Chapter 8

The Transatlantic Trade and Investment Partnership in the Global Context

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The EU and the U.S. economies are the largest in the world and their bilateral ties constitute the most important bilateral economic relationship. Moreover, the United States and European countries have been key leaders in post-World War II economic governance and in promoting liberalization of global trade and investment. They have among the lowest tariffs and non-tariff barriers (NTBs) in the world; they have low barriers to inward and outward foreign direct investment (FDI); and their respective competition policies, intellectual property protection, and political and economic institutions are among the most advanced. By almost every measure, they would be considered "like-minded," as demonstrated by the membership of the United States and many European nations in the OECD and their leadership in the World Trade Organization (WTO) and other fora.

Yet, despite this extensive integration and generally a common policy stance, the United States and the EU do not have a formal free trade area (FTA) in place. Twenty years ago, this was very understandable; the Uruguay Round, which created the WTO, was finalized in 1994 and was a major priority for both; the United States (and the world) had not yet embraced regionalism as an important part of its commercial policy strategy and had actually been a multilateral "purist" (more or less) until the mid-1980s, after which it only put in place a few minor FTAs and eventually NAFTA in 1993; the EU was busy implementing its Single Market Programme and its attention was captured by monetary union and enlargement toward the East after the 1989 revolutions; new excitement was created by emerging markets especially in Asia; and growth in the OECD economies in the 1990s was strong. And these are just economic reasons.

Nevertheless, the changes in the global economy that began in the 1980s in favor of greater globalization intensified over the next two decades, and with the advent of the 21st century, the world transformed significantly. The gravity of the global economy began to shift away from the OECD countries in favor of emerging markets in Asia and elsewhere; the sleeping "Asian Giants" of China and India awoke during this period, and China in particular took off in a spectacular fashion, rising to be the second largest (single) economy in the world and eventually its biggest exporter. Although the Doha Development Agenda (DDA) was launched in November 2001, FTAs became the driving force in international commercial policy. As of January 31, 2014 the WTO reported that, counting goods and services separately, it had received 583 notifications of regional trading arrangements (RTAs, defined by the WTO to be a reciprocal trading agreement between two or more countries), with 377 in force.[1] This number is up from 300 at the end of 2005 and 130 at the beginning of 1995.[2] At the same time, the DDA has generally reached an impasse. Although at the WTO's Ninth Ministerial Meeting in Bali in December 2013 members succeeded in delivering the first liberalization package since the launch of the Doha Development Agenda in 2001, including agreements pertinent to trade facilitation, agriculture, and development-related issues, the results are modest for 12 years of negotiations and the "single undertaking" is still on hold.

The United States and the EU have now both become active in the regionalism movement, but did not start bilateral negotiations in favor of a formal FTA until the launch of the Transatlantic Trade and Investment Partnership (TTIP) talks in July 2013. The timing is not coincidental. The United States has been active in cementing closer relations with its partners particularly in the Asia-Pacific region, beginning with the Bush Administration and then folded into the "Asian pivot" of the Obama Administration. The greatest manifestation of this has been the push toward the creation of a "Trans-Pacific Partnership" (TPP). The TPP agreement negotiations were launched

[1]WTO website, www.wto.org, accessed June 14, 2014.

[2]Michael G. Plummer, "Toward Win-Win Regionalism in Asia: Issues and Challenges in Forming Efficient Trade Agreements, Asian Development Bank, Office of Regional Economic Integration, *Working Paper Series on Regional Economic Integration No. 5*, pp. 1-57, October 2006.

in 2008 and the 20th round of negotiations took place in February 2014. The TPP builds on a high-quality FTA between four small, open economies (Brunei Darussalam, Singapore, New Zealand and Chile), known as the "P4," and in addition to these negotiating parties the TPP includes the United States, Australia, Malaysia, Vietnam, Peru, Canada, Mexico, and, as of July 2013, Japan, i.e., the same month when TTIP was launched. South Korea, which already has an FTA in place with both the EU and the United States, is currently undertaking preliminary talks with TPP countries with a view possibly to join. The Philippines, Thailand, and Indonesia have all expressed interest in possibly joining; China is also considering the possibility at a future date.[3]

The TPP is distinct in terms of not only large differences in levels of development but also its ambitions to become a modern, "21st century" agreement that would embrace a wide variety of areas, including border and non-border barriers to trade in goods and services, FDI, intellectual property protection, trade facilitation, competition policy, and even sections on science and technology and small- and medium-sized enterprises. As such, it aims to create a system of global rules that would be applicable beyond the Asia-Pacific region.

This last point is particularly important. The TPP and "mega-regionalism" in the Asia-Pacific is not a big threat to the EU in the traditional sense of trade and investment diversion; one study[4] estimates that a successful TPP would lead to trade diversion of $3.4 billion by 2025, just a blip in a projected EU economy of $22.7 trillion. Adding prospective Asian economies like China to the group actually would lead to a slight increase in EU income ($900 million), due to associated open reforms and greater growth in the region.[5] Rather, the risk is that the EU will be isolated from rule-making, and centrifugal forces of regionalism could work to the disadvantage of EU produc-

[3]Peter A. Petri, Michael G. Plummer, and Fan Zhai, "The TPP, China, and FTAAP: The Case for Convergence," forthcoming publication of the China Pacific Economic Cooperation Council (China PECC), 2014. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2438725 .

[4]Peter A. Petri, Michael G. Plummer, and Fan Zhai, *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment*. Washington, DC: Peterson Institute for International Economics, November 2012.

[5]Petri, et. al. 2014, *op. cit.*

tion networks in the region. In terms of the former risk, the downfall of the "Anti-Counterfeiting Trade Agreement" (ACTA) is a case in point. Together with the United States and other economies, the European Commission (EC) had a hand in crafting ACTA and it was signed by the EC in July 2012. However, it was subsequently rejected by the European Parliament. The industry, therefore, has now been looking to the intellectual property protection chapter in the TPP, in which the EC has no direct influence. If new global rules are created by this mega-regionalism movement, it would make sense from a European perspective to be part of it.

The same might be said of the Regional Comprehensive Economic Partnership (RCEP) agreement, launched in November 2012. It is the first major initiative that has been spearheaded by ASEAN as part of its strategy of "ASEAN Centrality"; indeed, membership in RCEP is open only to economies that have an existing FTA with ASEAN, that is, China, Japan, South Korea, Australia, New Zealand, and India. It, too, is intended to be a "high quality" agreement, though its focus on being more "flexible" than the TPP—as well as its membership—suggests that it will be less comprehensive. The leaders of RCEP have given themselves until 2015 to complete an agreement. Like TTIP, there is no doubt that the creation of RCEP is being pushed by the TPP, with China being an important actor in that agreement whereas it is not (at least as yet) been in the TPP. While RCEP has a long way to go, it also still has the potential to be influential, particularly since it would envision free trade in Northeast Asia (the key economic space in Asia but where economic relations are hampered by bad history and politics) and India, by far the largest country in South Asia.

The goal of this chapter is to consider the economic and policy implications of the TTIP in the context of this rapidly-changing global environment. The rest of the chapter is organized as follows. Section II gives a brief review of the transatlantic trade and investment relationship, followed in Section III by analysis of the economics of TTIP. Finally, Section IV considers TTIP in view of the changing global policy landscape, particularly in view of the "mega-regionalism" trend in the Asia-Pacific region.

Brief Review of the EU-U.S. Economic Relationship

While the EU-U.S. economic relationship is in many ways the most important in the world, regional economic cooperation initiatives, the rise of Asia and emerging markets as major players in the international marketplace, and relatively low growth rates have combined to reduce the importance of the bilateral relationship, at least at the margin. According to OECD data, the United States accounts for 23% of total EU exports and 21% of total imports on a value added basis, whereas the EU receives 29% of U.S. exports and accounts for 27% of U.S. imports on a value-added basis.[6] Hence, each party is the other's most important trading partner. The share of value-added in services between the partners is significantly higher, and is also higher than in each partner's trade with the rest of the world.[7] However, the share is falling somewhat: much earlier data are not available in value added terms but in nominal terms over the 2000–2012 period, the share of the EU (U.S.) in U.S. (EU) exports has fallen from 22% (28%) to 17% (17%) (Figures 1 and 2). To a large degree the drop in transatlantic shares has reflected an increase in the importance of the Chinese markets, whose share has increased four-fold in the case of EU exports (2% to 8% percent) and three-fold in the case of U.S. exports (3% to 9%).[8]

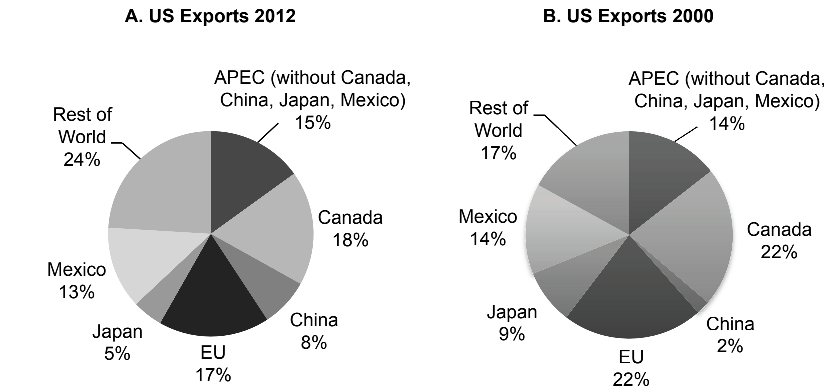
In terms of FDI, the United States and the EU are far and away each the other's most important external investment partner. In 2012, almost two-thirds (65%) of the inward FDI flows in the United States was of EU origin, while 45% of the U.S. outward flows went to the EU (Figure 3). These shares continue to be dominant but have been falling somewhat over time; in 2000, FDI flows to the EU constituted a slightly higher share of total U.S. outward FDI (50%) and inward

[6]These data are reported in the OECD/WTO "trade in value added" database (http://stats.oecd.org/Index.aspx?DataSetCode=TIVA_OECD_WTO). Using value added gives a much better indication of actual economic integration relative to nominal flows, which are subject to "double counting" and other biases.

[7]OECD, "The Transatlantic Trade and Investment Partnership: Why Does it Matter?" June, 2013.

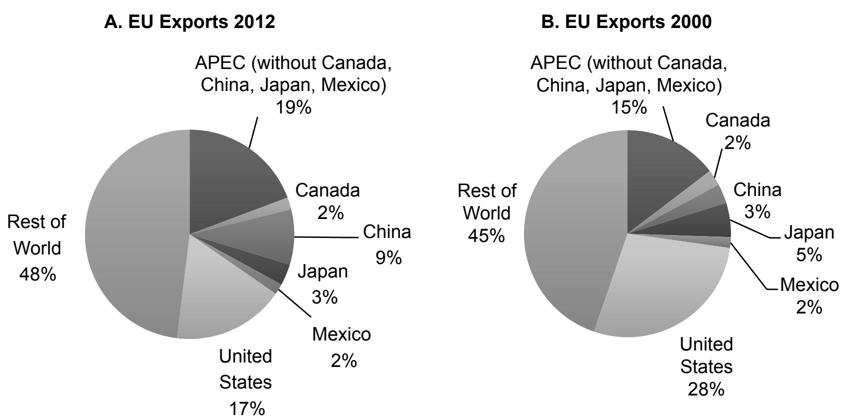
[8]While China's share of U.S. and EU imports has not grown as impressively as that of exports, it is still larger for both countries, i.e., China accounted for 16% of EU imports and 19% of U.S. imports, i.e., a larger share in the latter case than the EU (*IMF Direction of Trade Statistics*).

Figure 1. Direction of U.S. Exports, 2012 and 2000, Selected Countries



Source: IMF Direction of Trade Statistics.

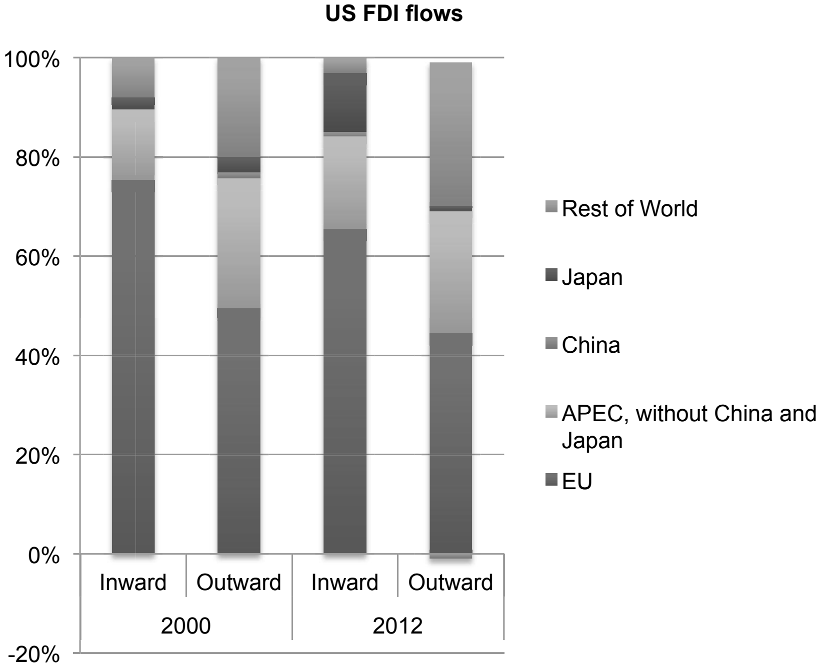
Figure 2. Direction of EU Exports, 2012 and 2000, Selected Countries



Source: IMF Direction of Trade Statistics.

flows from the EU represented 75% of the total (Figure 3). In terms of shares of EU FDI flows (Figure 4), intra-EU FDI obviously dominates, but otherwise the United States is the single most destination/source of FDI flows; over the period 2000–2012, the share of the United States in EU inward flows has been rising considerably, whereas it has been falling (slightly) in terms of outflows.

Figure 3. U.S. FDI Inflows and Outflows by Country/Region, 2000 and 2012

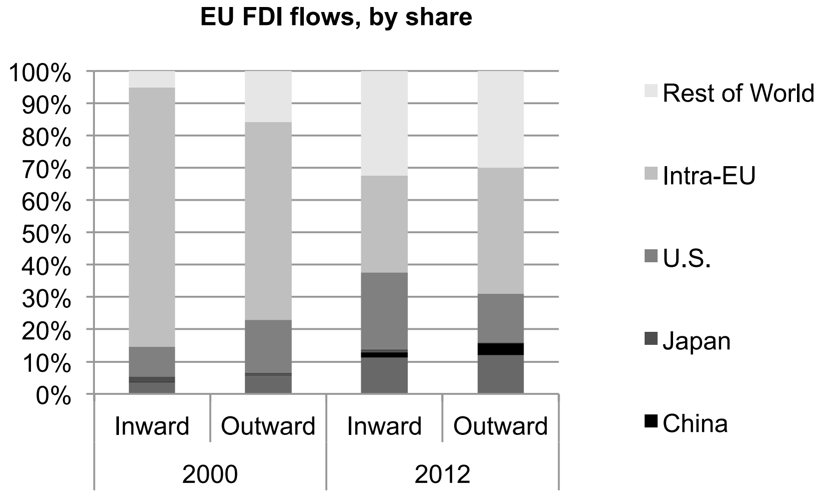


Source: OECD Stat.

As of 2012, U.S. FDI stocks in the EU were valued at over $2.2 trillion, and EU FDI stocks in the United States were valued at over $1.6 trillion; hence, each economy has a major corporate presence in the other. By sector, the highest concentration of EU FDI in the United States is in manufacturing (36%) as of 2012, with 11% of total stocks being invested in the chemicals sector alone (Figure 5). Investment in finance comprises 14% of total stocks. In recent years, according to Hamilton and Quinlan,[9] European financial firms have been decreasing their U.S. presence yet European companies have been increasing investments in automobile manufacturing and energy. By sector, in 2013, the largest European M&A deals in the United States were in communications and pharmaceuticals.[10] U.S. investment in the EU

[9]Daniel S. Hamilton, and Joseph P. Quinlan, *The Transatlantic Economy 2013*. Washingon, DC: Center for Transatlantic Relations, 2013.

Figure 4. EU FDI Flows by Country/Region, 2000 and 2013



Source: OECD Stat.

has markedly different shares in these sectors. Over half of the 2012 stock of U.S. investment in the EU was in nonbank holding companies, with only 12% in manufacturing sectors.

Economics of the TTIP

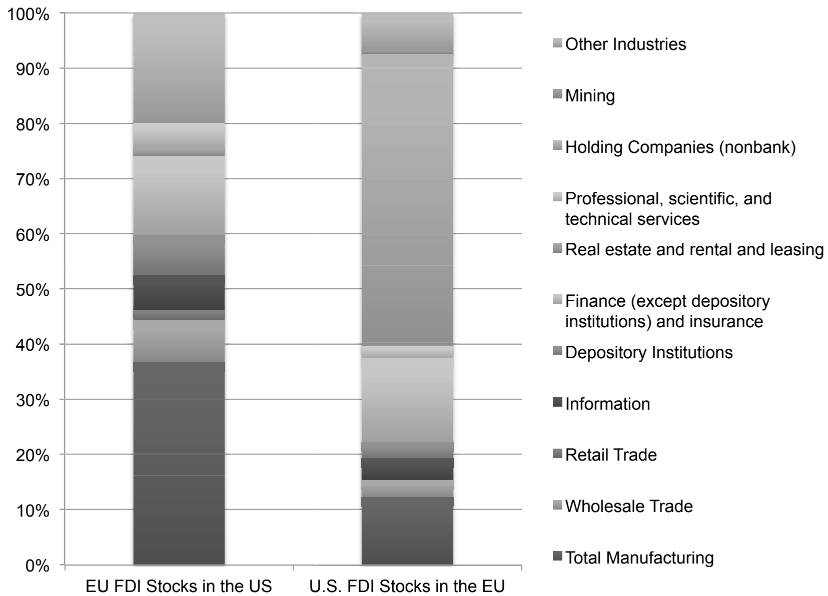
It has often been said that the United States and the EU do not need an FTA because they already have very liberal economies and the marginal benefits of the TTIP are not worth the political costs. Better invest, the argument usually goes, in multilateral negotiations or bilateral/regional agreements elsewhere.

It is true that tariff levels between the EU and United States are already fairly low, estimated to be under 4% on average.[11] Though some high tariffs remain, such as tariff rates over 20% in both the EU and the United States on trucks, most of the gains and the challenges are to be found in removing various non-tariff measures (NTMs),

[10]Ibid, p. 8.

[11]www.wto.org.

Figure 5. Sectoral Breakdown of U.S. and EU Inward FDI Stocks, 2012



Source: BEA, Balance of Payments and Direct Investment Position Data.

such as the estimated 26% ad valorem tariff equivalent cost that different vehicle requirements between the EU and the United States creates. It has been widely cited that 80% percent of the benefits of TTIP would be generated through the removal of NTMs.[12] Estimating the effects of NTMs is much more of an art than a science, but few would dispute that they are much more significant.

In 2009 Berden et al.[13] estimated trade costs between the EU and the United States to be, on average, approximately 3-4% of total trade

[12]American Chamber of Commerce to the European Union, ''EU's position on the Transatlantic Trade and Investment Partnership (TTIP): Building the Framework for Strengthening the Transatlantic Partnership," March 14, 2014. Available at: http://tradeinvest.babinc.org/wp-content/uploads/2014/03/AmCham-EU%E2%80%99s-position-on-the-Transatlantic-Trade-and-Investment-Partnersh...-1.pdf.

[13]Koen G. Berden, Joseph Francois, Martin Thelle, Paul Wymenga, and Saara Tamminen. "Non-Tariff Measures in EU-US Trade and Investment – An Economic Analysis," ECORYS, December 11, 2009.

in goods and services ($919 billion). They found that NTMs increased costs for EU and U.S. firms in approximately 60% of cases, as well as creating economic rent in 40% of them. The paper used a Computable General Equilibrium (CGE) model to estimate a standard liberalization scenario in which 50% of current NTMs between the United States and the EU are removed, as well as a more modest scenario of 25% of NTMs. The results were impressive for a relatively-standard CGE model: under the 50% liberalization scenario, the paper estimated an increase in EU GDP of 0.7% in 2018 relative to the baseline, or $158 billion. The commensurate change in U.S. GDP was 0.3% ($53 billion), due in large part to a more open market to start. They also estimated household incomes to increase by up to 0.8% per year in 2018 in the EU and 0.3% in the United States. Wage increases in the EU as a result of productivity gains from removal of NTMs were 0.8% per year in the EU and 0.4% per year in the United States. Changes in exports in the ambitious scenario would be relatively equal in absolute terms, but in terms of shares U.S. exports would increase by 6.1% relative to the baseline and EU exports by 2.1%. The EU gains more than the United States in removals of NTMs in aerospace, automotives, chemicals, cosmetics, and pharmaceuticals. The study identified potential for additional gains in the removal of the U.S. requirement of 100% container scanning ($12.7 billion per year for the EU and the United States combined), decreasing foreign barriers to government procurement ($13.8 billion per year for the EU and United States combined), and convergence of IPR regimes ($1.1 billion per year, for both combined).

These are actually impressive gains for the type of model used, but at an aggregate level, obviously fail to make a strong case for integration. However, in 2005 the OECD estimated potential welfare gains to the EU and the United States could be as high as 3-3.5% of GDP,[14] which is similar to the 2.5-3% Berden et. al. estimated with removal of 100% of NTMs (which is obviously unattainable but limited to NTMs[15]).

[14]OECD. "The Transatlantic Trade and Partnership Agreement: Why Does it Matter?" n.d. Accessed March 30, 2014.

[15]Lester and Barbee note that some of the NTMs considered in Berden et al (2009) cannot easily be remedied, and that their ambitious scenario would require tort reform in the United States and addressing the postal monopolies in both the EU and the United States.

Building on these findings, Francois, et al. use responses to survey questions to calculate the degree of non-tariff barriers (NTBs) foreign firms face in the United States and the EU in terms of FDI. This NTB index for FDI is approximately 28 for non-EU firms in the EU and 18 for EU firms within the EU. The U.S. NTB index for FDI is 24.[16] In financial services, construction, insurance, and business services, the EU appears to have relatively equal levels of openness *vis a vis* intra-EU and extra-EU firms. For goods, the most significant partner/non-partner differences lie in aerospace, chemicals (this includes drugs and cosmetics), and motor vehicles.[17] Comparing EU and U.S. openness to FDI by sector, the authors find that both the United States and the EU are relatively open compared to the rest of the world, with the exceptions being in aerospace (both the United States and the EU), motor vehicles (the EU), cosmetics (the EU), ICT (the EU), and transport (the United States).[18]

Their results indicate that a 10% increase in the NTB index (e.g., from 20 to 22) will be accompanied by a 5% reduction in observed income from foreign investment. They estimate that if EU firms faced the same levels of access on the NTB index in the United States as they do in the EU (down to 18 from 24), the resulting gains for affiliates of EU firms would be approximately €10 billion.

While the above review would suggest that TTIP could have an important bearing on certain sectors in the EU and the United States, as noted above, the small aggregate effects on the two economies had led to a great deal of skepticism regarding the need for TTIP. Alan Winters, for example, notes that a "plausible" TTIP would lead to only about a 0.035% increase in GDP for the EU and U.S. economies, and a very ambitious one might lead to an increase of

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The authors argue that while the regulatory reforms of TTIP are important and beneficial, the effects will likely be less significant. See Simon Lester and Inu Barbee, "Tackling Regulatory Trade Barriers in the Transatlantic Trade and Investment Partnership," Bertelsmann Stiftung: Future Challenges, February 2014, available at: http://futurechallenges.org/local/tackling-regulatory-trade-barriers-in-the-transatlantic-trade-and-investment-partnership/

[16]Joseph Francois, Miriam Manchin, Hanna Norberg, Olga Pindyuk, and Patrick Tomberger. "Reducing Trans-Atlantic Barriers to Trade and Investment," Center for Economic Policy Research, March 2013, p. 86.

[17]Ibid., p. 87.

[18]Ibid., p. 88.

about 0.05%.[19] As these numbers are low, he concludes, better to work at the multilateral level and in integrating China.

While these latter recommendations are no doubt laudable, it is essential to not take the estimates of CGE models too seriously when trying to capture the likely gains from an agreement, as they tend to be seriously downward-biased.[20] For example, in addition to the failure to effectively account for NTMs, other border and behind-the-border trade costs, and firm heterogeneity, these CGEs tend to exclude FDI, which are difficult to incorporate due to data issues, model specifications, and other technical issues (only a few models have been able to do this for any configuration, let alone TTIP). This is a major problem in the context of the TTIP given the importance of transatlantic FDI flows and the extremely large stock of EU and U.S. FDI in other's economic space; one ignores an aggregate sum of $3.8 trillion in FDI (noted above) at her or his own peril.

An example might illustrate the point. Any CGE estimates of gains from the EU Single Market Programme, if the modelling mainly relied on tariff liberalization and NTMs, would have been extremely low, given that there was a customs union in place for twenty years prior and the internal and external NTMs were relatively minor. Realizing this, the Cecchini Report (1988) attempted to give a more realistic view of what the attendant benefits would be by trying to calculate the effects of non-traditional areas, in effect looking at the "costs of non-Europe." The estimates were large (up to more than 5% of EU GDP), and while many economists suggested that certain aspects of the estimates were overly optimistic, few today would argue that the effects of the Single Market have been negligible.

The same may be true of the TTIP. The Cecchini Report was a massive and very expensive study; it is unlikely that there will be any similar initiative in the context of the TTIP. However, the Single Market example does teach us to take with a grain of salt results from models that are not able endogenize or account for key aspects of the initiative.

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[19]See http://www.voxeu.org/article/problem-ttip.

[20]See, for example, Fan Zhai, "Armington Meets Melitz: Introducing Firm Heterogeneity in a Global CGE Model of Trade," *Journal of Economic Integration*, 23(3), September 2008, pp. 575–604.

In sum, there are strong reasons to believe that TTIP will generate significant transatlantic benefits, even if these gains don't always show up in the formal modelling. As a final point, it is, perhaps, worth noting that in the context of a fairly weak economic recovery in the United States and continued stagnation in the EU, the 3-3.5% increase in GDP estimated in OECD (2005) is actually fairly significant: it constitutes a non-debt-creating stimulus that would not only generate allocative efficiency gains through specialization but also could boost the (dismal) growth perceptions in the EU, which in turn could have a strong effect on investment in the relatively short term. In a region that grew by only 0.1% in 2013 and has actually contracted by 0.3% since 2008, such a positive shock would no doubt be very welcome.[21]

TTIP in a Global Context

Especially over the past quarter century, there has been a global embrace of the international marketplace. This does not mean that all countries have accepted a "neoliberal" world view (whatever that means). Rather, policymakers have recognised the attendant potential benefits of an outward-oriented development strategy. And this includes both non-OECD as well as OECD countries. Indeed, from the 1950s until the 1970s developed countries were the most enthusiastic about international trade and investment and developing countries were reticent.[22] These days the opposite is true. Nevertheless, at G-7, G-8, G-20 and other meetings, it is clear from words and deeds that policymakers of the world's most important economies are seeking ways of achieving deeper integration.

The United States and the EU have always played a critical role in international governance of trade and finance, but the shift in economic gravity toward the South, and particularly Asia, is leading to a good deal of pressure on these institutions, which are struggling to adapt. In terms of trade, the regionalism movement has replaced multilateral approaches to global governance, at least in the short-term. How the

[21]EUROSTAT, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115, accessed June 17, 2014.

[22]Jagdish N. Bhagwati, *Free Trade Today* (Princeton: Princeton University Press, 2002).

United States and the EU should respond to the new associated challenges is an extremely important question, particularly given Asia's deepening embrace of regionalism and its rising global importance.

There are several possible options to meet these new challenges.

The United States has responded by striving to be part of the Asian integration process. This has been true for some time, e.g., as a key player in APEC, its advocacy under the "Enterprise for ASEAN Initiative," its bilateral FTAs (South Korea, Singapore), its new membership in the East Asian Summit, and more recently the TPP and the APEC-relate Free-Trade Area of the Asia-Pacific (FTAAP) proposal, which is slated to begin negotiations in favor of an APEC-wide FTA in 2020 (indeed, the TPP and Asian—now RCEP—"tracks" would ultimately merge into the FTAAP, at least that was the agreement at the 2010 APEC Summit in Yokohama, Japan). But, of course, the United States is a Pacific power; it has had strong strategic interests in the region for a half-century and extensive economic interests in the region for almost as long. The EU is not a Pacific power; its strategic and economic focus has been in Europe—consolidating and expanding the most extensive and complicated economic integration process in the world—and in Africa, as well as North America. It is a member of the Asia-Europe Meeting (ASEM) but, in general, the EU has come late to the regionalism game in Asia. In addition to its 2011 FTA with South Korea, it has gone through a series of negotiations with ASEAN toward a possible FTA (as well as Singapore bilaterally). Should it be more active in developing closer ties with the Asia-Pacific?

The economic literature is somewhat mixed in this regard, but in general the potential economic effects of various EU-Asia accords are not particularly significant, given the relatively liberal environments and low intensity of trade. Perhaps this explains a rather relaxed attitude of EU policymakers with regard to the regionalism movement in Asia. Still, they could have important sectoral effects, particularly in the area of services. Trade in services is one area that has been much neglected at the multilateral level and, hence, it should come as no surprise that gains in this area could be significant.

In any event, pushing hard for a deep, comprehensive Doha Development Agreement (DDA) once it becomes politically possible again would certainly be an effective strategy for the EU. A strong multilateral deal would mitigate any potential trade and investment diversion effects; ensure that commercial governance continues to be global rather than regional; and allow the EU to exert influence via negotiations, particularly in areas it deems to be the most important. The United States also has a strong interest in the ultimate success of the DDA.

But unfortunately there are significant headwinds against a strong DDA. The "Bali Package" worked out at the December 2013 Ministerial may have been a bit of a pyrrhic victory; while ultimately members arrived at a deal (that is still being codified at the time of this writing), the fact that one country, India, was able to hold up the entire agreement (arguably for domestic political reasons) until "overtime," followed by "extra innings" when Cuba held up the meetings for another day, does not bode well for a deep, comprehensive agreement among 159 diverse member-economies. It certainly underscored a certain resistance to deep integration, which has plagued the DDA negotiations from its early years. Modern regionalism is being driven by a need to breakdown real inhibitors to economic integration to facilitate, *inter alia*, the creation of regional production networks. Hence, unlike the case of European economic integration, regionalism especially in Asia is market-driven, i.e., bottom-up rather than top-down. The vector of measures necessary to accomplish market-friendly deep integration is politically difficult particularly in the more liberalization-shy economies, which is why it would be difficult for the DDA to keep up with the needs of the private sector. On the hand, prospects for liberalization of "high hanging fruit" in the context of a smaller set of outward-oriented, "like minded" economies are brighter.

Thus, while continuing to work at the DDA makes a great deal of sense, the "mega-regionalism movement" is picking up steam and will likely continue into the foreseeable future. The TPP has taken longer to finish than its negotiators had hoped; however, the expansion to include Japan in 2013 was sure to slow it down and, given that 2014 is an election year in the United States, only the very brave would anticipate an agreement then. But 2015 is a different story. And a successful TPP will no doubt energize negotiators at RCEP to move forward on a deal.

This is the context in which TTIP is playing out. TTIP is in the interest of both the United States and the EU and, ultimately, the global trading system in general. The reasoning might have less to do with anticipated direct economic benefits that would accrue from such an accord—though these could be large. As discussed above, while the very liberal structure of EU and U.S. trade and investment protection has led some modellers to derive fairly modest effects, the real impact could be much greater—including the indirect benefits of deeper cooperation. In particular, the TTIP could contribute to a strengthening of EU-U.S. leadership at the WTO, which in turn could help them kick-start and lead more effectively at the DDA. It would allow for the United States and the EU to show leadership in creating a modern "gold standard" FTA, which obviously would be easier to do in the case of EU-United States than in the context of the TPP, given the similarities of interest and advanced production processes. For example, services trade, be it cross-border or through commercial presence, is a strong and growing part of the EU-U.S. economic relationship. An EU-U.S. accord could create a template for services, as well as in other areas such as competition policy, intellectual property protection, and the like.

Assuming that the TPP track develops on target, an EU-U.S. FTA would also allow European firms to benefit from the transpacific integration process. We do not know what type of rules of origin requirements will come out of the TPP, but it is likely that cumulation rules will facilitate the development of production networks for European firms. Should this be the case, the EU will have succeeded in reducing significantly the greatest potential source of trade diversion of Asia-Pacific economic cooperation.

Certainly many of the above proposals will be politically difficult. But none of them are really new; they have just lacked sufficient political backing. Recent trends in global commercial policy have shown us that many things previously believed to be politically impossible have all of a sudden become not only feasible but even probable. Hopefully EU and U.S. policymakers will seize upon these emerging opportunities and influence them in such a way as to strengthen the international system and global growth and development.