

The New Transatlantic Trade Initiative

Is It the Real Thing?

By **Fredrik Erixon**

One of the great paradoxes of the modern world economy is that the more densely integrated that economies become, the more difficult it is to negotiate agreements to liberalize trade farther: while global trade is charging ahead and generates growth and development in an increasing number of countries, trade policy across the world has become increasingly inconsequential.

The Doha Round of trade liberalization in the World Trade Organization has been stuck for more than five years and the only thing preventing a post mortem on this Round is that no country has a better idea for what to replace it with. Every country of standing is negotiating bilateral free trade agreements, but even the more impressive ones are not really having much of an impact on trade and growth.



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Yet this may be about to change. When Japan joins the Trans-Pacific Partnership (TPP) negotiations, the value of a TPP deal will go up significantly for all involved countries, including the United States. The European Union has just launched trade negotiations with Japan. Even more significantly, the EU and the United States have now decided to start negotiations for a Transatlantic Trade and Investment Partnership (TTIP). If all these three initiatives can be achieved, they will have a serious impact on trade and growth in the world.

But the transatlantic initiative is met with a lot of skepticism. Have they not tried this before without success? Some have complained. Is this just not an attempt to create a “Fortress Atlantic” to defend against competition from a rising Asia, especially China? Another attacking point is that this initiative is quite typical for the Western-centric approach to international economic cooperation: just as many other countries are getting up to a position of economic power that could match the EU or the U.S., the old Western powers take their business out of multilateral organizations to settle affairs bilaterally.

So, is the strange acronym of TTIP a code word for the death knell of the WTO and multilateral trade cooperation?

My answer is: No. Countries outside the EU and the U.S., especially the larger emerging economies, should fear TTIP failure rather than TTIP success. A failed effort would not only imply less market openness but probably also less willingness on the part of the two giants of the world economy to exercise leadership for the world trading system. Moreover, the new transatlantic trade initiative is neither an attempt at a transatlantic fortress nor an exclusive, old-club arrangement that will undermine the World Trade Organization. If it works well, it is rather one of few feasible strategies to breathe life into international trade cooperation and advance the agenda for freer trade. Like other strategies for trade liberalization, it is one that should be applauded by friends of trade liberalization and feared only by those that wish to deter liberalizing trade reforms.

There are three aspects of TTIP and its wider role that needs to be considered.

First, neither the EU nor the U.S. is solely focused on their transatlantic initiative.

They are both pursuing trade agendas outside

the Atlantic hemisphere. The EU, for instance, is negotiating free trade agreements with India, Japan, Malaysia, Singapore, Thailand, and Vietnam, which is only to mention the Asian region. It is negotiating an agreement with Canada and wants to improve its bilateral trade accord with Mexico. It has a program for trade deals in Latin America, and has just gone through a process of signing off a negotiated deal with Andean states. It is still trying to get countries in Africa to agree to Economic Partnership Agreements. It wants to have an agreement with the Gulf countries in the Gulf Cooperation Council. It is now going through a process of getting a mandate to negotiate a bilateral investment agreement with China. It is one of the leaders behind the revision of the Information Technology Agreement (ITA) and a new attempt at negotiations of a plurilateral Trade in Services Agreement (TISA).

The list could continue. But the point is: this is not a trade agenda for an entity that wants to build a fortress. Many of these current initiatives may not lead to results, or not to the desired result (which is as much market opening reform as possible), but no one should doubt that there is a grander strategy guiding the EU which involves a good part of the world economy.

Second, in today’s world economy, it is close to meaningless to negotiate bilateral free trade agreements that do not harbor ambitions of generating larger effects on trade liberalization elsewhere.

The real economy – actual trade or commercial integration – will never follow the structure of bilateral trade agreements. Global production networks densely integrate many companies in many parts of the world. Bilateral tariff reductions, or elimination, do not fit with these economic structures, and many global companies simply neglect opportunities to trade preferential tariff rates because they could never get their sourcing pattern to fit with the way rules of origin are organized to approve trade under preferential tariff rates. Any strategy that profess to cater to the desires of their home firms to get better trade opportunities has to aim for larger reforms than those that can be generated in a bilateral free trade agreement. TTIP is to a large extent a trade agreement that has been midwived by strong pushes from the transatlantic business community, often in a political

atmosphere that were hostile to such an initiative.

Moreover, some of the reforms that are essential for trade agreements to generate trade and economic growth these days are much more difficult to do on a preferential basis. Consequently, they are either not being done bilaterally or they are agreed bilaterally but apply also in that country's trade with other countries. Efforts to liberalize could hence automatically be extended to other countries, even if they are not asked for a reciprocal change in return.

Third, the new transatlantic initiative should be a strategy to advance global trade liberalization, or at least new liberalization in markets that are critical to the vitality of the current trading system.

If that happens, it is a strategy that will make some countries uncomfortable. But they will be uncomfortable for good reasons: countries that have favored status quo over new liberalization in the Doha Round, or other initiatives, may now have to revisit that position to avoid the TTIP negotiations from having negative effects on their trading capacity.

Arguably, this is important for the vitality of the multilateral trading system. In the past 15 years, the multilateral trading system has been a leaderless system with no clear direction that has unified the key members. The system itself benefited for several decades from the leadership by the United States, which considered this system to be critical for its overall strategic objective of spreading market-based capitalism. There were willing followers to the U.S. leadership, but none other than the U.S. had the requisite economic, political and institutional capacity to underwrite the system. Yet since the collapse of the Cold War, American leadership has withered away, and its general position on free trade has become somewhat schizophrenic.

American leadership of the multilateral system was replaced by a naïve idea of global governance. It was believed that a purist form of multilateralism – that made little distinction between countries and their interest in and capacity for trade liberalization – could replace an old hegemonic idea of leadership. But it could not. Absent political leadership direction, the Doha Round got stuck because the political instinct of many countries was to favor status quo rather than new liberalization as long as there is no external pres-

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sure that prompts them to revisit that position.

Like many other things in life, trade liberalization tends to be driven by two motives: profits and fear. Countries agree to open up for greater foreign competition because they believe it will boost their economy or because they fear that other countries will go ahead without them if they stubbornly resist liberalization. Despite all the success of a trade-oriented model of growth, many countries have grown to think that they will not stand to benefit much from new trade liberalization. Equally problematic for trade liberalization is that those countries could maintain that position without fearing losses to their trade performance from other countries going ahead without them.

TTIP may partly change this. It is a big initiative. And if the two biggest economies of the world go for a bilateral, it means that the economic effects from an agreement will have systemic effects on the world economy. It is overwhelmingly an initiative that should be applauded by those that want to see the less reform-friendly governments in the world – especially the large emerging economies – to commit to greater liberalization, partly because it will raise the cost for governments to remain reluctant or opposed to farther trade liberalization. There are certainly risks for such governments by maintaining the status quo if the two biggest markets in the world begin to liberalize in a different way than before.

It is pretty clear that both the EU and the U.S. consider a big and important part of TTIP to be its systemic consequence – its capacity to prompt other countries to go along with new market access reforms and stronger disciplines on erratic government behavior. There are plenty of ways for them to externalize an agreement – in their respective bilateral negotiations with other countries, in plurilateral talks, or perhaps in new multilateral negotiations. There is more uncertainty about the leading emerging markets. Many of them have split views on open trade. The dominating parties and leaders tend to be increasingly less convinced about the virtues of trade liberalization. They have comfortably avoided demands to open up their trade policies in the past ten years. Yet now they may have to change. If TTIP is the real thing, the response from the larger emerging economies cannot be no response at all.



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