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STRATEGIC OPPORTUNITY OR SELLOUT OF THE PUBLIC INTEREST

THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP

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After nearly two decades of attempts to negotiate a Transatlantic Free Trade Agreement, the U.S. and the European Union are finally moving together on a major project - the Transatlantic Trade and Investment Partnership. Now that an agreement finally seems to be within reach, however, many of the countries involved in the negotiations are experiencing a rise in public opposition against an alleged weakening of consumer protection standards and the excessive influence of industry on and insufficient transparency of the negotiations. Proponents of the agreement, on the other hand, point to additional jobs and growth that would be generated by the demise of the remaining barriers to transatlantic trade. The one thing on which both sides agree, however, is that TTIP will define transatlantic relations - and major aspects of the global economy - for years to come. Arguably, it will be the West's last best chance to exercise such commanding influence over the global economy.

1. An unprecedented and ambitious negotiating effort

After 20 years of walking toward TTIP, we have been going long enough to get there. Two years ago, President Barack Obama announced in his State of the Union Address on February 12, 2013: "We will launch talks on a comprehensive Transatlantic Trade and Investment Partnership" and the next day European Council President Herman Van Rompuy and European Commission President Jose Manuel Barroso jointly announced plans to initiate negotiations.

Suddenly, it seemed, the key pillars of the global economy - the drivers of world trade - were coming together. The two partners are nearly equal in size, share common values and are committed to renewing the transatlantic market, especially for jobs and growth. Greater economic cooperation, it is hoped, will also support closer political, diplomatic and security ties in the partnership. Moreover, it also gives common purpose in meeting strategic challenges for the U.S. and Europe through repositioning the transatlantic partners' strategic relationships with other key players in the global economy.

2. Where we stand

On July 7, 2013 U.S. Trade Representative Michael Froman and EU Commissioner for Trade Karel de Gucht thus formally launched talks among some 150 negotiators in 24 working groups at the first TTIP plenary session in Washington.

The US and the EU started talks already at a high level of economic integration. There is no other commercial artery in the world that is as integrated as is the U.S.-EU relationship. Overall, the two economies, according to the German Economics and Technology Ministry, is a behemoth of sheer economic weight:

- 60 percent of total Foreign Direct Investment (FDI);
- 50 percent of global output (in dollars);
- 40 percent of the global GDP (in terms of purchasing power parity);
- 40 percent of industrial added value;
- 1 in 3 patent applications in the world;
- 1/3 of the global trade in goods and services;
- 16 percent of added value in the agricultural sector;
- And only a mere 12 percent of the global population.ⁱ

The US-EU economy is the largest and wealthiest market in the world: 70% of outward stock and 57% of inward stock of global foreign direct investment (FDI); over 35% of global GDP in terms of purchasing power; a quarter of global exports; 30% of global imports. The transatlantic economy generates \$5.5 trillion in total commercial sales a year and employs up to 15 million workers in “onshored” jobs on both sides of the Atlantic.

U.S. and European foreign affiliates directly employed 8.3 million workers in 2013, up nearly 4% from 2012. U.S. affiliates directly employ about 4.3 million workers in Europe, about 600,000 (16.2%) more than in 2000. Over half work in the UK, Germany and France.

Johns Hopkins University SAIS studies show Europe accounted for 70% of the \$2.8 trillion invested in the US in 2013 on a historic cost basis. Of Corporate America’s total foreign assets globally, roughly 60% -- \$13.6 trillion -- was in Europe in 2013. Largest shares: the UK

(22%, \$5 trillion) and the Netherlands (nearly 9%, \$2 trillion).ⁱⁱ

Transatlantic zero-tariffs could boost US and EU exports each by 17%—5 times more than the US-Korea free trade agreement. Eliminating/harmonizing half of non-tariff barriers would add 0.7% to the EU economy and 0.3% to America’s economy by 2018, 3 times more beneficial to US and EU than current Doha Round offers. A 25% reduction in non-tariff barriers could boost increase in combined EU and US GDP by \$106 billion. Eliminating services barriers to services would have a substantial impact on jobs and growth, since most US and European jobs are in the services economy; protected services sectors on both sides of the Atlantic account for about 20% of US-EU GDP. Removing services barriers would be equivalent to 50 years’ worth of GATT and WTO liberalization of trade in goods. TTIP’s global impact could be more important than opening transatlantic commerce. With TTIP.ⁱⁱⁱ

In other areas, however, the negotiators have confronted several concerns. EU Trade Commissioner Karel De Gucht spelled out three of the hottest topics in the negotiations:^{iv}

- Achievements in investment
- Work on regulatory barriers to trade
- Engagement with public concerns

a) The investment challenge

Investment benefits are critical to the transatlantic relationship. The prominent role for investment as part of this free trade agreement is also important. 60 percent of total global Foreign Direct Investment (FDI) is between the U.S. and the EU. With the rise of manufacturing and the low cost of energy, the US is seen in Europe as a rising star in investment.

Yet, the proposed investor protections, created a half century ago by Germany and included in some 3000 trade agreements, have raised some concerns they might infringe on national sovereignty and have caused considerable public criticism. But if the talks fail to develop rules, the risk is that China and others whose commitment to the rule of law is questionable

will not accept such protections in the future. The objective therefore must be to re-enforce the legitimacy and transparency of investment rules.

b) Regulatory barriers to trade

TTIP seeks to liberalize services, remove restrictions on job-creating investments, overcome regulatory obstacles, boost innovation and lead the energy revolution. The proposed agreement will reduce tariffs and lower non-tariff barriers (NTBs), significantly increasing trade, which will especially benefit small and medium-sized enterprises. The greatest economic opportunities are in improved cooperation in regulation of markets for goods and services.

There are, indeed, many present and future barriers to trade-related to regulations – unnecessary costs that spring from duplication and differences in regulations, standards and conformity. Many standards were simply worked out independently according to preferences on each side of the Atlantic and can come into line as we share expertise, recognize each other's safety standards (for car blinkers – red in the U.S., orange in Europe – 25% added cost) and find common approaches.

The EU is a tough negotiator in defense of its agricultural sectors (milk/cheese, poultry, pork and beef), defense of Geographic Identity and sanitary/phyto-sanitary regulation which was presented already in the early rounds of talks by the EU Commission. In several of these fields, the Europeans still find themselves at odds with their American partners and compromise will be difficult to find amidst mounting public concern.

c) Engagement with public concerns

At the outset, unlike previous free trade agreements, there was strong public support for the TTIP notably in the automotive, chemical and services sectors. In fact, the German Marshall Fund "Transatlantic Trends" has reported 56% of EU respondents and 49% of Americans believed increased transatlantic trade and investment, if associated with TTIP, would help economic growth. ^v

Not all are enthusiastic, however, and public opposition against the proposed agreement has significantly increased in recent months, as more details have emerged from the negotiations and critics have mounted impressive PR campaigns: Indeed, important labor and environment issues remain. Workers fear jobs will be lost. Consumers are concerned over food safety, emissions standards, the environment, data protection, and weakening financial regulation. They reject chlorine washed chicken, genetically modified organisms (GMOs), and growth hormones that regulatory changes might allow companies to sell unsafe food. TTIP is accused of being a giant corporate power grab.

While negotiators promise that no lower standards of protection will be allowed, the public does not trust the negotiators to prevent banks to play fast and loose with other peoples' money. The U.S. and EU dominate the world's financial markets and converging or developing common regulatory standards could accelerate growth dramatically.

3. The case for TTIP

To address the mounting public opposition, greater efforts need to be made to convince the public of the advantages of the agreement and that these will by far outweigh potential costs – particularly in three crucial areas of transatlantic cooperation:

- Create jobs and growth in the Atlantic area and beyond
- Promote a rules-based international trading system
- Meet strategic challenges facing the transatlantic community

a) Create jobs and growth

Negotiations for a TTIP agreement come at a time when the United States and the European Union need to achieve two counterbalancing objectives at the same time: both to promote economic growth and to fight growing deficits, without government spending. Since the 2008 financial crisis, the United States has faced a long and arduous recovery. At the same time the European Union (EU) is pursuing austerity

– structural adjustment policy -- in the pursuit of necessary structural changes in response to the Euro zone crisis, which is depressing growth in Europe. Nevertheless, the US and EU are committed to renewing the Transatlantic Market. We will tackle recession and unemployment with productivity and competitiveness to create jobs and growth. Jobs and growth are the driving forces for TTIP and can stop the tide of populism against it.

b) Promote a rules-based international trading system

While TTIP's regional approach poses challenges to the multilateral trading system, former World Bank president Robert Zoellick has argued that the WTO also needs to have an agenda to modernize. TTIP should be seen as complementary to the WTO's efforts to ensure coherence in world markets. TTIP negotiators have therefore agreed on four basic principles: WTO-consistency, transparency, non-discrimination and essential regulatory equivalence.

Consequently, TTIP should not be seen as having adverse effects on multilateral trade relations or the WTO. Rather, it presents what Zoellick calls a challenge of "competitive liberalization" in that it will in fact support the modernization of the multilateral trading regime in the long run. ^{vi}

c) Meet the strategic challenge facing the U.S. and Europe

TTIP does not only help the U.S. and EU to meet strategic challenges through the common cause of a rules-based multilateral economic system, however. The multilateral institutions for trade, the World Trade Organization (WTO) as well as the Doha Round negotiations are stuck in a prolonged standstill. Asia and other emerging markets have put pressure on industrialized countries' global competitive advantage that is eroding.

In the wake of the NSA surveillance leaks, TTIP can help rebuild trust. The U.S. pivot to Asia, by taking the EU with it, can lead to open markets and stronger international economic rules. With the deep business, cultural and education ties

that bind the U.S. with Europe, TTIP negotiations bring many of European-American interests together as the strategic project that will help reset strategic global relationships notably with emerging markets and China.

4. TTIP as a strategic project

The world is now at a critical historical juncture with the re-emergence of nationalism on the agendas of China and Russia. We are at a time in which the shape of the future will be determined. The historic challenge we face is not unlike the turning points when conferences and agreements, events and treaties that set the course of history. U.S. Secretary of State John Kerry told analysts and policymakers at an Atlantic Council in April 2015: "In our era, the economic and security realms are absolutely integrated.^{vii}" TTIP is just such a world changing agreement that can help manage and mitigate critical challenges that have surfaced as the negotiations were ongoing.

a) Reviving the Transatlantic alliance

In the wake of the NSA Affair and some tough decisions taken in security policy from Iraq to Syria, a most immediate concern is the stress on the transatlantic relationship and the loss of trust that affects our lives and businesses. Despite historical, cultural, and political bonds, the transatlantic relationship has been under stress to meet security crises in the Middle East and Afghanistan as well as the financial/economic Great Recession and euro zone crisis.

The U.S. needs to rebuild trust with the Germans and Europeans to help deal with European public outrage over these and especially NSA eavesdropping that has spawned more damage to the transatlantic relationship than the Iraq war a decade ago. With the deep ties that bind the U.S. with Germany and Europe, the Transatlantic Trade and Investment Partnership (TTIP) negotiations bring many of those interests together as the strategic project, perhaps greater than NATO in the future.

b) Confronting nationalist sentiments

At the same time, Eurosceptic parties have won a significant number of seats in last year's European Parliamentary elections. The Financial Times reports hopefully that the fringe parties will remain a small minority in the European Parliament^{viii}, and they are divided on issues between themselves. Moreover, parties with strong reform programs beat back populist challenges in Italy, where Matteo Renzi's party beat the anti-establishment Five Star Movement of Beppe Grillo, and in Germany where Angela Merkel's Christian Democratic Union/Social Democratic Party grand coalition retained its position atop the polls.

To counter the arguments and appeal of the populists who cater to anti-government anti-business disillusion, it will be necessary for leaders on both sides of the Atlantic to deliver on their promise of jobs and growth, reduce the staggering unemployment, especially among the youth in Southern Europe and provide a perspective out of the persistent economic misery. In this regard as well, the TTIP agreement with its promise of considerable growth in jobs and economic output, promises a remedy more powerful than all appeals to European solidarity.

The U.S. and EU need the TTIP agreement to tackle the recession and fight unemployment with growth. One key argument for TTIP is that the European Union, and its single market, which is the largest economy in the world, brings considerable influence to bear across the negotiating table from anyone – including the United States. TTIP offers a path toward sustainable economic growth and job creation.

The need for growth and for job creation is urgent. The United States faces gridlock in Congress with little hope of legislators passing any legislation to promote growth and jobs. On the contrary, we have seen sluggish growth and high unemployment, the effects of sequestration, and budget cuts to reduce the federal government budget deficit. TTIP offers modest growth but on a very large economic base that can jump start the recovery and create jobs.

c) Meeting external challenges

The European-American partnership is in its second historical period after the fall of the Berlin Wall secured Europe "Whole and Free." Europe unified and secured peace after centuries of war. NATO and the EU guaranteed peace and prosperity.

Today, however, the Russian invasion of Ukraine and its annexation of Crimea will test the durability of the NATO Treaty that has bound Europe and the United States together to serve our common security interests. NATO countries are united in imposing sanctions against Russian ethnic nationalism backed by the use of force to defend the peace and prosperity the EU has won since its inception.

The crisis in Ukraine, however, also underlines that the security interests of the Atlantic countries – and their preferred strategies – are not always entirely in line. It has also shown, that in responding to challenges like the one posed by Mr. Putin, economic tools like sanctions are becoming increasingly important. Here, the Transatlantic Trade and Investment Partnership, can play an important role as a tool for managing and mitigating the effect of such crises. It can, moreover, also provide a powerful incentive for Russia to return to a more cooperative stance with the West – both economically and politically.

It is, therefore, strategically important that TTIP links together our national prosperity – jobs, investment, and growth – and our national security interests. The U.S. needs to continue close collaboration with its allies as it pivots to the Pacific. While the TTIP talks are not specifically directed against any other country, there is a strategic rebalancing underway, and the U.S. needs to lead the change, together with its allies who are also committed to democracy, human rights, and the rule of law.

d) Building the global order

TTIP will help set rules in a world that is unraveling. In Europe Russia has revived authoritarianism, in the Middle East the post-colonial, post-authoritarian order has fallen into

chaos, in Asia China's rise has challenged Asian post-war stability.

We are now entering a new era of combating nationalism in the Asia-Pacific area as well as in other parts of the world. Conflict is once again on the rise, both militarily and economically. America needs Europe if it is to continue to be in a position of global leadership for peace and prosperity and vice versa. While the United States remains the undisputed superpower in today's world, Europe is the strongest, closest, and best partner of the U.S. Either we will set the rules governing economics and geopolitics for the 21st century together, or, if we fail to do so, China and other emerging economies will determine what robust and consistent – or arbitrary and preferential – rules govern international affairs. Those who set the rules rule.

Undoubtedly, China is a challenge. Combining the two largest economies in the world among partners who share common values in the rule of law, a rules-based system, can extend prosperity to emerging economies. TTIP can defend against lowest-common denominator standards that affect the health and safety of our people. The agreement would be a "Win" for the West and would create a robust, reliable, and global single market of some 800 million consumers and promote growth.

Some critics of China have worried about offshoring of U.S. jobs and Chinese competition. Chinese state subsidies for business and the lack of protection for intellectual property are serious obstacles in establishing global standards. However, America and Europe have had outstanding success in working with China in its peaceful rise. Chinese businesses will benefit from international standards. We should continue to collaborate on economic and political policies, working in concert with the Trans-Pacific Partnership (TPP), which Japan joined as a negotiating partner, along with 10 other countries.

Over the past years U.S. companies have actually disinvested in China. Google has dropped its motto of "Designed in California, assembled in China," over ethical, legal, and business constraints. Forbes Magazine reported that rising labor costs, concerns over

government-sponsored IP theft, and production time lags are causing companies such as Dow Chemicals, Caterpillar, GE, and Ford to start moving some manufacturing back to the U.S. from China. Google recently announced that its Nexus Q streaming media player would be made in the U.S., and this put pressure on Apple to start following suit. On balance U.S. companies withdrew investments from China of \$4.8 billion in 2012, while investing \$203.3 billion in Europe, where the rule of law is reliable.^{ix}

There are several reasons for this disinvestment: 1) Chinese wages are rising, reducing the incentive to offshore jobs for wage arbitrage; 2) American wages and benefits are depressed, which has the same effect; 3) with low-priced natural gas, manufacturing in the United States has once again become more competitive; and 4) Chinese anti-competitive behavior and misuse of foreign intellectual property is too costly for businesses. This last point will plague the Chinese market in the face of the benefits of the transatlantic partnership's common commitment to the rule of law, free markets, democratic freedoms, and human/civil rights.

The Transatlantic Trade and Investment Partnership is not, and should not, be directed against China, but should ensure that China is a stakeholder in the expanded global market with rules consistent with our values. Chinese business will be able to tap the 800 million U.S. – EU consumers who expect China to comply with rules and respect the rule of law, which is in China's interest as well. TTIP offers China an opportunity to join a stable, single market that is critical to increase global growth from which we all can benefit, especially from nondiscrimination in markets, mutual recognition of standards and of regulation, and more transparency. Over and above those institutional and structural benefits, there are further economic and political advantages.

5. Getting Past "No" to TTIP

If, then, TTIP constitutes a major economic and strategic opportunity for the United States and Europe, the Challenge for the partners will be to build the necessary support for the agreement both in the public and parliaments on both sides

of the Atlantic. Negotiators, therefore, face an intricate and highly complex task: At the same time, they must build support for TTIP and respond to the serious and fundamental conflicts of interest between business groups, labor and NGOs over these issues.

In the EU, Italy and Germany will have to carry the European Parliament burden for TTIP in the EU. The centrist coalition will have to strengthen in order for the transatlantic agreement ultimately to win approval from a European Parliament which is divided on its purpose, legislative priorities, and even its right to exist. The U.S. Congress will also stand between the agreement and its negotiation and implementation. President Obama said in his State of the Union Speech on January 28, 2015: “We need to work together on tools like bi-partisan trade promotion authority to protect our environment, and open new markets.

The critical call for Trade Promotion Authority is now on the table. However, serious political obstacles to concluding the agreement remain. The issues are now tied up in the beginning primary campaign. Former Senate Majority Leader Harry Reid stated that he was against fast-track for TTIP after the president call for it. That authority debate has split the domestic U.S. business community and the NGO/Labor community.

Whether the public can be convinced that a deal is justified is still an open question. Recent polls have shown that popular support for the agreement is widely divergent across Europe. Only in Germany and Austria a majority of the population is explicitly opposed to the agreement and greater efforts need to be made by the governments of these countries highlighting the benefits of the agreement. At the same time, a further drop in support for TTIP in the other participating states must be prevented through similar campaigns.^x

During the negotiations, EU Commissioner Karel De Gucht, continued under Cecilia Malmström, and US Trade Representative Michael Froman have organized a public consultation process with briefings involving the public. They hosted a public forum to hear more than seventy presentations from over 300 key stakeholders from civil society on topics ranging

from agriculture and food, energy, environment and raw materials, to regulatory issues. NGOs suggested this process was like “speed-dating” and rejected the idea that such eight-minute presentations were meaningful contributions to resolving their concerns.^{xi}

Despite industry lobbying, neither businesses nor civil society feel they have fully penetrated the fog surrounding the talks enough to win legislative support. A more robust TTIP Stakeholders Outreach Program is needed, which could consist of five elements:

One: Organize speakers, CEO/Citizens roundtables and public discussions with local and regional, innovative economic and business development organizations – public, private, business/public sector partnerships, NGOs, educational and research institutions – to facilitate understanding and agreement and collaboration with the goal of supporting the negotiations.

Two: Enlist U.S. and European chambers of Commerce, EU and American businesses, NGOs, Council on Foreign Relations, the Chicago Council on Global Affairs and their counterparts to discuss issues and make public presentations and host speeches/ panel discussions on the key issues in TTIP.

Three: Recognize experts’ issues papers are essential to discuss the key advantages and disadvantages of TTIP in various sectors.

Four: Tap the regionalization of the U.S. economy, one of the nation’s competitive strengths, particularly those industries which are affected by the TTIP (Autos, chemicals and agriculture).

Five: Advocate EU investment in the U.S. in regional projects that create local jobs and promote growth strategies. Current economic and credit market crises offer private equity industry TTIP opportunities for their idle funds. Innovative international trade and business development policies with the EU will foster jobs, particularly in small businesses.

6. Conclusion

The US and the EU have the chance to advance their partnership based on common values of democracy, freedom as well as respect for human dignity and the rule of law. They have a common future, and the Transatlantic Trade and Investment Partnership is a bold vision for the future and that of the 21st century, but will only succeed with public support.

The present approach, which is widely perceived as overly secretive and aloof by the opponents to the agreement, must be modified in response to popular demands. It is, of course, never easy to negotiate an agreement like this in democracies. While it has been a right step by the new European Commission to publish key documents from the ongoing negotiations and step up efforts at keeping the public informed, a tradeoff has to be made: While the public has a legitimate right to know what's going on, the confidentiality of the negotiations must not be compromised if serious negotiations on difficult issues are to be had and genuine compromises to be achieved.

The key issue, therefore, is trust. Europeans must be convinced that, just like themselves, American consumers have no interest in eating unsafe food and will hold their politicians and diplomats accountable for that. Neither are Europeans interested in the laxer banking regulations that some Americans fear might result from the agreement. To make TTIP a success, therefore, it will be critical for partners on both sides of the Atlantic to (re-)learn that, while they may have differences on the 'how', they still share the same ideals, principles, and objectives. It is in this sense that TTIP can play an important part in restoring and rebuilding a more resilient transatlantic partnership for the 21st century.

Endnotes

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