	Japan	Canada	ASEAN	India	Mercosur	China Investment*	Total	Productivity effect**	Total (incl. productivity effect)	Jobs*** (1000)	South Korea (applied since 1 July 2011)
GDP (%)	0.52	0.34	0.08	0.035	0.03	0.17	0.03	1.2	0.8	2.0		0.075
(€ billion)	65.7	42.9	10.1	4.4	3.8	21.5	3.8	152.2	103.1	255.3		9.5
Total Exports (%)	1.40	1.20	0.69	1.60	0.55	0.65	0.07	6.2			2164	1.20
(€ billion)	29.4	25.2	14.6	33.7	11.6	13.7	1.4	129.6				25.2
Total Imports (%)	1.35	1.20	0.39	1.40	0.55	0.66	0.06	5.6				1.10
(€ billion)	29.0	25.8	6.0	30.1	11.8	14.2	1.3	118.2				23.6

Source: Based on studies commissioned by DG Trade. Comparisons between different agreements should be done with caution due to different methodologies used. Note: Absolute figures refer to EU GDP and trade figures for 2011.

10 The TTIP in a geopolitical context

Is the TTIP able to restore Western predominance in world affairs?

TTIP enthusiasts strongly believe that the deal 'would thus constitute an important step forward in renewing the West's political vitality and enabling it to continue serving as the anchor of liberal democracy amid a world in change'.

The question here is whether one could replace the word 'West' with the US. If it is clear that the TTIP may have some positive geopolitical advantages, it is also evident that the EU and the US, while globally sharing the same values and principles, are not the same. While, the US is taking the lead in the so-called 'shale gas revolution' and is heading towards almost complete independency from external sources of energy, the EU remains largely dependent on imported energy sources.

The US is still, by far and large, the greatest military power in the world, able to intervene in several different theatres at the same time. The EU is far from establishing a common defence regime, and cuts to Member State defence budgets are further widening the gap between the US and the EU in this regard.

The TTIP may represent an alternative – rather than a complement – to the EU Single Market

With TTIP, the EU will inevitably deepen its relations with the US, but this may enhance contrasts inside the Union and could, under certain circumstances, undermine the already difficult European integration process. In a manner similar to how NATO has overshadowed the European Security and Defence Policy, the TTIP may well represent an alternative, rather than a complement, to the Single Market.

Pro-TTIP activists believe that, if done properly, a US-EU deal could even create momentum for a new round of global trade talks. This is not convincing. The issue of modernising the WTO is still on the table. WTO is ageing, and the recent (tactical) success in Bali is not likely to put the Round back on tracks unless a major rethink of the organisation is undertaken. WTO is not going to die, but in an era of giant bilateral and plurilateral deals it may lose the central role it played in facilitating the development of the international trading system.

11 TTIP and China

China perceives the US 'rebalancing to Asia' strategy as a threat to its own political and economic goals

The US 'pivot' to Asia²⁷ is perceived by many in Beijing as being aimed directly at constraining China's rise, and as the principal cause of regional instability and the deterioration of China's strategic environment. As mentioned above, China could in theory accede to the TPP's economic component, but it is hard to believe that Beijing would do so on conditions set by the US. When concluded, TPP would therefore become a sort of 'everything but China' deal. Figure 5 offers a perspective on China's sense of being encircled by TPP countries .

Figure 5:
Trans-Pacific Partnership member countries



The TTIP is not open to third countries but is not intended directly aimed at China

Unlike the TPP, the TTIP is not an open deal: no third country can become signatory unless it becomes a Member of the EU. For the reasons mentioned above, the transatlantic deal will have an obvious geopolitical impact, but it is not *directly* aimed at China. Rather, it represents an effort to overcome the effects of the economic recession and restore part of the traditional Western grasp on world affairs. However, there is little doubt that the TTIP is more likely to serve the US's strategic goals than the more confused and restricted goals of the EU.

Although it may be too early to conclude that the TTIP will pave the way for a new era of strategic confrontation, it is evident that FTA talks are already producing some domino effects on China and other Asian countries. China has recently shown a greater interest in concluding bilateral deals with key partners.

During his visit to the EU (31 March to 1 April 2014), Chinese President Xi

²⁷ Ratner, E., [Rebalancing to Asia with an Insecure China](#), *The Washington Quarterly*, vol. 36, no. 2 (Spring 2013) pp. 21-38.

China has reacted to US activism by formally proposing open FTA talks with the EU

Jinping actively promoted the opening of negotiations for a comprehensive EU-China FTA. This radical change in the Chinese position was apparently triggered by the parallel launch of negotiations on the TTIP and the TPP.

The EU's first reaction to the Chinese proposal was rather cautious. In the final communiqué of the summit, both parties agreed that negotiating and concluding a 'EU-China Investment Agreement, covering investment protection and market access, will convey both sides' joint commitment towards stronger cooperation as well as their willingness to envisage broader ambitions including, once the conditions are right, towards a deep and comprehensive FTA, as a longer term perspective'. As has previously been the case, Beijing hopes to convince the EU to 'work jointly to create conditions for launching a feasibility study of a China-EU free-trade agreement'. According to the Commission, however, the necessary conditions for formally opening preliminary talks on an ambitious EU-China FTA have not yet been met. China may also consider deepening regional economic cooperation, and could possibly conclude some broad pan-Asian Agreements alternative to the TPP.²⁸

12 Conclusions

The TTIP and TPP negotiations will not be concluded in the immediate future, and opposition to both deals is on the rise

Conclusion of the TPP and TTIP negotiations is still not in sight. Despite progress, the size and ambition of these deals make them a real challenge for negotiators – even more so when one considers the complexity of handling regulatory and technical approximation issues. Moreover, after a positive start, the TTIP (and to a lesser extent the TPP) have increasingly been the focus of criticism, and it cannot be excluded that public opinion in both the EU and the US may play a role in scaling down ambitions and delaying the negotiation process further.

The US has been extremely skilled in regaining the initiative. In political terms, the joint TTIP and TPP effort may well reinforce transatlantic ties and create a deeper system of partnership and alliances in the Far East. In economic terms, it represents the logical implementation of the post-crisis doctrines adopted by the Obama Administration with aim of creating a new industrial basis in the US, generating new jobs and reducing the global imbalances caused by the huge US trade deficit.

The TTIP is likely to benefit the EU but the deal is not without risk

For its part, the EU (and in particular Parliament) has to monitor the negotiations carefully to ensure that the result is not unbalanced, that it takes into due consideration the contrasting economic interests in Europe, and that it responds to the EU's overall objectives in FTA talks. The EU should also be careful to avoid that the limited benefits expected from the conclusion of the TTIP lead to a further weakening of the European integration process and

²⁸ China is pursuing a very active FTA agenda. Among other things, the Chinese Government has been one of the strongest proponents of the ASEAN+3 and ASEAN+6 models, and, more recently, has pursued trilateral talks with Japan and South Korea to form the basis for a possible, broader pan-Asian trade agreement.

undermine the functioning of the Single Market.

The TTIP and the TPP are a potential threat to China's interests but they also represent an opportunity for reform and adjustment

The overall economic impact of both the TTIP and the TPP on China is noticeable but still limited, and it will be reduced further by concomitant foreign trade initiatives. China should see the TTIP and the TPP not just as a threat but also as an opportunity. It is time for Beijing deeply to rethink its economic structure and to adapt it to the changed circumstances. Improving cooperation with key economic partners (such as the EU), diversifying export destinations and increasing domestic consumption would probably enable China to face the current situation of (partial) economic slowdown in a better way.

China has also to rethink its political role, in a global as well as a regional context. China's increasing assertiveness and its renewed political and military power are perceived by the US, and by several Asian neighbours, as a threat to their own interests. It is therefore natural that the US and other countries try, like China, to reinforce their respective positions in the Asia-Pacific region. The US is hardly about to renounce its efforts to rebalance to Asia, and is, in fact, looking at Asia as its political and economic priority, the TTIP notwithstanding. It could therefore be time to think in terms of cooperation rather than confrontation between the two superpowers.

The EU may have an interest in carefully considering the Chinese FTA offer and its geopolitical implications

The EU is aware that, despite its residual economic strength, it cannot compete on equal footing with the US and China in Asia, and it has no real interest in becoming the 'junior partner' in a future transatlantic partnership. The EU could instead play a useful role as an 'honest broker' between the US and China. These is why the EU may not *a priori* disregard the Chinese FTA offer, and why it should consider the establishment of an high-level trilogue between the US, China and the EU.

Annex: Compilation of relevant trade statistics on EU and US

EU trade in goods - 2013 in million €

	Imports		Exports		Total	
	Value mln €	Share in world (%)	Value mln €	Share in world (%)	Value mln €	Share in world (%)
Total	1 682 390	100.0%	1 737 022	100.0%	3 419 412	100.0%
China	280 055	16.6%	148 269	8.5%	428 324	12.5%
USA	195 989	11.6%	288 239	16.6%	484 228	14.2%
Other TPP	203 192	12.1%	227 119	13.1%	430 311	12.6%
including:						
Australia	10 170	0.6%	32 096	1.8%	42 266	1.2%
Brunei	12	0.0%	1 276	0.1%	1 288	0.0%
Canada	27 248	1.6%	31 629	1.8%	58 877	1.7%
Chile	8 996	0.5%	9 243	0.5%	18 239	0.5%
Japan	56 530	3.4%	54 040	3.1%	110 570	3.2%
Malaysia	18 381	1.1%	14 311	0.8%	32 692	1.0%
Mexico	17 534	1.0%	27 429	1.6%	44 963	1.3%
New Zealand	3 059	0.2%	4 101	0.2%	7 160	0.2%
Peru	5 320	0.3%	3 485	0.2%	8 805	0.3%
Singapore	17 596	1.0%	28 684	1.7%	46 280	1.4%
Thailand	17 067	1.0%	15 040	0.9%	32 107	0.9%
Vietnam	21 279	1.3%	5 785	0.3%	27 064	0.8%
Rest of the world	1 003 154	59.6%	1 073 395	61.8%	2 076 549	60.7%

Source: DG TRADE, European Commission

USA trade in goods - 2013 in million €

	Imports		Exports		Total	
	Value mln €	Share in world (%)	Value mln €	Share in world (%)	Value mln €	Share in world (%)
Total	1 686 876	100.0%	1 180 938	100.0%	2 867 814	100.0%
China	327 547	19.4%	91 012	7.7%	418 560	14.6%
EU	288 239	17.1%	195 989	16.6%	484 228	16.9%
Other TPP	653 608	38.7%	531 512	45.0%	1 185 120	41.3%
including:						
Australia	6 895	0.4%	19 535	1.7%	26 431	0.9%
Brunei	13	0.0%	417	0.0%	430	0.0%
Canada	247 308	14.7%	225 490	19.1%	472 798	16.5%
Chile	7 722	0.5%	13 095	1.1%	20 817	0.7%
Japan	103 052	6.1%	48 749	4.1%	151 802	5.3%
Malaysia	20 294	1.2%	9 724	0.8%	30 018	1.0%
Mexico	208 620	12.4%	169 022	14.3%	377 642	13.2%
New Zealand	2 593	0.2%	2 411	0.2%	5 004	0.2%
Peru	6 040	0.4%	7 552	0.6%	13 593	0.5%
Singapore	13 269	0.8%	22 931	1.9%	36 200	1.3%
Thailand	19 464	1.2%	8 820	0.7%	28 284	1.0%
Vietnam	18 337	1.1%	3 765	0.3%	22 102	0.8%
Rest of the world	417 482	24.7%	362 425	30.7%	779 906	27.2%

Source: US Census Bureau