

Research Paper

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# Realizing TTIP's Strategic Potential



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### Summary

- The Transatlantic Trade and Investment Partnership (TTIP) – currently being negotiated between the United States and the European Union – represents a bolder and riskier approach to liberalizing trade than traditional trade deals. It is bolder because it aims to cover a wide range of policy issues that are not typically included, and because it aims to be strategic and extraterritorial in its impact. It is riskier because of the difficulty in getting agreement on these issues between the parties concerned, and because the responses of other countries are uncertain.
- EU and US negotiators have much work to do if a deal is to be reached that realizes TTIP's full potential. While progress has been made on tariff reduction, considerable ground still needs to be covered on setting standards and regulations affecting trade, which is where TTIP has the most potential to make an impact at a strategic level. Meanwhile, trade scepticism is rising on both sides of the Atlantic, with concerns about the impact of deals like TTIP on jobs and regulatory standards. The negotiation process is also now complicated by the United Kingdom's decision to leave the EU. Making a clear and credible strategic case for TTIP may be necessary if the negotiations are to continue and be successful.
- If the United States and the EU are able to agree on the regulations and standards affecting international trade, they will have the scale to define these globally for years to come. International leadership in this area brings commercial advantages and benefits for consumers in the EU and the United States, and it also often is a global public good. However, it sometimes pits EU and US interests against those of other countries, creating scope for conflict over policies in areas such as the rules governing state-owned enterprises.
- There would be benefits to the United Kingdom, the EU and the United States if the United Kingdom joins TTIP once it is agreed. In the intervening period, it makes sense for the United Kingdom to participate actively in EU decisions regarding TTIP while still a member of the EU, as this could help to smooth an eventual British accession to the partnership.
- The soft-power benefits from TTIP are potentially substantial, but they would only be maximized if other strategically important countries, such as Turkey, are able to join. Perhaps the clearest sign of TTIP being likely to meet or exceed the highest ambitions for its strategic impact would be if it has an even broader geographical reach, drawing in countries in other regions.
- The potential security benefits from TTIP are marginal and overhyped. The benefits that unity on trade would bring to transatlantic security are intangible and hard to substantiate. The energy security benefits are likely to be limited, as the volumes of US liquefied natural gas (LNG) exports to the EU are likely to be small. If the EU and the United States are serious about using TTIP to improve security, they should include defence procurement, but this has never been on the agenda.
- Not only do the differences between the EU and the United States mean that it will be difficult to get a deal, they also constrain how any deal would be implemented and exploited for strategic purposes. If TTIP is to succeed at a strategic level, both sides must be disciplined, consistent and coordinated in using it as the reference point in their negotiations with other countries.

- The United States is more capable of acting strategically than the EU, in part because of the difficulties for EU member states in coalescing around a shared set of strategic objectives. Until the EU is able to do this, the United States is likely to have much more influence over the strategic direction of TTIP. If the EU wants to bridge this gap, then the European Council should start by reaching a political agreement on its objectives and priorities for bringing other countries into TTIP.
- There are also strategic risks from TTIP. One is that by emphasizing the values that are reflected in international rules, the EU and the United States could make it harder for other countries to accept these rules, or make TTIP seem like an attempt to reassert the old world order. Thus, instead of having a magnetic effect, TTIP could create a rift with emerging countries, with some choosing to maintain a distance for political reasons.
- The bigger risk for TTIP, however, is failure. If negotiations break down or a deal is reached that falls short of the ambition set for it, this would send a damaging signal to the rest of the world about the inability of the EU and the United States to work together. The damage would be all the greater if the process was acrimonious, or if it exposed US indifference to Europe or latent anti-Americanism in the EU. The United Kingdom's decision to leave the EU raises the stakes, particularly for the latter, as it is a blow to the international credibility of the EU. Agreeing TTIP would help to offset this blow, while failure would amplify it.

### Introduction

In July 2016 EU and US trade officials embarked on a 14th round of negotiations in Brussels over the proposed Transatlantic Trade and Investment Partnership (TTIP). Their aim is to conclude an ambitious and comprehensive agreement that not only expands trade and investment between the United States and the EU, but also addresses global issues of common concern.<sup>1</sup> It is estimated that TTIP could produce economic gains for the EU of €119 billion per year – equivalent to about €545 in disposable income for a family of four – and for the United States of €95 billion per year by 2027.<sup>2</sup> But the ambitions for TTIP extend beyond the economic to the strategic. When the negotiations were launched by President Barack Obama and European leaders at the G8 summit at Loch Erne in 2013, the initiative was sold as a joint undertaking of ‘real strategic importance’.<sup>3</sup> That ambition continues to be shared on both sides of the Atlantic, even if it is also matched by realism about the hard grind required to negotiate a comprehensive trade deal – and newly complicated by the decision of the United Kingdom, at a referendum in June, to leave the EU.

The latest European trade policy strategy describes TTIP as the ‘most ambitious and strategic trade negotiation that the EU has ever undertaken’.<sup>4</sup> When EU Trade Commissioner Cecilia Malmström addressed the European Parliament in July 2015, she gave two reasons why TTIP deserves Europe’s support: first, because it forms part of Europe’s strategy to open up markets in other countries around the world; and, second, because it is a ‘strategic alliance’ with the country that most shares Europe’s ‘core values’ and with which Europe must work to shape globalization.<sup>5</sup>

US Trade Representative Michael Froman has argued that emerging economies are creating barriers to trade because they are unwilling to assume responsibilities to match their increasingly important role in the global economy. As a result, ‘new rules of the road’ are required for the global trading system. Rather than trade policy being just about trade, Froman described it as a central part of what may be ‘the most consequential strategic project of our time’, which is no less than ‘revitalizing the post-World War II international economic order’.<sup>6</sup> This choice of language is revealing: the United States does not want to see change to the world order, but to buttress it, and it hopes to achieve that by outpacing and outmanoeuvring emerging economies in setting the rules for international trade.

The hype around the strategic potential of TTIP is partly aimed at selling the deal to sceptical publics. There are increasing vocal advocacy groups in the EU and the United States who see TTIP as a back door to deregulation and lower standards, and as a frontal assault on good local jobs and wages, benefiting large corporations at the expense of workers and consumers.

The sheer scale of the transatlantic trading area and the breadth of scope of TTIP, covering everything from regulation of medical devices to government procurement rules, mean that a deal will

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<sup>1</sup> Office of the US Trade Representative (2014), ‘US objectives, US benefits in the Transatlantic Trade and Investment Partnership’, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2014/March/US-Objectives-US-Benefits-In-the-TTIP-a-Detailed-View> (accessed 19 May 2016).

<sup>2</sup> Francois, J. et al. (2013), *Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment*, London: Centre for Economic Policy Research, [http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc\\_150737.pdf](http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf) (accessed 19 May 2016).

<sup>3</sup> UK Government (2013), ‘G8 Summit: US & EU trade statement’, <https://www.gov.uk/government/speeches/g8-summit-us-eu-trade-statement> (accessed 19 May 2016).

<sup>4</sup> European Commission (2015), *Trade for all: towards a more responsible trade and investment policy*, Brussels: European Commission, [http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc\\_153846.pdf](http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf) (accessed 19 May 2016).

<sup>5</sup> Malmström, C. (2015), ‘Opening remarks at the European Parliament debate on TTIP’, 7 July 2015, [http://trade.ec.europa.eu/doclib/docs/2015/july/tradoc\\_153598.pdf](http://trade.ec.europa.eu/doclib/docs/2015/july/tradoc_153598.pdf) (accessed 19 May 2016).

<sup>6</sup> Froman, M. (2014), ‘The Strategic Importance of TPP’, remarks at the US Chamber of Commerce and Center for Strategic and International Studies symposium on the TPP, 18 September 2014, <https://ustr.gov/about-us/policy-offices/press-office/speeches/2014/September/Remarks-by-Ambassador-Froman-at-US-Chamber-CSIS-TPP-Event> (accessed 19 May 2016).

undoubtedly have an impact that extends well beyond EU and US borders. But this does not mean that all of the assertions that have been made about TTIP's potential strategic impact are accurate. Nor does it even mean that the EU and the United States are capable of acting with sufficient cohesion and focus to harness all, or even a substantial part, of the strategic benefits.

This paper assesses the potential strategic impact of TTIP, whether the reality is likely to match the expectations that have been created, and the factors that will be decisive in determining this. It first sets out the political and economic context, before considering the extent of alignment between policy-makers in the EU and the United States. It then analyses the three principal arguments put forward to make the strategic case for TTIP: international leadership, soft power and security. Finally, before drawing conclusions, the paper identifies three factors that will be decisive in determining TTIP's strategic impact.

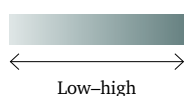
### The political and economic context

The most recent rounds of TTIP negotiations have taken place just months after the United States signed the Trans-Pacific Partnership (TPP) with 11 other Pacific countries; and as China is stepping up efforts to conclude its own initiative, the Regional Comprehensive Economic Partnership (RCEP), with the 10 members of the Association of Southeast Asian Nations (ASEAN) and five other Asian states (including India and Japan). They have also come soon after the World Trade Organization (WTO) ministerial meeting in Nairobi at the end of 2015, which effectively killed the Doha Round and signalled a shift away from comprehensive multilateral trade deals towards narrower agreements on specific issues or sectors.

This is a turning point for global trade policy, with the WTO marginalized and the focus shifting to regional or plurilateral deals by 'coalitions of the willing'. It reflects how difficult multilateral deal-making has become as economic weight has shifted to emerging economies whose trade goals differ from those of advanced economies in fundamentally important ways, making it harder for negotiators to find trade-offs and for politicians to sell these at home to sceptical audiences. This scepticism is not only a feature of emerging economies, but is also evident in many European countries and reflected in the European Parliament. It has also been one of the defining themes of the Republican and Democratic primaries for the US presidential election.<sup>7</sup>

**Table 1: Compound annual growth rate of trade values, 2004–14**

|       | United States | China | Russia | India | South Korea | Japan | ASEAN |
|-------|---------------|-------|--------|-------|-------------|-------|-------|
| EU    | 3.4%          | 10.9% | 8.8%   | 8.7%  | 6.0%        | 0.9%  | 5.5%  |
| US    |               | 9.8%  | 8.8%   | 11.9% | 4.7%        | 0.9%  | 4.7%  |
| China |               |       | 16.2%  | 17.9% | 12.4%       | 6.4%  | 16.3% |



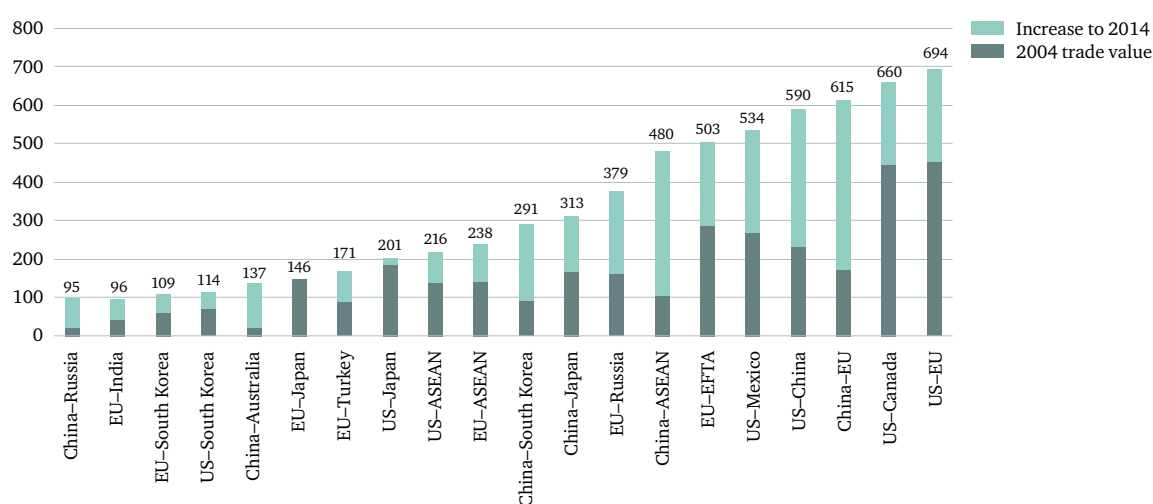
Sources: CEIC Data, Global Counsel calculations.

<sup>7</sup> See Krugman, P. (2016), 'A protectionist moment?', *New York Times*, 9 March 2016, [http://krugman.blogs.nytimes.com/2016/03/09/a-protectionist-moment/?\\_r=1](http://krugman.blogs.nytimes.com/2016/03/09/a-protectionist-moment/?_r=1) (accessed 19 May 2016).

The changes in the economic context for trade negotiations are illustrated by Figure 1 and Table 1. Figure 1 shows the size of the most important bilateral trading relationships in the world and how these have grown in absolute value terms over the past 10 years. The top three relationships measured by the increase over the period all involve China (with the United States, EU and ASEAN). Table 1 shows that trade relationships involving China have been growing faster than those involving either the United States or the EU, with the rate of growth particularly high for trade between China and other emerging countries (specifically Russia, India and ASEAN members).

The economic momentum behind these relationships shows how power in trade negotiations has shifted and will shift in the future. However, this is not all that matters. Figure 1 also shows that trade relationships that do not involve China are still the largest in value terms. The EU–US relationship is the biggest of all, at almost \$700 billion in 2014. This remains, for now, the most important bilateral trading relationship in the world, and the one with more potential than any other to set the ‘rules of the road’ for trade.

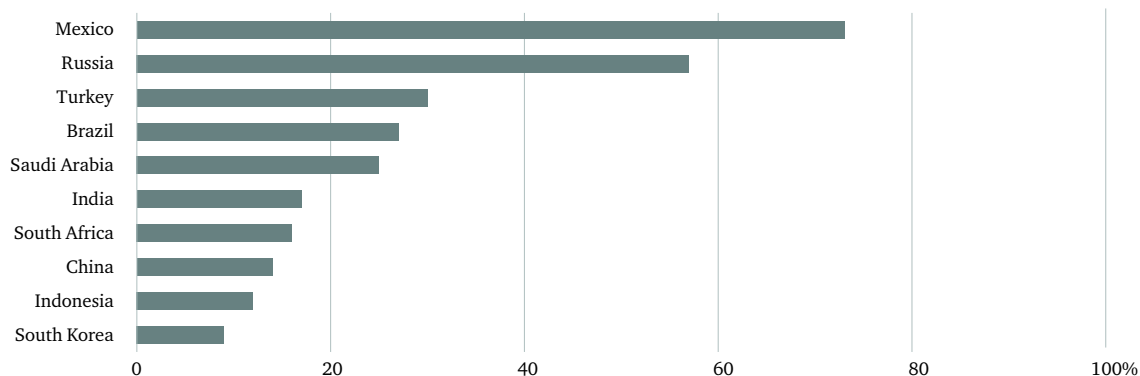
Figure 1: Total exports and imports, \$ billions



Sources: CEIC Data, Global Counsel calculations.

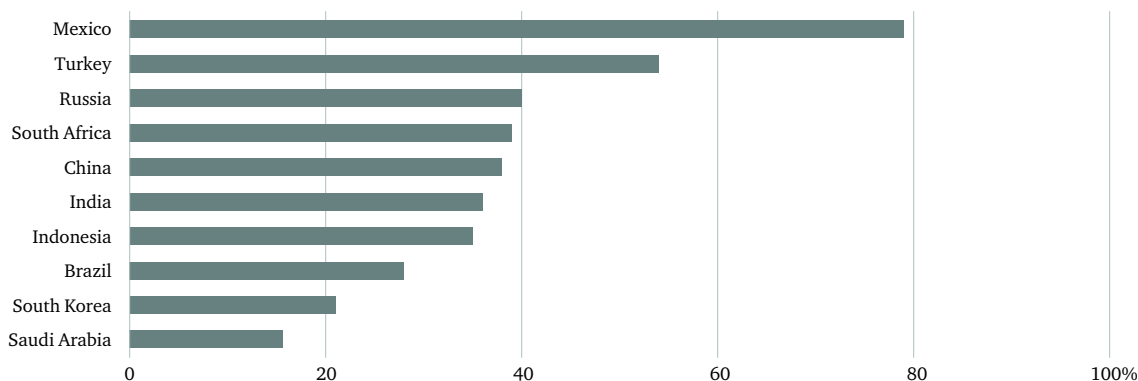
Figures 2, 3 and 4 underline this by illustrating how important exporting to the EU and United States is for many of the largest emerging economies. They show the share of exports from each country that goes to the United States and the EU, broken down into primary products, manufactures and services. The United States and the EU together – the TTIP bloc – form the dominant export market in most or all categories for near-neighbours such as Mexico, Turkey and Russia. The data also show how the transatlantic market is very important for most other countries, particularly in the case of manufactures, but also in services, which is both a fast-growing area for trade and one in which international rules typically remain under-defined. In the case of China, 38 per cent of manufacturing exports went to the United States and the EU in 2013, along with 19 per cent of services exports.

Figure 2: Exports to EU and United States as a share of total exports of primary products in 2013



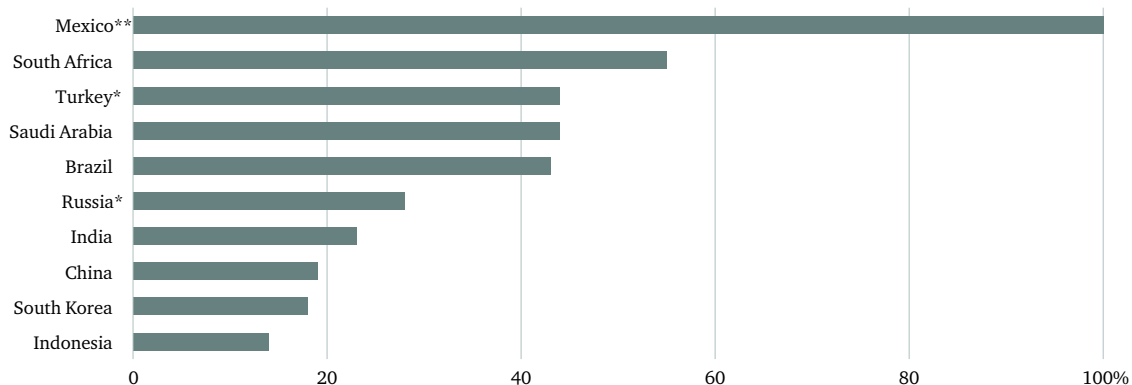
Sources: Eurostat, US Bureau of Economic Analysis, US Census Bureau, World Bank, CEIC Data, Global Counsel calculations.

Figure 3: Exports to EU and United States as a share of total exports of manufactures in 2013



Sources: Eurostat, US Bureau of Economic Analysis, US Census Bureau, World Bank, CEIC Data.

Figure 4: Exports to EU and United States as a share of total exports of services in 2013

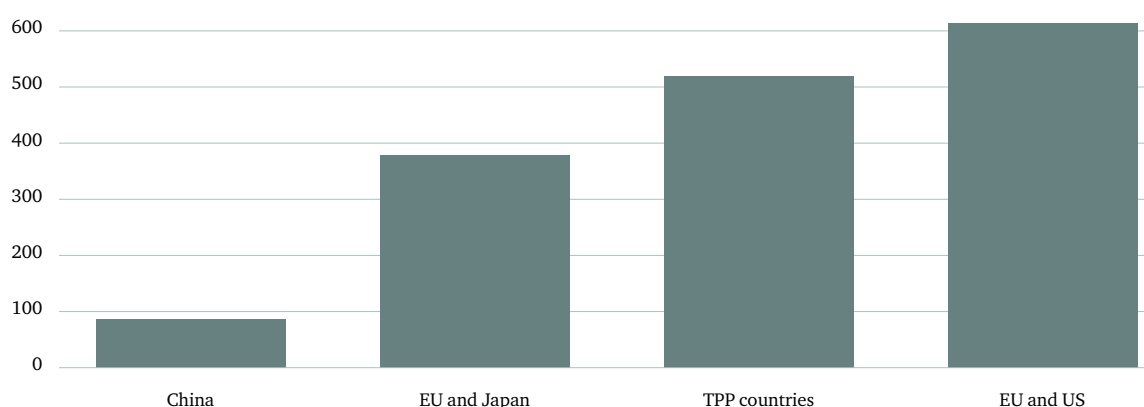


Note: \*Exports to EU only. \*\*The combination of data sources used suggests that the United States and EU account for more than 100 per cent of services exports, so the share has been rounded down to this upper bound.

Sources: Eurostat, US Bureau of Economic Analysis, US Census Bureau, World Bank, CEIC Data.

The global share of production is the single most important determinant of who has the power to regulate global producers. It is, however, the share of the global consumer market that matters most when setting standards for consumers. These shares can be quite different. China's economy is approximately the same size as those of the EU and United States when measured in purchasing-power-parity terms.<sup>8</sup> But in some of the most important sectors for trade negotiations the size of the Chinese marketplace is still much smaller than the combined size of the TTIP bloc or some of the other new trade blocs where deals are being negotiated. As an example, Figure 5 shows how pharmaceutical sales in the TTIP bloc were seven times higher than in China in 2013. This shows how in sectors such as this, the United States and the EU, when combined, have the scale and therefore the market power to set consumer-protection standards for others, providing they are able to agree them among themselves. In many sectors the lead that they have over China is not as large as it is in pharmaceuticals, and in most sectors it is decreasing. This means that the opportunity for the EU and the United States to use market power to set consumer standards is likely to diminish over time.

**Figure 5: Pharmaceutical sales, \$ billions, 2013**



Source: Business Monitor International.

## Transatlantic differences

Regional deals like TTIP are attractive partly because they are easier to conclude than multilateral ones and because they lend themselves to pursuing broader objectives in addition to narrow trade liberalization. They are pursued by what are often described as 'coalitions of the willing' – parties that share similar objectives and are closely aligned on strategic issues.

That does not mean, however, that trade deals such as TTIP are easy to conclude. Despite 14 rounds as at July 2016, there has remained disagreement over what should be included in the scope of the negotiations, including issues such as financial-services regulation, which the United States is determined to exclude, and how to handle politically sensitive questions such as investor–state dispute settlement, which has become a hot-button issue in the EU. Even if an agreement is reached, it must then be ratified by a sceptical US Congress, where there are challenges on both sides of the aisle, particularly in election years, and by the EU institutions and member states. This means that

<sup>8</sup> IMF (2016), World Economic Outlook Database, April 2016, <http://www.imf.org/external/pubs/ft/weo/2016/01/weodata/weorept.aspx?sy=2015&ey=2015&ssd=1&sort=country&ds=.&br=1&pr1.x=74&pr1.y=11&c=998&s=PPPGDP&grp=1&a=1>; and <http://www.imf.org/external/pubs/ft/weo/2016/01/weodata/weorept.aspx?sy=2015&ey=2015&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=54&pr1.y=11&c=924%2C111&s=PPPGDP&grp=0&a=> (accessed 23 May 2016).



TTIP will not be completed 'on one tank of gas',<sup>9</sup> as was demanded by leaders when the negotiations were launched.<sup>10</sup> It is possible that the negotiations may run through to 2020.

This gap between expectations and reality reflects another important constraint on TTIP that will likely also reduce its strategic impact. This is simply that while the EU and the United States may share similar motivations for TTIP, they are not fully aligned on the substantive issues. Both want to liberalize trade and agree new rules where they are lacking in order to reduce the cost of trade. Both also want to influence policies beyond their borders. But EU and US policy-makers do not always share the same analysis of the world or the same preferences, and they face their own particular political constraints. Their institutions and policy-making processes are also very different. The EU currently brings together 28 member states (27 once the United Kingdom leaves), each with its own parliament and political culture. The EU's primary institutions – the European Council, the European Commission and the European Parliament – are very different from their US counterparts.

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The United States is more mindful of the broader strategic context for trade policy than the EU. It sees this as an important sphere of its geopolitical rivalry with China and other potential adversaries. As a consequence, it is willing to be more forceful in its approach to seizing strategic advantages through trade policy, and is less constrained (although not unconstrained) by the potential impact this may have on the WTO and multilateralism. The Obama administration has from the outset seen TTIP as a platform for trade policy, alongside the TPP and the North American Free Trade Agreement (NAFTA). Together these platforms have the potential to give the United States the ability to 'multilateralize' its preferred international rules. The strategy of the current administration is to build these platforms, to strengthen them by selectively bringing other countries on to them, and to develop them by reaching into new policy areas. The overall aim is to maintain the central position of the United States and the West in shaping international standards and regulations, while leaving the countries that are intentionally excluded – such as China – with the choice of either following the lead of US and like-minded trade policy-makers, or of creating their own costly alternatives.

It is very likely that it will be President Obama's successor who concludes any TTIP deal, particularly if it is to be ambitious in scope and depth, as concluding the negotiations will take time. Disillusion with the consequences of globalization has been a feature of the Republican and Democratic primaries. The rhetoric of the presumptive nominees in both parties has suggested that a Donald Trump or a Hillary Clinton administration might be more protectionist and more mindful of domestic lobbies against trade deals than the Obama one has been. While Trump says he is a 'free trader', he has also said that 'NAFTA has been a disaster' and that the 'TPP is a horrible deal'.<sup>11</sup> While Clinton supported

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<sup>9</sup> For example, see Froman, M. (2013), 'Remarks by United States Trade Representative Michael Froman at the Transatlantic Trade and Investment Partnership First Round Opening Plenary', 8 July 2013, <https://ustr.gov/about-us/policy-offices/press-office/speeches/transcripts/2013/july/amb-froman-ttip-opening-plenary#> (accessed 19 May 2016).

<sup>10</sup> Ibid.

<sup>11</sup> OnTheIssues.org (2016), 'Donald Trump on Free Trade', [http://www.ontheissues.org/Celeb/Donald\\_Trump\\_Free\\_Trade.htm](http://www.ontheissues.org/Celeb/Donald_Trump_Free_Trade.htm) (accessed 24 May 2016).

the launch of TPP negotiations, she now says that the deal does not meet her 'standards for more new, good jobs for Americans, for raising wages for Americans'.<sup>12</sup> Either candidate would, none the less, be likely to adopt a more moderate approach once in office. The strategic arguments for trade deals are likely to appeal to Trump, given his support for an assertive policy towards China; and to Clinton because she made 'economic diplomacy' a central theme of her time as secretary of state. Whoever is elected president will find that the scope for action on trade policy is largely determined by the outcome of the Congressional elections, however. A Democratic majority in either house would make it difficult to ratify new trade deals. It is also likely that domestic priorities will rank ahead of trade policy.

The EU finds it more difficult than the United States to be strategic in its trade policy. This is partly because it is constrained by the need to build and maintain support among member states that compete commercially with one another. Comprehensive trade deals, such as TTIP, that are 'mixed-competence' agreements (i.e. covering some issues that are the competence of the EU and others that are the competence of member states) require the approval of all member states, with national parliaments involved in most countries and the potential for a referendum to be called in many. The problems are deeper, however. The European Council, unlike the White House, struggles to provide clear political leadership in this area. There are differences of view among member states about what being 'strategic' in trade policy actually means: for some it is simply about prioritizing trade negotiations; for others it is about influencing international rules and the policies of third countries; for others still, particularly in Eastern Europe, it is about a cluster of security issues, mainly concerning Russia and energy security. The new EU trade policy strategy shows the European Commission's awareness of the broader strategic context for trade policy, but this does not mean that it has a genuine ambition or ability to have an impact at this level. It may judge that TTIP is difficult and complicated enough as it is without modifying its negotiating approach to pursue wider strategic objectives with any vigour.

These stark differences mean that the EU will be less able than the United States to exploit the potential strategic benefits from TTIP. The United States is likely to be in the driving seat in shaping and exploiting the strategic dimension to TTIP, assuming that the next president is willing to take this forward. If there is any doubt about this, it is clearly evident from the fact that for the United States TTIP is nested in a wider trade policy that includes the TPP and has clear strategic aims. The same cannot be said of the EU. The differences also mean that there are likely to be tensions over where and how TTIP is used for strategic purposes, which may also reduce its impact – particularly as other countries, such as China, will seek to exploit these differences.

### Strategic rationales for TTIP

To understand the potential strategic impact of TTIP, it is necessary to assess carefully the main strategic rationales that have been put forward for it. These can be grouped under three headings: international leadership, soft power and security. For each there are three sets of questions. First, do the arguments stack up, and does the evidence suggest that the net benefits for the EU and United States are likely to be significant? Second, what are the implications for other countries, and might their responses create risks that potentially damage EU and US interests? Finally, what does this imply for the international system? This approach makes it possible to identify the conditions under which TTIP will have the greatest strategic impact and the factors that will be decisive in determining this.

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<sup>12</sup> OnTheIssues.org (2016), 'Hillary Clinton on Free Trade', [http://www.ontheissues.org/celeb/Hillary\\_Clinton\\_Free\\_Trade.htm](http://www.ontheissues.org/celeb/Hillary_Clinton_Free_Trade.htm) (accessed 24 May 2016).

### International leadership

The EU and the United States have long enjoyed advantages in influencing international rules by virtue of the leading role each has played in international institutions and through their sheer market power. Both of these are now threatened by the increasing economic weight of the emerging economies and a related challenge to the legitimacy of the current arrangements for international governance. For the EU there is the additional problem that the departure of the United Kingdom will reduce its international economic clout. One of the primary strategic objectives for TTIP is therefore to allow the EU and the United States to reassert and strengthen their leadership in setting global rules across a wide range of policy areas, from car safety and machinery to medical devices and cosmetics.<sup>13</sup>

The combined pull and market power of the EU and the United States is such that their being able to align standards in areas such as these would often lead policy-makers in other countries to adopt the same rules in order to gain market access.<sup>14</sup> For other countries this may be the rational choice because they want to avoid their domestic businesses having to bear the cost of meeting multiple international rules, or because they want to avoid the expense of developing rules by themselves. Non-tariff barriers of this sort restrict trade as much as tariffs in many countries.<sup>15</sup> The potential pull of the transatlantic market for others is evident in key sectors, such as automobiles, where together the EU and the United States account for 32 per cent of global production and 35 per cent of global sales.<sup>16</sup>

Just how significant are the likely benefits to the EU and the United States from providing international leadership in this way? And what will be the impact globally? The answers depend on the extent of the gaps in international rules and the effectiveness of TTIP in dealing with them. From a global perspective, it also depends on whether a single international rule is appropriate. Where this is questionable, international leadership by the EU and the United States in setting uniform global rules creates costs and benefits for others. Where this is actually detrimental to others, it could also have unintended negative consequences for the EU and the United States. To see how, it is helpful to distinguish between three types of international rule.

#### *Three forms of international rule*

First, there are rules that take the form of a global public good, and here what matters is that a sound technical standard or regulation is established to avoid wasteful competition between alternatives. If TTIP helps to achieve that, this will be in the interests of all countries. One example is automobile safety standards, which have diverged internationally, creating a large compliance cost for manufacturers, despite the fact that standard-setters share the same objective in most markets – to keep passengers safe at a reasonable cost. Another is pharmaceuticals and medical testing. If requirements for the authorization of medicines were more harmonized between the EU and the United States, the need for duplication of clinical trials on both sides of the Atlantic would be reduced, thereby exposing fewer people to the risks of experimenting with medicines, facilitating speedy access to drugs and saving resources for companies. Moreover, other countries would have an incentive to adopt the same rules.

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<sup>13</sup> Malmström, C. (2015), 'The Geopolitical Aspect of TTIP', speech at European Parliament Alliance of Liberals and Democrats for Europe group hearing on TTIP, 3 June 2015, [http://trade.ec.europa.eu/doclib/docs/2015/june/tradoc\\_153511.pdf](http://trade.ec.europa.eu/doclib/docs/2015/june/tradoc_153511.pdf) (accessed 19 May 2016).

<sup>14</sup> Korteweg, R. (2015), 'It's the Geopolitics Stupid: Why TTIP Matters', Centre for European Reform, 2 April 2015, <http://www.cer.org.uk/insights/its-geopolitics-stupid-why-ttip-matters> (accessed 19 May 2016).

<sup>15</sup> Kee, H. L., Nicita, A. and Olarreaga, M. (2009), 'Estimating Trade Restrictiveness Indices', *Economic Journal*, 119, [http://siteresources.worldbank.org/INTRES/Resources/469232-1107449512766/eco\\_2209.pdf](http://siteresources.worldbank.org/INTRES/Resources/469232-1107449512766/eco_2209.pdf) (accessed 19 May 2016).

<sup>16</sup> European Automobile Manufacturers Association (undated), 'USA', <http://www.acea.be/industry-topics/tag/category/usa> (accessed 19 May 2016).

A second form of international rule is one that needs modifying to take account of local circumstances. Environmental standards are one example. What works in the EU and the United States may not work in India or Indonesia, as these countries face different environmental challenges and have different preferences, reflecting differences in income levels and development. Here standards should ideally be sufficiently flexible to reflect these differences and are better set by international institutions with governance arrangements that ensure many countries have a say, providing they remain capable of reaching agreement. In these areas, international leadership to assert uniform global rules may be good for the EU and the United States but a mixed blessing for other countries.

A third form of international rule concerns those set in the EU and the United States that are directly counter to the interests of some other countries. Intellectual property (IP) is one example, as this pits producers who benefit from strong IP rules – very often based in the EU or the United States – against consumers in the developing world, who want cheaper access to the goods and services that embody that IP. Greater influence for the EU and the United States in shaping IP laws is likely to be damaging for other countries. Moreover, leadership by the EU and the United States in setting international rules could mean direct conflict with policy-makers in other countries.

All of this matters because it clearly demonstrates that not all forms of international leadership in setting rules are equal. Some forms are benign from the perspective of other countries, while others have the potential to create conflict. The former can act as a substitute for global rule-setting through international institutions, while the latter are much riskier. The coercion of other countries – albeit through economic means – may lead to conflict, prompting them to step out of the transatlantic rule-setting sphere of influence. To see how, it is useful to consider two of the most controversial areas of new trade agreements that bring the interests of the EU and the United States into conflict with those of some emerging economies. These are the setting of rules for state-owned enterprises (SOEs) and the handling of personal data.

### *State-owned enterprises*

In many emerging economies SOEs have been used as an instrument of industrial policy, providing a channel for direct or indirect state subsidies, usually with the aim of developing the domestic sector, improving international competitiveness, or even pursuing strategic objectives such as ensuring security of supply for natural resources. Many of the largest Chinese, Russian and Brazilian companies are SOEs, although many European countries also have SOEs that pursue industrial policy or wider strategic objectives.

The existing mechanisms to deal with unfair competition from SOEs fit into two categories. One is national competition policy. In the EU state-aid rules ensure that European SOEs do not distort competition. Competition policy has, for example, been used against the Russian energy company Gazprom. The other category is trade-defence instruments, specifically anti-subsidy rules that can be used by the EU or the United States to counter trade-distorting subsidies by governments in other countries. The WTO rules governing the use of trade-defence instruments are somewhat restrictive and require a high burden of evidence that can be costly to acquire, but the EU and the United States have a number of anti-subsidy investigations under way or measures in place against China.

The EU and the United States want to enhance these existing mechanisms through TTIP. They want to go beyond the WTO disciplines and tighten anti-subsidy rules in their domestic markets. They also

want to increase transparency requirements on SOEs in order to provide clarity about ownership and control, and to establish where non-commercial assistance is being provided. Perhaps their most ambitious and strategically important aim, however, is to encourage other countries to adopt similar rules in order to create a level playing field for European and American firms competing in third markets. Pursuing these aims unilaterally is not without risk given the conflict in policy objectives between the TTIP countries and those that are home to SOEs. The danger is that by imposing rules unilaterally, rather than negotiating them through the WTO, the EU and the United States are viewed as protectionist and provoke retaliation. It is possible that transatlantic leadership in this area could prove to be so divisive that it encourages other countries to establish alternative rules, polarizing international debate and making it harder to establish truly global rules in this area.

### *Handling personal data*

One of the most important and difficult areas in which international leadership is required, and which may potentially be addressed in TTIP, is the development of rules on the handling of personal data. This is controversial as it brings into conflict security, privacy and competition considerations. Policy-makers around the world need to strike a balance between, on the one hand, allowing the state access to data in order to detect crime and prevent terrorist attacks; and, on the other, ensuring the protection of privacy. The problems are compounded where data are transferred across borders because government agencies are more likely to favour security over privacy when handling the data of foreign nationals, and because some of the policy responses by governments – such as requiring data to be held locally – may either have the unintended consequence of reducing competition or in some cases be a thinly disguised form of deliberate protectionism. China and Russia are among the countries attempting to reassert their ‘cyber sovereignty’ in this way.

TTIP therefore presents an important strategic choice for EU and US policy-makers. This is whether to pursue leadership in setting rules in this area – with its clear potential for strategic benefits – given that, if not calibrated carefully, transatlantic standards may simply not be acceptable to authoritarian states, hastening their desire to take their own approach and in so doing jeopardizing the openness of the internet in future, with access to an increasing number of services effectively denied in certain countries.

### *Soft power*

The second strategic rationale for TTIP is about soft power. This is the ability to attract or persuade others without coercion. TTIP has soft-power potential in two distinct areas: as it relates to companies (through commercial persuasion) and as it relates to states (through the promotion of the Western economic and democratic model). In the first case it is a by-product, albeit a potentially important one, of transatlantic cooperation to align consumer standards. In the second it is potentially a much more direct consequence of the design choices of TTIP and the future strategic decisions by policy-makers in the EU and the United States.

### *Commercial persuasion*

To what extent, and how, might TTIP strengthen the attractiveness of the transatlantic market to international companies? In sectors where scale matters – particularly in many of the new, winner-takes-all digital industries – a large, well-regulated single market can attract capital and innovative businesses that might otherwise migrate to the faster-growing emerging economies. This is economically beneficial

as it brings in high-value jobs. It also creates subtler advantages. If the transatlantic economy remains the global focus for innovation, then that innovation will suit the economic needs, consumer preferences and market conditions that prevail in the EU and the United States. Moreover, companies that are drawn to the transatlantic economy and that adopt EU and US standards and rules have an incentive to encourage the adoption of the same standards and rules in their home markets.

Transatlantic commercial soft power thus provides another, distinct channel through which TTIP could help the EU and the United States to enhance their leadership in setting international standards and rules. Moreover, it is likely to strengthen the constituencies in other countries that favour maintaining good political and diplomatic relationships with the EU and the United States, creating a more direct channel through which commercial soft power brings political and hence strategic benefits. The significance of this channel ultimately depends on the success that TTIP has in aligning EU and US consumer standards in new, innovative sectors. Where standards are aligned, then this channel is likely to be important given that the combined purchasing power of consumers in the transatlantic economies remains high, as explained above.

### *Promotion of the Western economic and democratic model*

TTIP also has the potential to drive other countries and their policy-makers – as distinct from their corporations and business leaders – to align themselves economically and politically with the EU and the United States due to their normative strength. The economic and financial crisis of 2008–09, which originated and was concentrated in the transatlantic economies, tarnished the reputation of the liberal Western economic model while increasing the appeal of alternative, state-led models, particularly China's. At the same time, China has used its economic success to bolster its political influence.<sup>17</sup> A return to stronger growth in the United States and EU, accompanied by the signal of confidence that would be provided by the agreement of an ambitious TTIP, might help to reverse this, making the EU and United States more attractive both economically and politically to other countries. As a result, other countries could be encouraged to model their economic policies, and by extension their political institutions, on those of TTIP members. A weakness of this argument is that many low- and middle-income countries are looking to emulate a successful development model, which is what China offers, rather than the economic model of the TTIP bloc.

**If the bar is set too high for the policies required of third countries that want to join TTIP, none will choose to do so. If it is set too low, many may wish to join but this will not have much impact on their policy choices.**

A second and much more direct means by which TTIP has the potential to attract other states and have an impact on their policy choices is by offering the prospect of membership to those states that meet appropriate conditions. The potential is illustrated by the success of the EU in using the prospect of accession to influence not only the policies, but also the political, economic and legal institutions, of countries in Central and Eastern Europe. The United States has made it clear that it wants TTIP to be an open platform. The EU has been somewhat more equivocal, although the European Commission's trade strategy says it will 'show readiness' to other countries that want to join TTIP, 'provided they are ready to meet the high level of ambition'.<sup>18</sup>

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<sup>17</sup> Korteweg (2015), 'It's the Geopolitics Stupid'.

<sup>18</sup> European Commission (2015), *Trade for all: towards a more responsible trade and investment policy*.

The challenge for the EU and the United States in this area is one of calibration. If the bar is set too high for the policies required of third countries that want to join TTIP, none will choose to do so. If it is set too low, many may wish to join but this will not have much impact on their policy choices. The geographically obvious candidates for joining TTIP include Mexico, the European Free Trade Association countries of Switzerland, Norway, Iceland and Liechtenstein, and possibly countries in Europe's eastern neighbourhood. However, there is no compelling reason why accession to TTIP should be bound by geography.

Box 1 provides two European examples to illustrate the potential and the limits of TTIP's influence over third countries through this channel.

### Box 1: The drawing power of TTIP

#### Turkey

Accession negotiations between Turkey and the EU have been protracted and politically fraught. Much of the blame lies on the EU side, where scepticism about the wisdom of admitting Turkey and outright political opposition by some member states have greatly politicized the accession process and raised the bar for Turkey to join. There are, however, also several problems on the Turkish side, as recent governments have been reluctant to implement many of the reforms that are required before Turkey's bid for membership can be taken seriously.

TTIP would put Turkey in a difficult position, as the country's 20-year-old customs union with the EU, covering trade in goods, means that it would be required to match the increased access offered to US companies in the EU without benefiting from the increased access to the US market that would be available to EU firms. One possible solution for Turkey is to update the customs union to address this, and the new EU trade strategy commits the European Commission to doing so. Turkey would like to go further, however, and join TTIP.<sup>a</sup> For now, this looks to be a remote prospect, and the demands placed on a third country like Turkey are likely to be high. But if Turkey, the EU and the United States are serious, this has the potential to lock Turkey into the transatlantic economy in a similar way to how NAFTA has reorientated the Mexican economy decisively towards the United States. TTIP membership may prove to be more realistic for Turkey than EU accession in the short term, and potentially a catalyst to unblock the EU accession process in the longer term.

#### Ukraine

Several commentators, including former US deputy trade representative Miriam Sapiro, have raised the possibility of Ukraine eventually joining TTIP.<sup>b</sup> Ukraine's government is set on moving closer to the EU economically and politically, but this faces enormous problems, not only because the country is divided, but also because its stagnant economy has for many years been more integrated eastwards than westwards. Most policy-makers in the EU and the United States are sceptical about Ukraine's ability to meet the policy requirements for joining TTIP any time soon, let alone the political wisdom of what would be regarded by Russia as a serious escalation by the West in their confrontation. At the very least, however, TTIP has the potential to provide the EU and the United States with another strategic option in their relationship with Ukraine, and indirectly in their relationship with Russia, providing TTIP is constructed in a way that provides a credible path for a country like Ukraine to join.

<sup>a</sup> Gardner, A. (2014), 'Turkey presses for TTIP role', Politico, 7 March 2014, <http://www.politico.eu/article/turkey-presses-for-ttip-role/> (accessed 19 May 2016).

<sup>b</sup> Sapiro, M. (2014), 'Ukraine Deserves a Better Trade Pact', Bloomberg View, 25 March 2014, <http://www.bloombergvew.com/articles/2014-03-25/ukraine-deserves-a-better-trade-pact> (accessed 19 May 2016).

### Security

The third strategic rationale for TTIP is security. EU Trade Commissioner Cecilia Malmström has said that it could help address Europe's security challenges.<sup>19</sup> In particular, and in common with many American policy-makers, she has argued that TTIP is one answer to the challenges posed to Europe by Russia. It is sometimes argued that the very act of agreeing TTIP would show unity between the EU and the United States, and signal their ability to act together externally in a strategic way. The US Ambassador to the EU, Anthony Gardner, has said that a deal is necessary to 'help solidify further the transatlantic alliance' and to 'provide an economic equivalent of NATO'.<sup>20</sup> The same metaphor has also been used by US Trade Representative Michael Froman.<sup>21</sup> However, neither they nor others have explained the tangible ways in which such signalling might bolster the security of the EU or the United States.

The most tangible security benefits from TTIP are likely to be in the energy sphere rather than in the military one. It is argued that TTIP could help counter the EU's dependency on Russia as a source of energy imports, which has, according to Malmström, limited the EU's freedom of action in response to Russia.<sup>22</sup> Increasing US energy exports to Europe would help to address this directly.<sup>23</sup> The US Congress approved oil exports to Europe and elsewhere in 2015, but what matters more to the EU is the supply of liquefied natural gas (LNG). Ambassador Gardner has, however, sought to dampen expectations about LNG exports by noting that, if allowed, they may provide Europe with more options, and hence more negotiating leverage with Russia, but that they would still go to the highest bidder internationally, and at current international prices the highest bidder is more likely to be found in Asia than in Europe. The EU, even so, is committed to including an energy and raw materials chapter in TTIP, with the aim of setting benchmarks for transparency, non-discrimination and competition rules in energy that can be applied to other trade agreements.<sup>24</sup>

The intangible security benefits from showing unity and the marginal benefits from LNG exports, particularly now that international energy prices have fallen substantially, suggest that the impact of TTIP on EU or US security is unlikely to be significant. If both sides are serious about using TTIP to improve security, they should consider including defence procurement in the agreement. This is not on the agenda, however, and is unlikely ever to be, given that the United States, in particular, is protective of its producer interests and highly prescriptive about exports and re-exports in this area.<sup>25</sup>

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<sup>19</sup> Malmström (2015), 'The Geopolitical Aspect of TTIP'.

<sup>20</sup> Vincenti, D. (2014), 'US Ambassador: Beyond growth, TTIP must happen for geostrategic reasons', Euractiv, 16 July 2014, <http://www.euractiv.com/sections/trade-industry/us-ambassador-eu-anthony-l-gardner-beyond-growth-ttip-must-happen> (accessed 19 May 2016).

<sup>21</sup> See Behsudi, A. (2014), 'Froman: U.S.-EU trade deal should be as strong as NATO', Politico, 21 March 2014, <http://www.politico.com/story/2014/03/michael-froman-us-eu-trade-deal-should-be-as-strong-as-nato-104895> (accessed 19 May 2016).

<sup>22</sup> Malmström (2015), 'The Geopolitical Aspect of TTIP'.

<sup>23</sup> Korteweg (2015), 'It's the Geopolitics Stupid'.

<sup>24</sup> Natali, P., Egenhofer, C. and Molnar, J. (2015), 'TTIP and Energy', in Hamilton, D. S. and Pelkmans, J. (2015), *Rule-Makers or Rule-Takers? Exploring the Transatlantic Trade and Investment Partnership*, London: Rowman & Littlefield.

<sup>25</sup> Bond, I. (2014), 'The EU and defence procurement', Centre for European Reform, [https://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2014/bal\\_comp\\_ib\\_defenceproc\\_13jan14-8256.pdf](https://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2014/bal_comp_ib_defenceproc_13jan14-8256.pdf) (accessed 19 May 2016).



### Key factors for TTIP's strategic impact

Given the arguments set out above and the ways in which TTIP could have a strategic impact, there are three factors that will be decisive in shaping the impact TTIP, assuming it is agreed, has on other countries, on geopolitics and on the international system.

The first is whether TTIP is as comprehensive and ambitious as the political leaders who launched the negotiation said it would be. Both dimensions matter. Only a comprehensive deal will take TTIP into uncharted territory for trade deals, with the potential to shape rules in areas that currently lack them. Only an ambitious deal will establish benchmarks for standards and regulations that go beyond the superficial treatment of other bilateral or plurilateral free-trade agreements (FTAs).

Negotiating a comprehensive and ambitious deal is hard, which is why the process is likely to be protracted, with an uncertain outcome. It is also why it was never sensible for political leaders to claim that TTIP could be agreed quickly. The uncertainty about the position of the next US president might make a smaller, more rapid deal more attractive, for fear that no deal may be possible once President Obama has left office. Such a deal would be unlikely to have much strategic impact.

**Only a comprehensive deal will take TTIP into uncharted territory for trade deals, with the potential to shape rules in areas that currently lack them.**

Related to this is the question of whether TTIP is a one-off, static deal or the start of a process of continuing collaboration between rule-setters on both sides of the Atlantic. The latter has much more strategic potential. However, it means not only bringing to the table multiple public-sector agencies for whom transatlantic cooperation may not be the priority during the TTIP negotiations, but also locking them in to keep cooperating in future, which requires new, durable and effective institutional arrangements.

The underlying problem is that even though compromising to agree common positions may be in the interests of both sides, neither the EU nor the United States is very good at making such compromises. Both are used to being able largely to dictate terms in bilateral trade negotiations with smaller partners. Moreover, both face strong domestic constituencies that instinctively oppose making concessions on their regulatory sovereignty and that are inherently suspicious of any international agreement in this area in case this means a weakening of their own standards.

Second, there are questions about whether TTIP will expand to bring in other countries and what will be its eventual relationship with the WTO. The United States is explicit in its desire to see TTIP become an open platform. The new EU trade strategy also says that the EU should 'include in its FTAs appropriate mechanisms allowing other interested countries to join them in future, provided they are ready to meet the established level of ambition'.<sup>26</sup> This is best interpreted not as a firm commitment to admit new countries, but as the groundwork to allow the EU to do this in future if and when there is political support. It is unlikely that European political leaders have had a proper discussion of the issue as yet. Moreover, this is likely to be contentious as the net benefits from admitting particular countries would vary considerably across EU states. It is also unlikely that the EU and the United States will

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<sup>26</sup> European Commission (2015), *Trade for all: towards a more responsible trade and investment policy*.

share the same preferences over which countries should be the priority for admission into TTIP, when this should happen, and on what terms.

Related to this is the question of the United Kingdom's relationship with TTIP. On leaving the EU, most likely in 2019 or possibly in 2020, the United Kingdom will no longer be part of the EU's common commercial policy and will pursue its own trade deals with other countries. There would be benefits for the United Kingdom, the EU and the United States if the post-EU United Kingdom does accede to an eventual TTIP. For the United Kingdom, this arrangement would provide the only real prospect of being able to influence international standards and a relatively quick means to conclude a comprehensive trade deal with the United States. For the EU and the United States, it would ensure the scale and magnetic appeal of TTIP is not reduced by the loss of one of the major European economies. It would also provide an immediate opportunity to establish TTIP as a plurilateral deal that is open to new members.

For now, there is no process for a country to accede to TTIP, only a shared ambition that this should become possible. The complexity involved in the accession process for the United Kingdom may in part depend on whether or not TTIP is concluded while the United Kingdom is still a member of the EU. The process could be made easier if the United Kingdom meanwhile maintains an active role in the development of the EU position on TTIP while it is still an EU member. This would mean that the United Kingdom would be in a position to accept the terms required to join TTIP relatively quickly on withdrawal from the EU. Inevitably there will be sensitivities in the United Kingdom, in other member states and in the EU institutions about this, but such an arrangement is in the strategic interests of all parties. The United States and the EU intend that TTIP (and for the United States other deals such as the TPP too) will encourage countries they have seen as 'blockers' in the WTO, such as India or Brazil, to engage more positively in future trade negotiations, as TTIP raises the cost to them of digging in against multilateral deals. However, the strategic logic of TTIP leaves an important question unanswered: if TTIP is a success and expands to bring in new members, the United States and the EU must at some point choose between continuing its expansion, with the aim of using its scale to set global standards informally; and attempting to bring new TTIP disciplines under the auspices of the WTO by formally incorporating them into one or more multilateral or plurilateral agreements. The former would allow the United States and the EU to retain control, but risk the irrelevance of the WTO. The latter could broaden the impact of TTIP but run the risk of failure given the consensus decision-making of the WTO. This is one area in which the EU and the United States may favour different approaches, with the EU preferring to work within a WTO rules-based system while the United States avoids the WTO in order to maintain maximum control over the future direction of TTIP – and, through it, over international rule-setting.

Finally, there is the critical question of how countries like China and Russia respond to TTIP, particularly if it is comprehensive, ambitious and an open platform that brings in other countries over time. For now, this is unclear, partly because the question remains hypothetical. However, China has said that it would like to begin negotiations with the EU on a comprehensive FTA. President Xi Jinping's enthusiasm for this during his visit to the EU in 2014 appears to have been partly motivated by the progress of the TPP and TTIP.<sup>27</sup> The Chinese view of TTIP is most likely not settled, just as it is not regarding the TPP. On the latter Chinese opinion appears to be divided. Some officials regard

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<sup>27</sup> Bendini, R. (2014), 'EU and US trade policy and its global implications (TPP, TTIP and China)', European Parliament, [http://www.europarl.europa.eu/RegData/etudes/briefing\\_note/join/2014/522349/EXPO-INTA\\_SP\(2014\)522349\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/briefing_note/join/2014/522349/EXPO-INTA_SP(2014)522349_EN.pdf) (accessed 19 May 2016).

the TPP as part of a US-driven geopolitical strategy to isolate China. At the other extreme, some would like China to join the TPP, and see this as an opportunity to drive reforms in a similar way that the prospect of WTO accession did 20 years ago.<sup>28</sup> Russia is less likely to see any opportunities from TTIP, only threats, as it binds the EU and United States closer together. Moreover, it would be particularly concerned if TTIP became an open platform that was attractive to its neighbours and undermined its Eurasian Economic Union (EAEU) project.

## Conclusions

TTIP has clear strategic potential for the EU and the United States, but realizing this fully depends on negotiators delivering at or above the top end of expectations regarding the scope and depth of any deal. And, even if they do, some of the strategic arguments put forward for TTIP are exaggerated – particularly the suggested benefits in security, where there is a substantial gap between expectations and reality.

There are potential benefits from international leadership in setting the rules for trade. If the United States and the EU are able to agree on the regulations and standards governing trade, they will have the scale to define these globally or to create the base text for multilateral rules for years to come, although this will be more difficult and risky in areas where their interests or preferences conflict with those of other countries. With this caveat, the strategic value to the United States and the EU of creating common international regulations and standards in many sectors and policy areas is compelling.

The soft-power benefits are also potentially substantial, but they can only be maximized if other strategically important countries are able to join the partnership. If TTIP is to meet or exceed the highest ambitions for its strategic impact, perhaps the clearest sign would be if it not only expands to neighbouring countries, but has a broader geographical reach, drawing in countries in other regions that are willing to collaborate on trade policies on terms set by the United States and the EU.

There are also strategic risks from TTIP. By emphasizing the values reflected in international rules, the EU and the United States could make it harder for others to accept these or could make TTIP seem like an attempt to reassert the old world order. In that case, instead of having a magnetic effect, TTIP could create a rift with emerging countries, with some choosing to maintain a distance for political reasons. The tensions in areas such as rules governing SOEs or handling personal data illustrate this. It could be particularly costly if these countries are encouraged instead to collaborate more closely among themselves in an attempt to create rival economic and political blocs. This has already been seen with Russia's EAEU and the BRICS grouping, even though neither has a strong economic logic.

The bigger and likelier risk for TTIP, however, is of failure, possibly in the form of a slow death like that of the WTO Doha Round. If the negotiations break down, or a deal is reached that falls short of the ambition set for it, this would send a damaging signal to the rest of the world about the ability of the EU and the United States to work together. The damage would be all the greater if the process were acrimonious, or if it exposed either indifference in the United States to Europe or latent anti-

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<sup>28</sup> Freytag, A., Draper, P. and Fricke, S. (2014), *The impact of TTIP – volume 2: political consequences for EU economic policy-making, transatlantic integration, China and the world trade order*, Berlin: Konrad Adenauer Stiftung, [http://www.kas.de/wf/doc/kas\\_38105-544-2-30.pdf?140618145359](http://www.kas.de/wf/doc/kas_38105-544-2-30.pdf?140618145359) (accessed 19 May 2016).

Americanism in the EU. The hostility to TTIP in many parts of Europe, especially in Germany, is not particularly encouraging.

If the negotiations break down, or a deal is reached that falls short of the ambition set for it, this would send a damaging signal to the rest of the world about the ability of the EU and the United States to work together.

The strategic case for TTIP is greater – and the stakes higher – now that the United Kingdom has decided to leave the EU. In this context, it is even more important for the EU, in particular, to combine its market with the United States if it is to have soft-power appeal and the ability to influence the rules and standards adopted by other countries. The differences between the EU and the United States over some negotiation points mean that it will be difficult to get a deal, and could constrain how any deal is implemented and ultimately exploited for strategic purposes. Whether TTIP succeeds at a strategic level depends not only on what the EU and the United States agree, but on how closely they collaborate afterwards. They will need to be coordinated and disciplined in using TTIP as a basis for dialogue with third countries, such as China, particularly on some of the most controversial and divisive issues identified above. This is made more difficult as the EU and the United States compete commercially in third countries such as China.

The United States is more capable of acting strategically than is the EU, in part because of the difficulties for all the EU member states to coalesce around a shared set of broad strategic objectives. Until the EU is able to do this, the United States is likely to have much more influence over the strategic impact of TTIP. In order to bridge this gap, the European Council should start by reaching a political agreement on its ambitions and priorities for bringing other countries into TTIP once it is agreed.

EU and US negotiators have much work to do if a deal on TTIP is to be reached that realizes its full potential. While progress has been made on tariff reduction, considerable ground still needs to be covered on setting standards, regulations and rules governing international trade. These are the most difficult areas, but also areas where TTIP has the most potential to be different and to make an impact at a strategic level. The scepticism about the economic benefits of trade deals expressed so far in the US presidential election campaign suggests that making a clear and credible strategic case for TTIP, which extends beyond the direct economic benefits, may be necessary if the negotiations are to continue and be successful under the next US president. The same holds true on the other side of the Atlantic. With elections in Germany and France in 2017, in which the trade deal will likely be an issue, it will be important to lay out clearly a set of credible arguments highlighting TTIP's strategic potential.

## About the author

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