

# TTIP: A Bridge or Gulf for Multilateralizing Plurilaterals?

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**R**egional Trade Agreements (RTAs) have proliferated during the last two decades. In recent years, several large scale initiatives such as the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP), and the Regional Comprehensive Economic Partnership (RCEP) have emerged, indicating a change in trade integration dynamics.

In services, a similarly ambitious initiative is the Trade in Services Agreement (TISA), which involves 50 countries — including all EU members and the United States, but not China (which has applied for membership) — and covers about 70 percent of global services trade. These initiatives, sometimes referred to as “mega-regionals,” contrast with traditional RTAs. They represent deep integration partnerships involving countries or regions accounting for a major share of world trade and investment flows and occupy a central position in international production networks.

Despite extensive and increasing interest among various economies in following this route to liberalization, the announcement of the launch of TTIP, a negotiation between the United States and the European Union — the world’s two largest economies, accounting for nearly half of global output and one-third of global trade — was met with strong concerns about its possible impact on the multilateral trading system. What would become of the World Trade Organization and all of the global trade architecture created with strong U.S. and EU leadership under the auspices of the General Agreement on Tariffs and Trade, if those two pillars were to move away from the deadlocked system to focus on their own RTA?

Somewhere from the din of loud concern emerged the observation that often RTAs have been the locomotive for change in the multilateral trading system, and that, perhaps, the fact of TTIP might be the catalyst for creating new multilateral trade rules. On the other hand, however, since the days of hegemonic decision-making at the GATT/WTO are long gone, with some large developing economies and a number of strong, cohesive coalitions of smaller economies now a major part of WTO decision-making, the TTIP could potentially tear the multilateral system apart, and divert attention from the goal of creating larger markets and cleaning up the spaghetti bowl of disparate trade rules.

While these concerns might be justified, there are nonetheless factors which could create the possibility to move towards a more inclusive system. TTIP is being negotiated at a very important juncture, with the TPP concluding, the TISA negotiations advancing towards the final phase, and APEC planning for a huge mega-regional (the Free Trade Area of the Asia Pacific) in the future. Once FTAAP is concluded, a significant part of the critical mass of countries would have deep integration trade regulations, thus reducing significantly the cost of multilateralizing the outcomes from mega-regionals. TTIP can be a bridge between these two major initiatives, one which will be a base to work upon (TPP) and another which will develop an understanding amongst a much larger group, including China, Indonesia, Russia, Thailand and potentially India.

The membership of the United States in all these three large RTAs is likely to contribute to greater consistency. Differences between the United States and the European Union on several issues mean that, to succeed, TTIP will need to find a balanced approach and solution. The TTIP, together with the participation of major emerging economies in a FTAAP will provide the basis for wider applicability of agreed solutions. However, it is not necessary to wait for FTAAP's conclusion. TTIP could facilitate consensus on new forms of evolving disciplines well before the negotiations in FTAAP even begin

The prospect of TTIP serving as a bridge between RTAs and the multilateral trading system is important. In our increasingly interdependent global economy, prosperity is a function of the openness of channels between economies within and outside of mega-regionals. A trading system with the latter relegated to passive standards-takers, exposed to the effects of market fragmentation and trade diversion, would

inevitably generate tensions. However, pre-existing rules in RTAs that are expanded cannot be done away with; they can only be made more inclusive in a process of moving towards multilateralization.

## **The Evolving Structure and Content of RTAs**

To better understand the steps required to develop RTAs into a multilateral system, it is important to keep in mind the factors that have affected the structure and focus of recent RTAs. First, the international fragmentation of production networks, often referred to as global value chains, has changed the way in which global trade and investment flow. Today, firms increasingly divide their operations across the world, from the design and manufacturing of components to assembly and marketing, creating international production chains, dominated by business-to-business trade in tasks and intermediate goods. RTAs have played a critical role in shaping existing value chains with countries sourcing on average of 15 percent more of their foreign value added from members of the same RTA than from non-members. More broadly, RTAs have embraced deep, trade-related disciplines in areas such as logistics, regulatory cooperation, facilitated conformity assessment, business services, trade facilitation, and issues relating to the digital economy.

Second, the rise of emerging economies such as China and India has resulted in greater competition in global markets, including in some high technology areas. This has brought greater focus on the conditions that determine cost-effectiveness and the factors which are perceived to affect a level playing field in global markets, such as standards that producers may be required to meet in some nations (e.g., for sustainable development and social objectives) which do not similarly prevail in competing economies, or support provided for certain state enterprises.

Third, with greater competitive pressures, rich economies see new technologies and products as a major source of continued growth and global leadership. Thus, relevant IPR regimes and control over these technologies become an important part of retaining the benefits of such innovation. Further, with internet and mobile technologies, data transfer, privacy and security issues become new topics to address through trade regulation. Similarly, as technology plays a larger role in supply chains, aspirations of emerging economies to acquire those technologies, which have a system-wide impact and create opportunities for “sunrise” industries, have given rise to concerns relating to localization or local content requirements.

Fourth, the value systems in large developed economies give major importance to social standards, sustainable development, data transfer and privacy issues, and the vocal participation of civil society in trade policy formulation has increased very significantly, impacting public policy perspectives, as well.

These developments have expanded the scope of trade negotiations, resulting in deeper RTAs. Any future trade regimes will have to reflect these factors if they are to be relevant. These factors also imply that multilateralization cannot take place without emerging economies broadly accepting the new terms and conditions incorporated in the mega-regionals.

Finally, the new trade disciplines and standards are more rigorous than prevailing ones, so creating an inclusive multilateral trading system will require support for the excluded economies in the form of technical assistance, allowances for transition periods, and specific targeted mechanisms that will facilitate their participation in these higher standards markets.

### **How TTIP Could Pave the Way for Multilateralization**

The process of leveraging TTIP to foster trade multilateralization would involve two types of efforts. One is to expand upon systems agreed within TPP, and the other is for TTIP negotiators to keep in mind the goal of third country participation.

Among TTIP discussions that have precedent-setting potential in terms of making the rules inclusive are the negotiations on e-commerce, the internet, data protection and privacy; the investment regime, including the investor-state dispute settlement mechanism; competition policy; and, government procurement.

Moreover, TTIP will establish new arrangements and collaborative processes, which could help pave the way for multilateralization. These include methods for agreement on mutual acceptance of standards; regulatory coherence/co-operation and good regulatory practices; improving transparency and establishing a framework for regulating conformity assessment requirements; and, creating rules to facilitate participation of business and civil society in the process.

Furthermore, some parts of TTIP will provide a basis for assisting less developed countries, supporting small and medium enterprises, establishing inclusive and consistent protocols for developing environmental and social standard, and creating

mechanisms through which to disseminate best practices.

If the two largest economies succeed in establishing disciplines, common standards, and best practices in these areas, the TTIP could be a viable template for expansion and multilateralization of trade rules.

### **Efforts Required Outside the Scope of TTIP**

Some issues, such as agriculture subsidies, can be addressed only in the WTO. Therefore, progress at the WTO is essential for a comprehensive approach to trade regulation. Although the current impasse in the Doha Round prevents engagement on anything new, the WTO can begin to prepare itself for the arrival of the forthcoming mega-regionals by taking steps to facilitate the process of multilateralization.

The rise of mega-regional initiatives aimed at deep trade integration among leading trade players has caused concerns. By raising the bar too high for other WTO Members, some fear that exclusive trading blocs, which contribute to a further fragmentation of the trade system, will result. Accordingly, the specific rules enacted in the mega-regionals matter. They will be crucial in determining whether such agreements contribute to a global economy that is more fragmented or one that is more integrated.

TTIP has the potential to contribute to a more inclusive global economy provided that the integrative benefits derived from new disciplines are consciously cultivated. TTIP could serve as a bridge between a nearly completed TPP and a future FTAAP involving a much larger group of APEC countries. Because of their differences on several issues, the United States and the European Union will have to find balanced approaches and solutions. These may provide a basis for major emerging economies to more actively engage in FTAAP negotiations or to contribute towards multilateralization of the emerging trade regulatory systems.

The process of moving from TTIP towards the multilateral trading system would involve several types of efforts. First, TTIP has the potential for setting precedents for more inclusive future disciplines and cooperative processes in a number of areas (e.g. ISDS, digital trade, mutual acceptance of standards). In these new areas, negotiators should, however, bear in mind the rapidly evolving nature of technology and the fact that other institutions both nationally and internationally are addressing those issues.

Any formal approach to these issues developed under TTIP would need to remain flexible, as it may have to be amended with experience over time to reflect new realities.

Second, inclusive systems paving the way for multilateralization could be promoted by de-signing disciplines that are potentially inclusive for third countries, such as a uniform set of rules of origin that would apply to all of their RTAs, preference schemes, or mutual recognition systems, enabling them to access both the EU and U.S. markets, by complying with the requirement of either one of them.

Finally, efforts should come from the multilateral trading system itself to facilitate the process of multilateralization by extending on an MFN basis the benefits of mega-regionals when a critical mass of relatively homogeneous disciplines emerge from deep integration RTAs.

As our economies become increasingly interdependent, market fragmentation is not a viable long term option. Sustaining prosperity and limiting trade disputes requires building consistency between RTAs and the multilateral trading system, and facilitating connections with the global markets. Nonetheless, for the multilateral trading system to recover its centrality in trade governance it cannot do away with the rules developed in mega-regionals to address the factors which have resulted in the mega-regionals. A consistent transition phase with support and facilitation needs to be developed, and TTIP could importantly contribute to that.

*The opinions expressed here are solely those of the author and do not necessarily reflect the views of the Cato Institute. This essay was prepared as part of a special Cato online forum on The Economics, Geopolitics, and Architecture of the Transatlantic Trade and Investment Partnership.*

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