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The Transatlantic Trade and Investment Partnership: Geo-economics at work?

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Bonn, 17 February 2014. Today, the European Trade Commissioner Karel De Gucht and the United States Trade Representative Michael Froman are meeting in Washington D.C. to discuss the Transatlantic Trade and Investment Partnership (TTIP). At first sight, the proposed agreement is about generating economic benefits for the European Union (EU) and the United States. Yet, a closer look reveals that the bilateral talks do not only reflect economic interests but are also induced by genuinely geopolitical and strategic reasoning – especially with a view to China. The EU should be careful and not let the US frame TTIP as an anti-China agreement.

Preferential trade agreements – like TTIP – are not only pursued to liberalise trade and investment flows between their members. They are also used to close the door to outsiders. And, indeed, the idea for a further deepening of the EU-US relationship was revived in the wake of the financial crisis, which did not only lead to a severe economic downturn in Europe and the US but also heightened concerns about growing competition by rising powers, above all China.

During today's stocktaking exercise, De Gucht and Froman will have to look beyond the TTIP negotiation agenda. The Obama administration struggles to convince Congress to pass the Trade Promotion Authority which would facilitate not only the conclusion of TTIP but also of the parallel US-led trade negotiations for the Trans-Pacific Partnership (TPP).

The negotiations in the Pacific have so far received relatively little attention in Europe. They could, however, lead to a permanent deterioration of the EU's negotiating stance. As the only party to both TTIP and TPP, the US is well placed either to move them forward in harmony or to leverage the progress of one negotiation against the other. TPP, like TTIP, represents a mega-regional trade accord covering 12 Pacific Rim countries and about 40 percent of world economic output. After meeting on the sidelines of the Davos global economic summit, TPP partners will be eager to seal this ambitious trade deal this year.

EU policymakers have worried about the Obama administration's 'pivot' to the Pacific because they fear a gradual disengagement of the US from Europe. TTIP was thus seen as a welcome move to deepen ties across the Atlantic. However, EU policymakers should also keep a wary eye on US foreign and trade policy with regard to China. In China, the fear is that TPP is meant to blunt the edge of Chinese trade competitiveness. For the US, balancing – or worse containment – could feel like the natural way to cope with rising China.

Europe should be eager to counteract this confrontational stance. This could be done by actively engaging both partners in negotiations, thus facilitating a 'triangular relationship' of preferential trade and investment agreements. Chinese State Councilor Yang Jiechi recently campaigned for an EU-China trade agreement. While there are many advocates of a trade deal between the EU and China, the European Commission wants to see some progress in the bilateral investment negotiations first. The same is true for the US. Washington wants to see Chinese concessions on bilateral investment before considering the accession of China to TPP negotiations.

The EU and the US should not try to pressure China into accepting new 'Western' rule sets for international trade. The risk is that emerging economies will increasingly strive to develop their own competing sets of rules. China is already pursuing trade agreements, among them the Regional Comprehensive Economic Partnership (RCEP), a mega-regional deal including sixteen Asian-Pacific countries. A potential fragmentation of world trade rules looms on the horizon. Competing trade blocks could condemn multilateralism to insignificance. Moreover, a confrontational transatlantic attitude on economic issues will shape the Chinese perception of EU and US foreign policy stances more generally. This is risky. The EU and the US increasingly need China – and other emerging economies – to find common solutions for the many global challenges the world is facing.

TTIP should be as open as possible and take account of the interests of third countries. Options include for the US and the EU to agree on transparency, inclusive rules of origin and the mutual equivalence of standards. In the latter case, producers from third parties that meet the less stringent standards of one region would be able to sell their products in the other one too. This could be especially beneficial to developing countries.

If the EU and the US were to take third parties' interests into account, TTIP and TTP could actually prove beneficial to the international trading order. By proposing a set of rules and standards that is open and meaningful also beyond transatlantic trade, and to which emerging economies might choose to adhere, the EU and the US could not only leave their imprint on the global economy in the next decades but also provide guidance for many pressing global issues.