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## The transatlantic free trade agreement: think of the consequences!

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# The Current Column

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## The transatlantic free trade agreement: think of the consequences!

Bonn, 4 March 2013. On 13 February 2013 the EU and USA announced that they would begin negotiating a transatlantic free trade agreement. This Transatlantic Trade and Investment Partnership would account for around one third of world trade and be the world's largest free trade agreement. When the new US Secretary of State, John Kerry, and German Chancellor Angela Merkel met in Berlin last week, it became clear that politicians on both sides of the Atlantic expect this agreement to give their languishing economies the boost they urgently need. Understandable though this hope may be, the significance of a transatlantic free trade agreement will extend well beyond the American-European economic area.

The push for the transatlantic free trade agreement is further evidence of the crisis in the multilateral negotiations at the World Trade Organisation (WTO). The American-European negotiations show that we have entered a new phase of trade regionalism that threatens to undermine the WTO far more than before. Most of the free trade agreements the USA and EU have negotiated in the past have been with economically less important countries. The transatlantic free trade agreement and other "mega-regionals", like the Trans-pacific Partnership negotiated by the USA and ten other countries, demonstrate that regional agreements are covering ever more trade flows and intruding ever deeper into national regulatory systems. Greater attention needs to be paid to the effects these "mega-regionals" are having on the WTO and developing countries.

A transatlantic free trade agreement, after all, is likely to mean nothing less than rewriting the rules of the global economy. The last time this happened was during the Uruguay Round, which concluded in 1994 with the establishment of the WTO and the extension of the trade rulebook to

include services, intellectual property and trade-related investment measures in addition to the traditional dismantling of trade barriers. This widening and deepening of the agenda was too demanding for many developing countries and was criticised for being too one-sided, principally because putting the agenda into practice consumed scarce administrative and financial resources.

The transatlantic free trade agreement could have even more serious consequences for developing countries than the Uruguay Round. The agenda for the negotiations sets new standards in terms of both the breadth of the topics covered and the depth of commitments. Besides the expansion of market access for goods, services and investments, the talks will deal, in particular, with the convergence of industrial and other standards and national regulatory systems. The negotiators will consider how the quality and safety requirements to be met by goods and services can be harmonised or whether they can agree on mutual recognition. This is what is really new about these transatlantic negotiations – and they will have uncertain outcomes for all those countries that do not have a seat at the negotiating table. Whether they like it or not, they will have to abide by these rules if they want to participate in world trade.

The new free trade zone would not be just another on the list of those that already exist. It would mean charting a new course for the world trading system. The EU and USA would use it as a blueprint for future agreements with emerging economies and developing countries – and it would set standards for the development of global trade rules.

Politicians on both sides of the Atlantic have made little or no secret of the intention to use the transatlantic agreement to put additional pressure on emerging economies, especially China. The fact

that the EU only recently rejected a Chinese proposal for a free trade agreement is particularly noteworthy. That rejection also had something to do with disappointment with China for putting the brakes on at the WTO's Doha Round negotiations and imposing restrictions on European and American companies in the Chinese market. It is doubtful, however, that China and other emerging economies will suddenly abandon their trade policy principles to emulate the European-American model.

More serious is the danger of an American-European agreement impeding economic relations with the emerging economies, since it is in the deepening of these relations that the greatest economic gains are to be made in the future. Emerging economies and developing countries are already responsible for half of all world trade – a trend that will continue inexorably. Transatlantic solidarity represents a nostalgic look back at a lost world in which the West always had the last say in writing global rules. That time is past.

Politicians in the EU and USA hope that transatlantic negotiations will also give the Doha Round fresh impetus, if other countries feel they have no

alternative but to relax their trade and investment rules further. Yet the launch of a transatlantic agreement might just as easily lead to the further weakening of multilateral negotiations. China and other aspiring powers might turn aside, ignore the transatlantic alliance and the WTO and increasingly develop their own free trade zones. This would result in the disintegration of the world trading system into rival blocs.

The American and European decision-makers should bear this real danger in mind. The transatlantic free trade agreement may become the engine of the European, American and global economy. It may as well become a nightmare for the world trading system if it sparks trench warfare between rival trading blocs.

The WTO, too, should keep a close watch on the transatlantic negotiations. From the autumn the new Director General of the WTO, yet to be appointed, should see them as a reason for making a further attempt to revive the Doha Round. A multilateral deal would be of greater benefit to all countries – and therefore far better than a free trade zone in which the transatlantic alliance took a stand against the rest of the world.



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