



## ARTICLE

# Beyond economics: the geopolitical importance of the Transatlantic Trade and Investment Partnership

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**Abstract** With the Transatlantic Trade and Investment Partnership, Europe has a decisive opportunity to define the direction of future global trade. However, concluding the biggest agreement of its kind seems to be trying the internal unity of the Union. A wave of protests has swept across Europe as many fear the hidden costs behind regulatory cooperation with our neighbours across the Atlantic. Getting sceptics on board will require more than economic reasoning. The hidden value of the free trade agreement is its geopolitical importance and the historic opportunity it offers for the West. Sealing the deal with the US would strengthen Euro-Atlantic cooperation, counter the influence of China, diminish European dependency on Russia's energy imports and promote the Western economic model. Should the negotiations fail, mutual blame and internal frustration will isolate the EU.

**Keywords** Transatlantic Trade and Investment Partnership | Trans-Pacific Partnership | Geopolitics | Trade | EU | US | Transatlantic cooperation

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## Introduction

The Transatlantic Trade and Investment Partnership, better known as TTIP, is a trade deal between the world's two biggest economies—the EU and the US. By lowering non-tariff barriers and setting common rules, it promises to bring a post-crisis boost to Europe and refresh the old alliance. But this Euro-Atlantic partnership also has its detractors. The critics are few but they have been making their voices clearly heard ever since the European Commission received the mandate for negotiations in July 2013. Despite the Commission's hard work to bust the myths surrounding the agreement, it seems to be easier for people to unite in opposition to it. This year dozens of protests have taken place across Europe and anti-TTIP campaigns have mushroomed on social media. In addition, Julian Assange's Wikileaks has publicly claimed that the deal lacks transparency. The news leaks organisation has launched a campaign to crowd-source a €100,000 reward for 'Europe's most wanted secret'—the prize will go to anyone who can secure information on TTIP (*Wikileaks* 2015). The reasons for such criticism of the deal are eclectic—from a general anti-US attitude, to claims that the deal will empower multinational corporations and fears of losing control over the high standards of food on the European market. Scaremongering and misinformation are unavoidable obstacles when discussing far-reaching supranational agreements—and the bigger the agreement, the greater the fear. With the US and the EU accounting for almost 45 % of global trade and 60 % of global investment flows (Berger 2014), TTIP would become the biggest trade deal of its kind.

There are three broad areas being negotiated under the EU–US trade deal: market access for businesses, regulatory cooperation and international rules to address global challenges. The two economic super-blocs have one of the most integrated markets in the world and tariffs between them are already very low at less than 3 % (European Commission 2015a). The crucial part of the agreement is therefore its second pillar, which aims to reduce non-tariff barriers and standardise regulations. Coherence in standards on both shores of the Atlantic would increase efficiency, cut bureaucratic costs and have major economic benefits. It would also become a powerful tool to ensure that such standards are advanced globally, thus helping to promote the spillover of Western-style trade rules. But neither 'regulatory cooperation' nor 'liberalising trade' seem to be popular enough topics to take the lead in public discussions. There is a shortage of empirical data available to help European Trade Commissioner Cecilia Malmström get the detractors of TTIP on her side. Its critics say there is a lot to lose and little to gain (*The Economist* 2015). Instead of an economic narrative, those advocating a comprehensive deal should focus on storytelling that makes it easier to understand what is at stake and gives the potential geopolitical impact of the agreement a prominent role.

## Trade deals and strategic gridlocks

Trade deals have never been more political than today. Regional deals have gained prominence as a result of the endless stagnation of the WTO's Doha Round, which

seems to have launched a new era in trade deals around the globe. But while TTIP is regional in its initial scale, the hope is there that it would subsequently lead in some way to the relaunch of multilateralism. As we have witnessed, agreements are difficult to reach because of the greatly differing standards between the West and other major actors, whether China, Russia or India. Thus achieving a far-reaching deal between the Western economic powers, which includes an accord on high social and environmental standards, would act as an incentive for others to reach such a level.

The current driver of trade agreements is the US, which is working on several historic deals, of which the most colossal are TTIP, the Trans-Pacific Partnership (TPP) and the Trade in Services Agreement (TiSA). Due to its similar size—comprising roughly 40 % of the global economy, TTIP is often compared with the TPP. The TPP is the economic element of US President Obama's strategic 'pivot to Asia' that came about in response to the growing economic power of China and the corresponding expansion of its foreign policy. The trade deal has been negotiated between the US and 11 countries around the Pacific Rim, including Japan, Australia, Canada, Mexico and Malaysia. Together with the conclusion of TTIP, it will establish the two largest free trade blocs in the world (Wildau 2015b; Freytag et al. 2014; Schuette 2014). According to the US Secretary of Commerce Penny Pritzker (2014), the TPP and TTIP will together cover more than 60 % of global GDP. The TPP, which was concluded after more than five years of negotiations, is to be the biggest trade agreement since the creation of the WTO in 1994 (Wildau 2015b). The reaching of an agreement on the TPP also puts new pressure on European negotiators to conclude TTIP under the Obama administration, as some of the front-runners for presidential candidacy are more hesitant about the deal.

However, the EU is also progressing with regional and bilateral trade pacts. The Comprehensive Economic and Trade Agreement with Canada was finalised recently and it is perceived by many as the precursor to TTIP (Korteweg 2015). In addition, Commissioner Malmström announced the new EU trade strategy, 'Trade for All', in October 2015, which is intended to focus on further economic collaboration with Asian and Pacific nations. The practicalities are still foggy, but the Commission will ask for a mandate to negotiate free trade agreements with Australia and New Zealand. Part of the new strategy is to update already existing agreements with Turkey, Mexico and Chile (European Commission 2015b). Even though the details remain blurry, diversifying and strengthening existing trade deals looks likely to be the general direction for future development under this strategy.

## The winners of transatlantic cooperation

A trade agreement between the world's most important strategic partners is a logical step forward as the US is a natural partner for Europe. Despite attempts to shift attention towards Asia, the US remains highly engaged in the Old Continent. Since 2000, US investment in the Netherlands has been more than 12 times higher than total US investment in China. At the same time, the US has invested more in Italy than in India and the US's investment stake in Ireland is 40 % bigger than the total amount of US capital

invested in all of South America (Hamilton and Quinlan 2015). Liberalising trade and finding a common ground in mutually recognised standards would massively strengthen this development and secure the future of Euro-Atlantic cooperation. Should the TTIP be concluded, it would bring a breath of fresh air to the old alliance. On the external level, TTIP has considerable potential to send a strong message to expansionist global actors that could become more aggressive if the transatlantic partners were to pull back.

The even greater strategic advantage is the historic opportunity to take part in setting global trade rules for others. Finding ways to establish multilateral cooperation with the rising powers has not been easy for Western-based institutions. The failure of the Doha Round and the founding of the Asian Infrastructure Investment Bank and the BRICS Bank by Brazil, Russia, India, China and South Africa as alternatives to the World Bank prove that the West has been losing ground (Wildau 2015a). A high level of regulatory convergence between the two largest consumer markets would set the standard for global trade practices and put pressure on others to follow suit. As a result, it would provide effective leverage for future negotiations. US Trade Representative Ambassador Michael Froman (2014) put it straightforwardly: ‘By leading on trade, we can promote a global order that reflects both our interests and our values.’ The size of the tariff-free zone created by TTIP would make it attractive for other countries to meet EU–US standards as a way to gain access to their markets.

President Obama has got it right: ‘We can’t let countries like China write the rules of the global economy. We should write those rules’ (Wildau 2015b). For several years now the rising economic superpower has been trying to establish alternatives to counter Western dominance in the international financial institutions (Korteweg 2015). While China has enjoyed the benefits of the world’s open economies, the country has avoided opening its own markets. China will only reassess its policies as the result of external pressure. The country has formally asked to join the negotiations on TiSA, which is currently being discussed by 24 WTO members. This effort, even though officially endorsed by the EU, is unlikely to succeed due to the political resistance coming from some of the TiSA negotiation’s participants (European Commission 2014). Instead, the Chinese authorities have been advised that the country should ‘play by the rules and demonstrate willingness to have a strong agreement’ if it wants to join the negotiations (Vieuwes.eu 2015).

Apart from curbing China’s geostrategic intentions, TTIP also has implications for the Russian dominance of the energy market. After the pressure placed by Russia on former Ukrainian President Viktor Yanukovich to prevent the signing of the EU Association Agreement in Vilnius, the conflict of interests between the EU and Russia was followed by Russian military intervention in post-Euromaidan Ukraine. TTIP brings no such risks as it does not directly concern Russia’s backyard, but the possibility of crude oil and natural gas exports from the US, which is undergoing an energy revolution, will move Europe away from dependence on Russian hydrocarbons. For a country which relies on exploiting the ‘energy rhetoric’ to achieve its political ends, the new-found independence of its major gas importer will disarm the Kremlin at its core.

Ideally the trade deals currently being negotiated over the Atlantic and Pacific Oceans would signal a new era of global trade liberalisation based on high standards for food, services, consumer protection and ecology. And the more the actors show a willingness to be involved, the better the chances that high Western standards will become the global norm. Whether this becomes reality, or whether the competition for markets and strategic preferential trade deals between chosen regions prevails, through TTIP Europe will be able to safeguard its position among the global leaders and avoid isolation.

## Conclusion

The initial goal of the Juncker Commission was to conclude talks on TTIP under the Obama administration. The sooner the deal is sealed, the sooner citizens can benefit from it. However, in his State of the Union speech, President Obama made it clear that quality cannot be compromised. German Chancellor Angela Merkel has stated that at least the political and ‘most essential’ parts of the agreement will need to be finalised by the end of 2015 (Kroet 2015). For strategic reasons, the most debated points should be agreed before the US presidential elections begin. Much of the progress in the negotiations has been made thanks to Obama’s strong advocacy of the agreement. The hype surrounding the presidential elections scheduled for November 2016 will consume the attention needed for advancing it further. On a positive note, the US president will be able to fast-track trade promotion as the US Senate has recently approved a six-year renewal of this authority. This will make the procedure easier. The bill, voted for in June, enables the use of an expedited process to submit trade pacts to Congress.

On the European side, the final document must be approved by all the EU member states’ governments and by a majority in the European Parliament. While the legislative body has proven able to work towards compromises, national governments that derive their power from the opinions of local electorates may be less open to conciliation. However, indecisiveness and a lack of unity would have deep transatlantic consequences. Mutual blame would bring a severe transatlantic split and accelerate dependence on other markets. In this scenario, Europe would lag behind the US in strategic regions such as Asia or South America. If the two major Western democratic blocs cannot successfully conclude TTIP, it will send a strong signal to the rest of the world, and both China and Russia would celebrate the cleavage in EU–US cooperation. Regarding the consequences a failure would have within the EU, the case of the UK is particularly sensitive. Conservative Party politicians have sympathy for the Union only to the extent that it has the ability to bring economic advantages for the country. The timing of the UK’s referendum on EU membership could easily coincide with the final TTIP negotiations, and any disappointments in the economic arena could be reflected in the British public’s attitude.

Sceptics need to keep in mind that TTIP is more than a trade deal. It is an opportunity to boost EU–US relations and bring the Western economic model to ever greater prominence. Removing trade barriers between the two largest economies will not just provide

a post-crisis boost; it will also offer a historic opportunity for Europe to participate in setting new global standards. An ambitious TTIP will secure a prominent place for Europe in the harshly competitive global economy and strengthen the transatlantic partnership. Hesitation will result in Europe playing a secondary role. In a fast-changing environment the step-by-step approach is obsolete. When discussing the free trade agreement in the plenary session of the European Parliament, Chairman of the European People's Party, Manfred Weber openly stated, 'Today is the time for political leadership . . . There is a trans-Pacific trade agreement that is being decided upon, which is going to corner a huge percentage of world trade. The world is not going to wait for us to sort out our internal debates. We have to be committed and act' (Weber 2015). The sooner the deal is sealed, the sooner Europe can benefit from it. With a historic opportunity on Europe's doorstep, now is the crucial time for the Union to show committed leadership and take the path of progress together.

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