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Initial Thoughts on a TransAtlantic Trade and Investment Partnership

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EU-US trade meeting, 17 June 2013, during the G8 Summit in Northern Ireland *Photo © President of the European Council*

With the continued rise of emerging powers and the shift to new governance forums like the G20 or BRICS, it is easy to view the recent G8 meeting as a relic of the past. The Group of 8, a forum consisting of traditional superpowers, is increasingly notable less for its individual status and more for the countries it does not include, a G20 minus 12 of sorts, missing keys players such as China and India.

But traditional superpowers still remain vitally important in the global economy, with the United States and Europe alone accounting for half of global GDP and a third of global trade, and buying 28% of South Africa's exports. The two Atlantic superpowers used the G8 to launch formal negotiations on a free trade agreement between the US and the EU, named the Transatlantic Trade and Investment Partnership, or TTIP.

The global importance of Europe and the United States means that the TTIP has implications far beyond the two parties directly involved. South Africa, for example, needs to compete with American exports for the European market, and a free trade pact that makes it easier and cheaper for America to enter this market could offer a competitive edge over South African exporters. Conversely, in a world in which the things we buy are manufactured in stages across multiple countries, easier global free trade could mean lower costs for South African companies looking to buy new machinery.

Tariffs are already low between the two regions, averaging 3% to 4%. Despite this, the enormous value of trade between the two mean that low percentages translate into big real costs, and can still offer substantial gains. The last few barriers to trade are often the most difficult to remove. There is usually a reason these barriers outlasted all the others: some level of political pressure to maintain protectionist barriers. Well-organized sectors such as the automobile industry, pharmaceutical companies, and tire sector may offer challenges if they oppose TTIP liberalization. But many of these sectors increasingly rely on inputs from European companies in their manufacturing processes, and the tariff costs of accessing these goods mean they are likely to be open to most tariff reductions.

While tariffs are the most obvious component of any free trade deal, the TTIP is envisioned as a comprehensive agreement that goes well beyond removing direct barriers to trade. Non-tariff barriers come in many forms, and include considerations like inefficient customs procedures or regulatory mismatches. Aligning regulation is perhaps the aspect that offers the largest potential gains. Exporters in various industries – such as agriculture, chemicals, or pharmaceuticals – currently face quality inspections and standards on both sides of the Atlantic. The process of going through two sets of inspections, with similar standards but very different bureaucratic conditions, slows down trade and increases costs, harming consumers. Having one set of harmonized regulations on both sides of the Atlantic would mean these costs are avoided, and would incentivize companies to comply with the single, simple set of requirements.

Finding a common ground for regulation is, however, far more difficult in practice. Inspection standards are again a good example, begging the question of which standards to use: the European, American, or some mid-point. Consumer groups in America have already raised concerns that negotiations on standards could lead to lowering of consumer safeguards, while businesses groups are concerned that higher standards could mean higher costs. In reality, both sides of the Atlantic already have strict regulatory regimes, and the differences between them are not large. Where there is a difference, negotiators should side with stricter regulations. Although doing so might marginally raise costs, the savings of having one system on both side of the Atlantic should more than outweigh this increase. Debates over regulations extend far beyond inspection standards, with issues such as intellectual property rights, public procurement rules, investment regulation, and many other contencious issues also on the table. But while some of these issues will be difficult, the savings associated with one regulatory regime should drive substantial improvements.

Some specific differences and sources of conflict remain between the two regions on many issues, such as continuing subsidies to airline manufacturers on both sides of the Atlantic, or tricky concerns that are grounded in national and cultural priorities, such as France's efforts to protect the French-language entertainment industry by limiting the amount of airtime available for American films and television. But the commonalities are far greater than these differences, and the two share similar approaches to free trade agreements. Both recently completed comprehensive trade and investment partnerships with South Korea, with these agreements mirroring many of the features of a potential transatlantic agreement. And for both sides, which have relatively liberal unilateral commitments, the changes will not be a huge shift from the status quo.

Although the already liberal nature of trade between the two might seem to offer lower incentives to sign a comprehensive deal, the depth of the TTIP is motivated by far more than a basic desire to improve trade relations. Three strategic considerations are vitally important.

The first is the rise of various emerging superpowers, most noticeably China. With the shifting global balance of power, the US and Europe increasingly see the need to strengthen their relationship as a means to safeguard against competition from rising powers. As China diversifies away from simple manufacturing and into higher-end production and the provision of services, its exports will more directly compete with those traded by America and Europe. Assuring easy trade between the two offers them a competitive advantage over China.

The second consideration also relates to rising powers, but in a slightly different sense. As other countries grow in size and influence, Western powers are increasingly worried about their ability to influence the direction of global economic policy. As the collapse of WTO negotiations in the Doha round has demonstrated, the developing world is willing to actively stand-up to trade and other agreements pursued by the West. Creating inclusive agreements with many different partners is therefore very difficult. The TIPP, along with other negotiations America is currently involved in, is an opportunity to set in place an ambitious trade agreement first, and then turn to the question of inclusion of the developing world. The agreement was originally envisaged as having an open accession clause, meaning any country that meets the conditions of the agreement is free to join. While this seems less likely now, the agreement can still demonstrate to a skeptical world that the US and Europe are willing to meet the terms of a deep free trade agreement, and that they can still succeed economically under such an agreement.

But while those two considerations may have sparked talk of a transatlantic partnership, it was the current economic slowdown that provided the impetus to turn talk into serious negotiations. With Europe mired in slow growth and, in parts, a lasting recession, and with weakening capacity and political will for further economic stimulus, the EU has been searching for any action that could kick-start economic recovery. An agreement with the US could do just that, boosting European exports and offering a counterweight to otherwise weak global demand. While a recovering US isn't quite as desperate for new sources of growth, the agreement could counterbalance some of the growth lost to continuing austerity policies, offsetting the economic shock of the sequester.

While the desire for policy to jumpstart the recovery offers an added incentive to the signing of a transatlantic agreement, it also complicates the negotiating process. The recession and resulting desire to create policy to fight it is primarily a short-term phenomenon, requiring fast policy action, and the signing of an agreement as soon as possible. But a speedy agreement might only be possible by avoiding some of the more divisive issues, such as debates on regulation of genetically modified foods or safeguards on data privacy. An agreement which skirts these issues, while still offering some economic benefit, may weaken the ability of the TIPP to act as an a global standard for free trade agreements. If the Atlantic superpowers are serious about remaining norm setters in the Asian century, a more comprehensive approach is needed.

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