



Clingendael

Netherlands Institute of International Relations

TTIP and the Renaissance of Transatlanticism

Regulatory Power in the
Age of Rising Regions

Peter van Ham

Clingendael report



Clingendael

Netherlands Institute of International Relations

TTIP and the Renaissance of Transatlanticism

Regulatory Power in the
Age of Rising Regions

Peter van Ham

Clingendael report
July 2014

July 2014

© Netherlands Institute of International Relations Clingendael.

All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the copyright holders.

About the author

Dr Peter van Ham is Senior Research Fellow at the Clingendael Institute in The Hague, the Netherlands, and Adjunct Professor at the College of Europe in Bruges, Belgium.

Clingendael Institute
P.O. Box 93080
2509 AB The Hague
The Netherlands

Email: info@clingendael.nl

Website: <http://www.clingendael.nl/>

Table of Contents

1.	Introduction	5
2.	The TTIP's Claim to Regulatory Power	7
3.	The Era of Rising Regions	11
4.	The Future of the Transatlantic West: Who Will Join, and Why?	16
5.	Conclusions	20

1. Introduction

'F*ck the EU!' It is clearly audible: US Assistant Secretary of State Victoria Nuland does not want the EU (but instead the UN) to play a leading role in tackling the Ukraine crisis.¹ This fragment of a telephone conversation hit the media in early February 2014, and illustrates that US confidence in the EU as a credible and effective foreign policy actor had reached a nadir. Nuland quickly apologized, but the incident added to the transatlantic acrimony over the National Security Agency (NSA) spying scandals, deepening European disappointment in US President Obama. German Minister of Foreign Affairs Frank-Walter Steinmeier was venting Europe's spleen when he remarked that 'despite all placations citing the Western community of shared values, trust has been lost and it will require a great deal of joint effort to restore it'. Steinmeier suggested that it would probably take a few years before the healing process would be over.²

Yet a few weeks is a long time in politics. Escalation of the crisis in Crimea and eastern Ukraine obliged the EU and US to close ranks quickly and offer their support to Kiev's new westward-leaning rulers. President Obama's visit to Brussels (on 26 March 2014) came at the right time to show transatlantic resolve in the face of Russian President Putin's geostrategic power-play, and to whitewash over the blemishes in the EU-US relationship. This is, of course, supposedly why US presidents visit their long-standing allies. This time, however, was different. Speaking before an audience of students at Brussels' *Palais des Beaux Arts*, Obama suggested that '[t]he principles of [the] European Union will make a critical difference in whether or not the international order that so many generations before you have strived to create continues to move forward, or whether it retreats'.³ The crisis with Russia over Ukraine has thus been the long-awaited wake-up call to return to the basics of *Realpolitik*. It has also revived the spirit of transatlanticism, which has been comatose for more than a decade.

The reawakening of transatlanticism can be explained by a unique combination of three factors. *First*, the firm belief by US and EU leaders that Western values are under pressure. The changing global balance of economic (as well as military and political) power expedites the decline of Western ideological dominance. The US may still call for neo-liberal policy solutions within the International Monetary Fund (IMF) and G20, the EU may still champion its leadership role in managing climate change, and the US and EU may together push for the worldwide recognition of lesbian, gay, bisexual and trans-gender (LGBT) rights. Yet these calls increasingly fall on deaf ears around the world. Western values are no longer considered superior, or inescapable. President Putin has rebranded himself as the new champion of traditional, Christian, family-based values, which throws into extra-sharp relief the emerging geostrategic conflict with Russia.⁴ The Obama administration and EU governments now realize that if they do not jointly defend their shared interests, Western-style democracy will suffer, and even decline.

1 'US Diplomat Victoria Nuland's Phone Call Leaked', *The Guardian* (7 February 2014).

2 'Restoring Lost Trust May Take Many Years: Germany', *UPI.com* (20 December 2013).

3 'Remarks by the President in Address to European Youth', Brussels (26 March 2014), available online at <http://www.whitehouse.gov/the-press-office/2014/03/26/remarks-president-address-european-youth>.

4 Vladimir Ryzhkov, 'The New Putin Doctrine', *The Moscow Times* (2 April 2014).

Second, after a few decades of post-Cold War complacency and post-9/11 confusion, the North Atlantic Treaty Organization (NATO) seems ready to return to its core business: territorial defence. Here, too, Putin's challenge to the West's post-modern attitude to security has worked miracles. Before Russia's annexation of Crimea and its mischievous gnawing at Ukraine's eastern borders, NATO dwelled in a self-contained security paradigm where cyber-security trumped the threat of classical, kinetic force. The debate about a possible resurgence of Russia's imperialistic appetites has always been kept alive by the former-communist members of the Alliance. Yet despite the Cassandra cries of Poland and the Baltic states, US and West European defence spending continued its steady decline, shifting the balance of military power towards resurgent countries such as China, Russia and the Gulf states.⁵ Western military decline reflects both shrinking economic means to invest in defence capabilities and diminishing political will actually to use them. Russia's actions in Ukraine have – at least for the foreseeable future – shocked NATO back into *Realpolitik* mode. NATO's Summit in south Wales (planned for September 2014) will undoubtedly call for a reinvigorated Alliance, proving that rallying round the flag with a clear enemy in sight is still the most effective (although obviously not the preferred) way to rekindle transatlantic solidarity.

Third, the US and EU are in the midst of negotiations on a Transatlantic Trade and Investment Partnership (TTIP). TTIP is considered an effort by the transatlantic West to combine its economic and political preponderance to rewrite global trade rules reflecting its economic principles (that is, a rules-based market economy) and political values (liberal democracy).⁶ The TTIP's official selling point is that it will contribute to growth, welfare and employment on both sides of the Atlantic. The US and EU are each other's most important trade and investment partners, and the sheer volume of exchange ensures that the reciprocal market opening and improved cooperation in market regulation will have a considerable impact. This is why the US and EU officially opened TTIP negotiations in February 2013, with the aim of arriving at an ambitious agreement in 2015. Although the TTIP is bound to offer economic benefits, its main goal is geopolitical. The US and EU want to achieve regulatory dominance in an era of emerging trading blocs. This will be hard to achieve, since it requires not 'just' regulatory harmonization, but also an abundance of political will on both sides of the Atlantic. An ambitious TTIP can therefore only be achieved if transatlanticism is in good shape, when the practical hurdles that are innate in complex trade negotiations can be overcome or sidelined by a shared sense of direction and urgency.

This Clingendael Report examines the renaissance of transatlanticism through the prism of the TTIP. The paper assumes that a reinvigorated NATO offers soothing mood music for a renewed transatlantic engagement, but will in and of itself not be sufficient to extend Western global leadership. The report claims that an ambitious TTIP is an essential tool to give the transatlantic West new strategic purpose. Complex economic interdependence and regulatory harmonization across the Atlantic will strengthen the collective US–EU bargaining position with emerging trading partners and blocs around the world. The TTIP thereby offers the US and EU an opportunity to defend their economic interests from a position of strength, as well as a tool to guard their post-modern values against outside interference. Although the details of the transatlantic West's revival remain ambivalent (who will join, under what flag and when?), the omens for such a renaissance could hardly be better.

⁵ 'As West Cuts, Global Defence Industry Balance Shifts', *Reuters.com* (12 February 2014).

⁶ Jeffrey J. Schott and Cathleen Cimino, 'Crafting a Transatlantic Trade and Investment Partnership: What Can Be Done?', *Peterson Institute for International Economics*, Policy Brief, No. 8 (March 2013); and Klaus Günter Deutsch, 'Atlantic Unity in Global Competition: T-TIP in Perspective', *Deutsche Bank Research*, EU Monitor (August 2013).

2. The TTIP's Claim to Regulatory Power

The TTIP is not just about free trade, but also about the convergence of regulatory approaches and requirements between the EU and US. As Klaus Günter Deutsch argues, the TTIP is 'being driven by the joint concern that standard-setting power could be increasingly lost to China, and [transatlantic] cooperation is the only way the two sides can continue to assert their market power and preserve their mutual economic interests worldwide'.⁷ The rarely articulated rationale for the TTIP is that the EU and US markets on their own are not large and dominant enough to entice the rest of the world into adopting the rules of Western regulatory regimes out of fear of exclusion. By 2050, six of the world's seven largest economies will be outside the Organization for Economic Cooperation and Development (OECD) group. This means that for emerging economies, full compliance with Western regulations has become optional, rather than critical. Arguably, the only way for the EU and US to extend their regulatory hegemony is to join forces. From this perspective, the TTIP may be instrumental in writing new global trade rules that reflect the economic principles (rule-based market economy) and political values (liberal democracy) of its members. As Suparna Karmakar has argued: 'The fact that there is a healthy fear of Chinese standards thwarting future market access [...] makes the regulatory cooperation prospects under TTIP brighter than in the past'.⁸ This is very clearly understood by politicians on both sides of the Atlantic. As German Minister for Economic Affairs Sigmar Gabriel argued in May 2014: 'A transatlantic agreement should and must set standards for economic globalization'.⁹

Both the EU and US have strong regulatory systems that have similar overall goals for health and safety. Still, standards and regulations are generally elaborated from a purely domestic perspective on both sides. Regulatory diversity, even segmentation, is the result among close trading partners like the EU and US. Earlier studies have already indicated that eliminating and/or lowering non-tariff barriers (NTBs) caused by regulatory divergence would not just increase transatlantic trade (by as much as half a percentage point per annum), but would reinforce the combined global influence of the EU and US as international standards- and rule-setters.¹⁰ In November 2011, the EU and US appointed a High-Level Working Group (HLWG) of senior government officials to map out the opportunities to get the TTIP on the road. TTIP negotiations officially started in February 2013, and five rounds of talks have now been completed.¹¹ The TTIP aims to liberalize as many 'behind-the-border' obstacles to trade as possible, and is expected to cover around twenty areas (excluding sensitive matters such as agricultural subsidies, intellectual property (IP) rules and financial sector regulations). The aim is to tackle problems arising from complicated administrative procedures and

7 Deutsch, 'Atlantic Unity in Global Competition', p. 16.

8 Suparna Karmakar, 'Prospects For Regulatory Convergence under TTIP', *Breugel Policy Contribution*, no. 15 (October 2013), p. 5.

9 'Gabriel: Abkommen Setzt Maßstäbe für die Ganze Welt', *Frankfurter Allgemeine Zeitung* (5 May 2014).

10 ECORYS, *Non-Tariff Measures in EU-US Trade and Investment: An Economic Analysis* (Rotterdam: ECORYS, 2009).

11 In Washington DC in July 2013; in Brussels in November 2013; in Washington DC in December 2013; in Brussels in March 2014; and in Washington DC in May 2014.

unnecessary bureaucracy on both sides. Transatlantic efforts towards so-called mutual recognition agreements (MRAs) have been ongoing since the early 1990s, and have had some success.¹² The TTIP aims to build upon these MRAs, and to knit the EU and US regulatory systems together.

US Trade Representative Michael Froman does not tire of repeating: ‘When we talk about regulation and standards, we are talking about how to bridge the divergences between two well-regulated markets, not about launching a broad deregulatory agenda’.¹³ Although this is surely true, we should acknowledge that the US not only (or merely) aims for more regulatory effectiveness, but also for control over the EU’s impressive standard-setting power.¹⁴ It is well known that Brussels is (as *The Economist* argues) ‘the world’s regulatory capital’.¹⁵ The EU and US have different regulatory approaches that are based on deeply entrenched traditions. Whereas the European system is based on *ex ante* regulation and public intervention, the US relies more on the market, with a powerful role for litigation that is based on liability regulations and jurisprudence. The EU system is based on the well-known ‘precautionary principle’ (everything is *verboden* until there is reasonable proof that the product is safe), whereas the US assumes that all products are safe until the opposite can be proven (in court).¹⁶ Since these regulatory differences are based on the level of risk and personal responsibility that a society (and individual) is willing to accept, it is questionable whether these basic divergences can be overcome by a treaty (see below). It is clear, however, that the US considers control over the EU’s regulatory hegemony to be one of the TTIP’s major benefits.

The EU’s precautionary principle – of course combined with its vibrant and successful Common Market – offers Europe a major role in international standardization. (Then) EU Trade Commissioner Peter Mandelson suggested in 2007 that it ‘is the rules of the single market that gives us the foundation to export our rules and standards around the world – an increasingly important part of my job as a trade commissioner. In short, no single market, no European project and no *Europe puissance*’.¹⁷ Academic studies generally corroborate the basis of the EU’s impressive social power. Walter Mattli and Tim Büthe suggest that the EU’s system of standardization offers a ‘picture of hierarchy, with national standards organizations representing a broad-based domestic consensus with a single voice at the regional and international level’.¹⁸ This EU system usually constitutes a broad consensus, which can be more easily and authoritatively presented at the international level.

-
- 12 The ‘Mutual Recognition of Certificates of Conformity for Marine Equipment’ (2004) and the ‘Common Understanding on Regulatory Principles and Best Practices’ (2011) are among the most notable achievements.
- 13 ‘Remarks by US Trade Representative Michael Froman on the United States, the European Union, and the Transatlantic Trade and Investment Partnership’, Brussels (30 September 2013), available online at <http://www.ustr.gov/about-us/press-office/speeches/transcripts/2013/september/froman-us-eu-ttip>.
- 14 Giandomenico Majone, ‘The Rise of the Regulatory State in Europe’, *West European Politics*, vol. 14, no. 3 (1994).
- 15 ‘Brussels Rules OK’, *The Economist* (22 September 2007), p. 42.
- 16 Hanspeter Neuhold, ‘The Legal Dimension of Transatlantic Relations: Basic Positions and Some Key Questions’, in Hanspeter Neuhold (ed.), *Transatlantic Legal Issues: European Views* (Vienna: Favorita Papers, 2005), p. 14.
- 17 Peter Mandelson, ‘Openness, Trade and the European Union: Speech at the *Chambre de Commerce et de l’Industrie de Paris*’, Paris (30 June 2007), available online at http://europa.eu/rapid/press-release_SPEECH-07-452_en.htm?locale=en.
- 18 Walter Mattli and Tim Büthe, ‘Setting International Standards: Technological Rationality or Primacy of Power?’, *World Politics*, vol. 56, no. 1 (October 2003), p. 26.

Mattli and Büthe further submit that European firms ‘possess much better information about international standardization opportunities and proposals and, thanks to this information advantage and more effective interest representation, [become] more involved – *earlier and more effectively* – than their American counterparts’.¹⁹ American firms usually learn about the development of new international standards too late to affect their (technical) specifications. This ultimately means that many American firms often have to pay high switching costs, since international standards differ from their current practices. As a result, American companies increasingly comply with the tougher EU standards, since otherwise their European market would go up in thin air.²⁰ Compliance with European (as well as emerging international) standards is now an essential precondition for entry into globalized production networks.²¹ Since the US realizes all too well that it cannot win this power contest by confronting the EU head-on, the US strategy has shifted to massive lobbying attempts to ensure that EU regulations are compatible with the US approach. For US policy-makers and firms, the TTIP offers a unique opportunity to affect and influence the EU’s main source of power: its regulatory authority.

Much will depend on the level of ambition and comprehensiveness of the final TTIP deal. Terms such as ‘regulatory convergence’ and ‘regulatory harmonization’ often hide more than they tell. If the TTIP gets stuck at the level of recognition of each other’s technical requirements or conformity assessment tests, the whole negotiation circus will have been for naught. Regulatory cooperation based on setting ‘best practices’ and ‘statements of intent’ has been ongoing since the 1990s. For the TTIP to be of real economic, political and strategic value, EU and US negotiators will have to arrive at significant cooperation among regulators, arrangements to rely on each other’s supervisory structures, and a progressive (not a one-off commitment) framework that is based on the principle of ‘unconditional mutual recognition’. In this way, the TTIP would become a so-called ‘living’ agreement, whereby EU and US regulators would be committed to cooperate with each other when setting new rules at all stages of the regulatory cycle.²²

Only if the TTIP reaches that level of ambition – a big if, since major hurdles will have to be taken²³ – can the transatlantic West extend its regulatory grip on global trade. Were the EU and US only to realize a number of MRAs, this would affect their bilateral trade relations, but would not, per se, urge third countries to adopt and upgrade their own rules, regulations and standards to the new TTIP *acquis*.

19 Mattli and Büthe, ‘Setting International Standards’, p. 27 (emphasis added).

20 Mark Schapiro, *Exposed: The Toxic Chemistry of Everyday Products and What’s at Stake for American Power* (White River Junction, VT: Chelsea Green Publishing, 2007).

21 Khalid Nadvi, ‘Global Standards, Global Governance and the Organization of Global Value Chains’, *Journal of Economic Geography*, vol. 8, no. 3 (May 2008).

22 Karmakar, ‘Prospects For Regulatory Convergence under TTIP’, p. 4.

23 A recent report by Richard Parker and Alberto Alemanno (‘Towards Effective Regulatory Cooperation under TTIP: A Comparative Overview of the EU and US Legislative and Regulatory Systems’, *CEPS Special Report* no. 33, May 2014) argues that ‘US and EU regulators work within very different institutional and legal frameworks, following different processes under different constraints [...] The challenge for TTIP negotiators is to find an effective mechanism for enabling these two disparate systems to work more effectively, efficiently, and cooperatively together’ (p. 60). See also Ralph Bollmann, ‘Hilfe, ein Händchen Aus Amerika!’, *Frankfurter Allgemeine Zeitung* (5 May 2014).

The ultimate question remains how China (and other emerging economies) will react to a comprehensive and high-standard TTIP. Inevitably, some trade diversion will occur. Research from China's Wuhan University suggests that if 'the actual trade diversion were only 10%, the total value would be as high as around 20 billion euros, roughly 1% of China's total export and 0.3% of China's GDP'.²⁴ China is well aware that the West is trying to develop a new generation of global trade rules, which includes rules on state-run enterprises, subsidies, IP rights, public procurement, resources, the environment and labour standards. Since China's export structure is largely complementary to those of the US and EU, the TTIP will have less impact on China than may be expected. Yet since Chinese products are rising quickly in the global value chain, they are often competing in EU and US markets, which obviously increases the TTIP's potential impact. Most likely, export-oriented countries such as China and India will be prepared to incur some financial and political costs to prevent the fragmentation of the global supply chain because of new, stringent TTIP regulations. Moreover, China and India (as well as other emerging economies) will pragmatically adapt to the new reality of the TTIP. China is gradually changing from a so-called 'factory economy' (mainly manufacturing goods) to a 'headquarter economy' (doing its own off-shoring in East Asia). As a result, China is becoming more interested in legal protection for its own companies, as well as IP rights. These structural changes in China's economic role are bound to influence Beijing's attitude towards global (WTO-based) regulation in general, and TTIP in particular.²⁵

We should therefore not expect third countries simply to join whatever the TTIP offers. The increasing purchasing power of mass consumers in emerging economies will become a powerful force, competing with established markets in the West. This will result – at least in some sectors – in parallel regulatory regimes. This reality should give the West a heads up, but the TTIP will only buy the transatlantic West some valuable time – probably five years, or ten at the most. During that transitional period, the West should engage with the emerging economies to rekindle the debate about a new international economic order.

The TTIP will be indispensable for buying time and initiating the transatlantic renaissance that is needed to enter the post-Western era with confidence and from a position of strength.

24 Zhang Xiaotong, 'The TTIP and its Implications on China', *GR:EEN Research Background Note*, Brussels (October 2013), p. 1.

25 Miguel Otero-Iglesias, 'The Geopolitics of the TTIP Seen from Beijing', *Real Instituto Elcano*, Expert Comment (11 December 2013).

3. The Era of Rising Regions

The age of multilateralism may have come to an end. The decline of US hegemony has resulted in weakened global institutions, as well as a dearth of political will among major actors to find practicable alternative ways to tackle shared policy problems. This trend has negatively affected the multilateral trade agreements coordinated by the World Trade Organization (WTO). The WTO's Doha Development Round has now been stalled for more than a decade, and a breakthrough is not within sight. As a result, we see renewed enthusiasm for regional free-trade agreements (FTAs), not just between the US and EU (including the TTIP), but also between the US and major East Asian countries (such as the Trans-Pacific Partnership, TPP), and between China, Japan, South Korea, India, Australia, New Zealand and the members of the Association of South-East Asian Nations (ASEAN) under the heading of a Regional Comprehensive Economic Partnership (RCEP). There is little doubt that these emerging mega-FTAs will have a major impact on the global economic system.

Predictions oscillate between (often gleeful) statements that the 'entire post-Second World War global economic system is in the midst of fragmenting along regional lines. And there is not much that can be done about it',²⁶ to suggestions that regionalism may rekindle multilateralism, or at least rescue what is left of its spirit, and reinvent a global, open trade system for the twenty-first century. This is what EU Trade Commissioner Karel De Gucht intimated in April 2014: 'If we do a deal between the two largest economies in the world, it would set an important precedent for future global work'.²⁷ In a similar way, Richard Baldwin suggests that the TTIP could be used to bring China to the WTO table: 'Once China has something to negotiate for in the WTO, it will expand the Doha agenda. With the additional issues on the table, we will be able to finish Doha and get the twenty-first century issues going forward'.²⁸

The upsurge of these FTAs is often justified by a new paradigm based on 'competing regionalism' in a 'new age of empires'.²⁹ How many trading blocs will eventually emerge remains unclear, but the change towards rising regions within a fragile multilateral trading system seems clear-cut and inescapable. The rationales for the rise of regionalism are a mix of economics and geopolitics.³⁰ Eradicating barriers to trade generates mutual gains, but can generally only be successful among relatively compatible economies within a harmonious

26 Chris Luken, 'The Coming Three-Bloc World', *Political Insight* (December 2010), p. 98.

27 Karel De Gucht, 'The Future of TTIP: The Benefits and How to Achieve Them', speech at the conference of *The Washington Post and European Voice*, Paris (10 April 2014), available online at http://europa.eu/rapid/press-release_SPEECH-14-314_en.htm. For an excellent analysis of EU trade policy, see Gabriel Siles-Brügge, *Constructing European Union Trade Policy: A Global Idea of Europe* (New York, NY: Palgrave Macmillan, 2014).

28 UK House of Lords (Select Committee on the European Union), *Inquiry on Transatlantic Trade and Investment Partnership*, Evidence of Richard Baldwin (23 January 2014), p. 3, available online at <http://www.parliament.uk/documents/lords-committees/eu-sub-com-c/TTIP/ucEUC230113ev18.pdf>.

29 Forum, 'Competing Regionalism: Patterns, Economic Impact and Implications for the Multilateral Trading system', *Intereconomics* (September/October 2007), pp. 236-259; and Guy Verhofstadt, *Een New Age of Empires* (Amsterdam: De Bezige Bij, 2009).

30 Scott Miller argues that 'now there are over 300 regional trade arrangements in place - a 90% increase since 1994', in *Regionalism in a Globalized World*, CSIS video (9 May 2014).

political setting. The trend may therefore not just capitalize on regional economies of scale, but may also presage a new era of world politics that is based on economic spheres of influence. That this may well have major, and potentially very negative, strategic implications goes without saying.

The EU has been hesitant to accept the logic of regional FTAs, mainly since it privileges 'effective multilateralism' as the most appropriate method to address global challenges.³¹ For a period of seven years (from 1999–2006), the EU declined to enter into FTA negotiations, instead wanting to give the WTO a fair chance to pursue a comprehensive, multilateral trade agenda at the global level. Clearly, the EU's patience came to an end with the suspension of the Doha Round in July 2006, and a few months later the EU started an active phase of negotiating new FTAs with South Korea and India, as well as Central America and the Andean Community.³² The EU is now negotiating an ambitious FTA with Japan (launched in March 2013), which, as well as lowering tariffs, aims at further opening Japan's public procurement market. The EU has also just started (in January 2014) negotiations with China on a bilateral investment agreement, which is aimed at a long-term legal framework and the progressive abolition of restrictions on trade and foreign direct investment (FDI).

The EU has therefore not been a passive trade actor, simply waiting for the WTO to make progress. As a regional actor, the EU has been negotiating partnership agreements with regions (rather than individual countries), which are aimed at encouraging and supporting regional integration in South America (especially Mercosur) and Asia (particularly ASEAN), as well as Africa.³³ For the EU, today's rising regions may therefore also offer some promise. If regionalism is anchored on strong multilateral moorings (of the WTO in particular), the EU does not (and probably cannot, given its own regional quality) question the rightfulness of this trend.

The US has always approached FTAs from a mercantilist and strategic perspective. The Clinton administration quickly recognized the rise of China as the biggest strategic challenge for the US, both economically and militarily. Under US leadership, the Asia-Pacific Economic Cooperation (APEC), which currently comprises 21 members, gained prominence with a high-profile Economic Leaders' meeting in 1993, thus indicating the growing economic weight and role of Asia. The subsequent 1994 North American Free-Trade Agreement (NAFTA) between the US, Canada and Mexico offered a further glimpse of things to come, setting up a mega-FTA as an example for the world to emulate.³⁴ Trade policy under US President Bush (and later Obama) was conducted to reach strategic objectives, most notably using free trade as a means to encourage freedom and to lift societies out of poverty, thereby tackling (one of) the root causes of extremism and terrorism.³⁵ Most of the US FTAs have been bilateral;

31 Edith Drieskens and Louise G. van Schaik (eds), *The EU and Effective Multilateralism: Internal and External Reform Practices* (London: Routledge, 2014).

32 European Commission, *Global Europe: Competing in the World. A Contribution to the EU's Growth and Jobs Strategy*, Brussels (October 2006), available online at http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130370.pdf.

33 EU negotiations on economic partnership agreements (EPAs) are under way with West Africa, Central Africa, Eastern and Southern Africa (ESA), the Eastern African Community (EAC), and the Southern African Development Community (SADC).

34 Maxwell A. Cameron and Brian W. Tomlin, *The Making of NAFTA: How the Deal Was Done* (Ithaca, NY, and London: Cornell University Press, 2002).

35 Executive Office of the President, *The National Security Strategy of the United States of America*, Washington DC (20 September 2002), available online at <http://www.state.gov/documents/organization/63562.pdf>.

the only successful regional agreement (with smaller developing countries) was signed with six Central American countries (CAFTA), coming into force in 2006.

All of these initiatives and arrangements proved to be a mere prelude to the strong surge of regionalism that we are witnessing today. The most relevant examples are the TTIP, the TPP and RCEP. Regional integration in other continents – most notably in Latin America and Africa – lags behind, but may well catch up if the ‘age of empires’³⁶ really comes into its own. The EU’s efforts to encourage regional cooperation in Africa by signing economic partnership agreements (EPAs) already show signs of success. The economic and strategic background and rationale of the TTIP was outlined above. The TPP, meanwhile, is a proposal to extend the existing Trans-Pacific Strategic Economic Partnership Agreement (TPSEP, among Brunei, Chile, New Zealand and Singapore). The US joined this endeavour in 2010, which has encouraged key players such as Canada, Australia and Japan to join the negotiations as well. With backing from the TPP, the US abandoned its bilateral approach to negotiating FTAs in East Asia, creating the economic and political momentum for a new Asia-Pacific trade bloc. The TPP now involves twelve countries, accounting for 40 per cent of global GDP and 25 per cent of global exports, which places it squarely in the same league as the TTIP. More than twenty formal rounds of TPP negotiations have been held since March 2010, with an aim to reach a ‘high-standard, broad-based regional pact’³⁷ in 2015.

A TPP deal may well be made ahead of the TTIP, particularly if major negotiation bottlenecks (including market access for agriculture and services) can be removed. Like the TTIP, the TPP will make a serious bid to set global regulatory standards. End-game negotiations now focus on rules regarding pharmaceuticals, environmental and labour provisions, investor-state dispute-settlement procedures, new digital economy issues (including IP), as well as discipline in state-owned enterprises. What sets the TPP apart from the TTIP is the simple fact that it will set the regulatory rules for the production base of the global supply chain. Most companies have now adopted a supply-chain business model, where intermediary goods are produced and assembled in different locations, and then sold all over the world. For companies selling final goods, it is crucial to harmonize regulations in order to facilitate supply-chain efficiency (for example, to become eligible for tariff eliminations), and to enable more cost-effective business operations. As the Japanese economist Akira Kotera argues, ‘the new rules adopted under the TPP will probably develop into global rules in the future [...] depending on, for example, how reasonable [the TPP] is and how many member countries have acceded to the agreement’.³⁸

Given Asia’s central role in global manufacturing, the development of the TPP is of major importance for Western multinationals, whose production bases are often located in this part of the world. The reason for the US ‘pivot to Asia’ is therefore not only geostrategic, but also informed by the logic of the contemporary supply-chain business model. As Mireya Solis has argued, the aim of the US is now ‘to gather a critical mass of countries in a minilateral trade negotiation to raise the incentives for other countries to join’. In doing so, ‘the US government is seeking to influence not only the substance of Asia-Pacific integration but also to develop a new standard for trade and investment liberalization [that is] applicable to other negotiation

36 See Verhofstadt, *Een New Age of Empires*.

37 Office of the United States Trade Representative, *Trans-Pacific Partnership Announcement* (2009), available online at <http://www.ustr.gov/about-us/press-office/press-releases/2009/december/trans-pacific-partnership-announcement>.

38 Akira Kotera, ‘Focus of the TPP Negotiations: Be Aware of “Global Rules”’, *REITI* (11 July 2013).

forums'.³⁹ Within the TPP, the US pushes hard for new ways to tackle non-tariff barriers, including by establishing a regulatory coordination body. The overall US goal is to establish a new 'platinum standard' for trade in East Asia, which would encourage other countries to sign up, since the cost of remaining outside the TPP will rise.

The TPP's open membership clause implies that other countries can always join if they comply with its body of regulations on labour rights, IP, and investment, etc. The question remains as to whether South Korea and China will follow Japan into the TPP. Remaining outside a future TPP will come at a considerable cost for both countries. As Jeffrey J. Schott argues, '[t]he major cost of not being in the TPP would be deferred benefits and also being unable to influence the final agreement'.⁴⁰ Although it is far from assured that the US would approve of China's entry into the TPP (given the strategic implications of such a move), the pros and cons of a so-called 'TPP-17 scenario'⁴¹ are widely debated in China. Since Japan's entry into the TPP negotiations in April 2013, China has seemed to be of two minds: should it continue to rebuke the TPP (and the US in particular) for excluding China in a policy of containment,⁴² or should it join the bandwagon and join the TPP itself? Wei Jiangou, China's former Deputy Minister of Commerce, has argued that 'as an APEC member, China should not look at the TPP just as a US strategic dream; it should also be China's strategic dream'.⁴³

Given China's blotted track record in the WTO,⁴⁴ it should be clear that China is not ready to accept new, high-standard TPP obligations. As Schott argues: 'From a Chinese point of view, not being in the TPP is a short-term cost – very modest losses – but the losses would be a little greater if a second tranche of the TPP goes forward, including countries such as Indonesia, Korea, Thailand and the Philippines'. Schott estimates that China's income loss because of the trade diversion of a growing TPP (the TPP-16 scenario), would be around US\$ 100 billion, or 0.5 per cent of its GDP.⁴⁵ These are significant statistics, and will certainly factor into China's mix of economic and political deliberations on its future relationship with the TPP.

China is now also pushing its own regional trade 'bloc': the RCEP. Where the TPP is limited to APEC members, the RCEP includes all ASEAN countries as well as Japan, South Korea, Australia, India and New Zealand (and, of course, China itself). Like the TTIP and the TPP, the RCEP aims at comprehensive trade liberalization, which, given the vast economic diversity of its members, would reap massive economic benefits. It is rather unlikely that the RCEP will amount to much in terms of regulatory ambitions and power. It is even questionable whether the TPP and the RCEP can develop independently, given the overlap in membership and their goals and ambitions. Most likely, the RCEP will converge towards the TPP. This is not only because the TPP will (most likely) be established earlier than the RCEP, but also because the TPP will make major inroads into establishing the new regulatory rules-of-the-road for

39 Mireya Solis, 'The Trans-Pacific Partnership: Can the United States Lead the Way in Asia-Pacific Integration?', *Pacific Focus*, vol. 27, no. 3 (December 2012), pp. 319–320.

40 Jeffrey J. Schott, 'Current Status and Future Prospects of the TPP Negotiations', *REITI* (31 January 2014).

41 The TPP-16 scenario is based on the additional membership of Indonesia, South Korea, the Philippines and Thailand. The TPP-17 scenario would also include China.

42 Guoyou Song and Wen Jin Yuan, 'China's Free Trade Agreement Strategies', *The Washington Quarterly*, vol. 35, no. 4 (fall 2012).

43 Quoted in Paul Bowles, 'China Debates the TPP', *East Asia Forum* (20 March 2014).

44 United States Trade Representative, *2013 Report to Congress on China's WTO Compliance*, Washington DC (December 2013), available online at <http://www.ustr.gov/sites/default/files/2013-Report-to-Congress-China-WTO-Compliance.pdf>.

45 Schott, 'Current Status and Future Prospects of the TPP Negotiations'.

Asia, and beyond. As Schott argues, 'the TPP is the most important agreement in economic terms and in terms of the political and strategic relationships that the participating countries will have with their partner countries'.⁴⁶ These are the economic realities that will inform and shape the new institutional set-up in Asia, which will be centred on a TPP that is dominated (for the time being) by the US.

This begs the question of what impact a strong TPP will have on the TTIP, and the (possible) rise of transatlanticism?

⁴⁶ Schott, 'Current Status and Future Prospects of the TPP Negotiations'.

4. The Future of the Transatlantic West: Who Will Join, and Why?

The end of the Cold War has animated a policy debate about the best way to organize and defend the interests and values of the so-called 'transatlantic West'. Ideas about an 'alliance of democracies' have steadily given way to the notion that 'the West' should centre on a small group of 'like-minded and capable democracies'.

Most of these initiatives are billed as pragmatic and long-overdue new frameworks for advancing a liberal world order.⁴⁷ The most influential recent proposal by Ash Jain to establish a 'Democracies 10' (D10) would involve the US, the United Kingdom, France, Germany and Italy (as well as the institution of the EU), together with Canada, Japan, Australia and South Korea. The D10, Jain suggests, would 'serve three primary functions: one, strategic consultation; two, policy coordination; and three, crisis response'.⁴⁸ These ideas may well sound (and be) somewhat unrealistic, and may raise at least as many questions as they pretend to answer: what about the institutional set-up of such a D10; and will it be open to democratic newcomers, etc.? Yet these debates reflect the general view that ossified transatlantic institutions need to adjust to changing circumstances.

Analysts such as Marta Dassu and Charles A. Kupchan acknowledge that '[t]urning the world's premier security alliance [that is, NATO] into the world's premier economic pact [the TTIP] won't be easy',⁴⁹ but at least they focus on the practical question of *how* the transatlantic West should manifest itself. The understanding that the focus should be on geo-economics (rather than traditional military concerns), is widely shared. C. Boyden Gray, for example, suggests that 'the transatlantic relationship is at a new and perilous crossroads. But now it is economic, rather than military security that is at risk'.⁵⁰ Generally, 'economic security' is not defined as access to resources or classical financial stability, but as regulatory power. As *The Economist* puts it: 'Europeans tell Americans they wish to unite [within the TTIP] as standard-setters, for fear of becoming 'standard-takers' in an economic order controlled by emerging giants'.⁵¹

Although the rationale for changing institutions and refocusing on regulatory power is sound, change itself will inevitably involve uncertainty and even hubris. The mega-FTAs will have significant side-effects, not just for the future of the multilateral trade system (and the WTO

47 Ivo H. Daalder and James M. Lindsay, 'An Alliance of Democracies: Our Way or the Highway', *Financial Times* (6 November 2004); and Ash Jain, *Like-Minded and Capable Democracies: A New Framework for Advancing a Liberal World Order*, Council on Foreign Relations Working Paper (January 2013).

48 Ash Jain, 'Advocating a Liberal World Order', speech at the Council on Foreign Relations, New York (17 January 2013).

49 Marta Dassu and Charles A. Kupchan, 'Pivot to a Trans-Atlantic Market', *The New York Times* (13 June 2013).

50 C. Boyden Gray, 'An Economic NATO: A New Alliance for a New Global Order', *Atlantic Council Issue Brief* (2013). See also Michael E. Brown, 'NATO's Biggest Mistake', *Foreign Affairs* (8 May 2014), in which Brown argues: 'The initial impetus for T-TIP was to give the US and European economies a boost and to strengthen their economic ties in the face of a rising China. Completion of the agreement would now have added benefits – economic, political, and symbolic – with respect to Russia'.

51 'A Transatlantic Tipping-Point', *The Economist* (27 April 2013).

in particular), or for third countries that may suffer from the effects of trade diversion.⁵² For example, a successful TPP will automatically impact on NAFTA and will update and augment its regulatory arrangements. The TPP's (new) regional rules of origin will help integrate North American firms in global supply chains and increase import competition in US and Canadian markets. This is just another reminder that in a world of global value chains (GVCs), the ascent of regions and mega-FTAs poses challenges, and may even be considered problematic. It raises the question of whether – and, if so, how – the TPP and TTIP can be made compatible with modern trade practices? A recent OECD report suggests that '[r]egional trade agreements can help if they cover a sufficient number of economies, are consistent with regional production networks, do not introduce distortions with third countries and are progressively multilateralized'.⁵³ These are high benchmarks, which will be hard to comply with (both for the TPP and the TTIP).

The EU is well aware that the GVC approach will be vital for a successful and meaningful TTIP. In a 2012 memo, the European Commission argued that '[t]oday, products are no longer made in one place from start to finish. [...] This means that national exports and imports can no longer be approached from a narrow, mercantilist angle'.⁵⁴ This is easier said than done, since the emerging mega-FTAs are – for all intents and purposes – geared towards shared rules and regulations, and based upon a minimum of transparency and trust. All these aspects are essential for an FTA to function, and they separate members from third parties. A 2013 report by the Swedish Board of Trade offers five concrete suggestions to ensure that an ambitious TTIP could comply with the OECD's high benchmarks for 'open regionalism'⁵⁵: first, allow third parties to join the TTIP when and if they want to do so; second, ensure the TTIP's commitment to multilateralism and the WTO; third, ensure that emerging TTIP regulations do not exclude third parties (but include the option to recognize third-party standards as equivalent of the EU and US); fourth, ensure transparency with respect to future TTIP rule-making; and fifth, consider TTIP liberalization between the EU and the US on a most-favoured nation (MFN) basis.⁵⁶

The economic logic of GVCs strengthens the case for multilateralism. Since multilateralism, however, is not achievable (as the WTO Doha breakdown suggests), emerging FTAs should at least be open, transparent and even-handed. This is why Richard Baldwin has argued that the 'very nature of this kind of networked international production makes it sensible to knit together some of these agreements. [...] There is a very strong logic to have regional agreements [like the TPP and TTIP] underpinning production chains'.⁵⁷ Considering the

52 Stormy-Annika Mildner and Claudia Schmucker, 'Trade Agreement With Side-Effects?', *SWP Comments*, no. 18 (June 2013); and Jim Rollo *et al.*, *Potential Effects of the Proposed Transatlantic Trade and Investment Partnership on Selected Developing Countries*, CARIS/University of Sussex Report (2013).

53 Quoted in 'Global Value Chains and the Transatlantic Trade and Investment Partnership', *Swedish National Board of Trade*, Report no. 4 (May 2013), p. 8. At the same time, Richard Baldwin reminds us that '21st century regionalism is a serious threat to the WTO's centrality in global trade governance [... since it] is a threat to WTO's role as a rule writer, not as a tariff cutter'; see Richard Baldwin, '21st Century Regionalism: Filling the Gap between 21st Century Trade and 21st Century Trade Rules', *WTO Staff Working Paper*, ERSD-2011-08 (23 May 2011), p. 3.

54 European Commission, 'Concluding Trade Deals Could Boost EU's GDP by 2 Per Cent', *Memo*, Brussels (20 July 2012), p. 3.

55 C. Fred Bergsten, 'Open Regionalism', Working Paper no. 3, *Peterson Institute for International Economics* (1997).

56 *Swedish National Board of Trade* (May 2013), p. 18.

57 UK House of Lords, Evidence of Richard Baldwin (23 January 2014), p. 3.

mega-FTAs as arrangements that 'knit together' North America, Asia and Europe under pressure from the practical logic of the GVC is tempting. Such a perspective does, however, belittle the role of politics. As Baldwin acknowledges: '[I]t is a geostrategic thing. I do not think that TPP will happen unless TTIP happens, and I do not think TTIP will happen unless the heads of state get involved and view it more as a foreign policy thing than as an economic thing'.⁵⁸

Despite the economic logic of regulatory coherence that is necessitated by pervasive GVCs, the geostrategic argument for economic and political regionalism is indispensable. At the same time, we should acknowledge that launching a TPP and TTIP is just the beginning, since generating regulatory convergence is a process, rather than a one-off event. Much will depend on the dynamic effects of the TTIP. Two major uncertainties present themselves. First, which countries – apart from the US and EU member states – may consider joining? And second, what will the TTIP's impact be on the cohesion (and overall future) of the EU's integration project?

Which country joins what FTA is a question of great economic and political pertinence. In the age of rising regions it may be perceived as taking sides, carving out spheres of influence, and even one of strategic containment (mainly *vis-à-vis* China). The EU's offer of an association agreement with Ukraine ultimately resulted in a major strategic falling-out between the transatlantic West and Russia. The benchmarks of open regionalism suggest that the TTIP – like the TPP – should be prepared to accept new members. So far, the TTIP has remained a US–EU affair, without intruders and outside interference, with one exception: Turkey. As a crucial ally within NATO, establishing a so-called 'transatlantic West' without Turkey would be ill-advised. However, while it remains outside the EU, Turkey finds itself in an economic and strategic predicament. Turkey signed a customs union (CU) with the EU in 1995, which obliges it to adopt fully the FTAs that the EU signs with third parties. This means that with the TTIP in place, US goods will enter the Turkish market duty-free through the EU, whereas Turkey's exports will still be confronted with today's US tariffs. The negative welfare effects of the TTIP for Turkey are estimated at 2.5 per cent of GDP.⁵⁹ The negative geostrategic consequences may well be higher, since excluding Turkey from TTIP will alienate an important ally in a volatile part of the world. The US has acknowledged Turkey's potential role in the TTIP, and in May 2013, a US–Turkey bilateral High-Level Committee (led by the Ministry of Economics in Turkey and the US Trade Representative) was established, aimed at 'continuing to deepen Turkish–American economic relations and to liberalize trade'.⁶⁰ The EU has so far remained agnostic towards the TTIP's impact on Turkey. Indeed, the European Commission's impact report on the TTIP (published in September 2013) did not make one single reference to Turkey.⁶¹ Answering questions from the European Parliament, EU Trade Commissioner Karel De Gucht explained that Turkey 'has not requested to be a party to the TTIP, but rather to negotiate a parallel FTA with the USA. The Commission supports

58 UK House of Lords, Evidence of Richard Baldwin (23 January 2014), p. 4.

59 Gabriel J. Felbermayr and Mario Larch, 'The Transatlantic Trade and Investment Partnership (TTIP): Potentials, Problems and Perspectives', *CESifo Forum*, No. 2 (June 2013), p. 55.

60 Baris Omarli, 'Will Froman and De Gucht Talk Turkey?', *Woodrow Wilson International Center*, America's Trade Policy Blog (17 February 2014).

61 European Commission, *Transatlantic Trade and Investment Partnership: The Economic Analysis Explained*, Brussels (September 2013), available online at http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151787.pdf.

this request'.⁶² Other options available to Turkey would be more constructive, and include involving Turkey in the TTIP, or attaching a so-called 'docking arrangement' to the TTIP (much like the TPP already has), thus allowing third parties to join once the agreement is finalized.⁶³ Were the TTIP to adopt the benchmarks of open regionalism, Turkey's involvement and future membership would be a given. Turkey's economic and strategic importance would add to the regulatory power of the emerging transatlantic West. Clearly, it will be a political – rather than an economic – decision of US and EU leaders whether this will come to pass.

The second dynamic impact of the TTIP is related to the future course of the EU's integration project. The EU's keel – keeping it stable – is formed by the Common Market, which offers clear and transparent rules for itself and hence for the rest of the world. The EU's regulatory power is what provides Brussels with leverage and authority in the many rounds of TTIP negotiations. We should acknowledge that the TTIP's goal of transatlantic regulatory convergence and harmonization amounts to (in Baldwin's words) 'the [EU's] single market programme – but asking the US to join'.⁶⁴ Within the narrative of the 'age of empires', this may well make sense, but anchoring the US to the EU's Common Market offers the prospect of a fully-fledged *transatlantic* common market. This will have major, and largely unforeseen, ramifications for the EU's integration project. The EU's institutional cohesion is challenged by debates on the future management of the eurozone, as well as the UK's in/out referendum on the EU (which will probably occur in 2017), which may result in the repatriation of power to Westminster, or even in the UK leaving the EU altogether.⁶⁵ In both cases, the EU will be under pressure to allow so-called 'cherry-picking' by member states, resulting in differentiated integration in a multi-speed EU. If one adds to that already combustible policy mix the *de facto* US entry to the European Common Market, all bets are well and truly off.⁶⁶ A comprehensive TTIP will therefore add to the centrifugal forces within the EU. It will also make it more likely that the TTIP will become open and accessible to third countries that share the economic and political interests of a newly configured transatlantic West – Turkey and Ukraine come to mind as possible candidates, as well as Israel.

62 'Answer Given by Mr De Gucht on Behalf of the Commission', Parliamentary Questions, *European Parliament* (19 August 2013).

63 Kemal Kirisci, *Turkey and the Transatlantic Trade and Investment Partnership: Boosting the Model Partnership within the United States*, Brookings Policy Paper (September 2013).

64 UK House of Lords, Evidence of Richard Baldwin (23 January 2014), p. 6.

65 Nicholas Watt, 'EU Referendum: In/Out Choice by End of 2017, Cameron Promises', *The Guardian* (22 January 2014).

66 Even the option of a rising 'Anglosphere' – led by the US and UK – may become feasible. See Daniel Hannan, *Inventing Freedom: How the English-Speaking Peoples Made the Modern World* (New York, NY: Broadside Books, 2013).

5. Conclusions

This Clingendael Report has argued that the combined regulatory power of the US and the EU will offer the transatlantic West a window of opportunity to defend economic interests and political values in an increasingly plurilateral global order. The return of a more traditional security agenda (based on *Realpolitik*) after the recent imbroglio with Russia over Ukraine certainly adds to the atmosphere of ‘the West versus the Rest’.⁶⁷ An ambitious TTIP can only be achieved if transatlanticism is in good shape, when practical hurdles can be overcome by a shared sense of direction and urgency. In other words, only if there is ‘political will’ can such an ambitious TTIP have a chance of passing muster in the US Congress and the European Parliament. The lack of a trade promotion authority (TPA, or the so-called ‘fast track’) may still come to haunt the US ratification process.⁶⁸ EU Trade Commissioner Karel De Gucht has recently asked the European Court of Justice (ECJ) to judge whether ratification by the European Parliament is sufficient, or whether all 28 EU national parliaments should have their say. Obviously, the latter would make the road towards full ratification of an ambitious TTIP rather rocky.⁶⁹

Labelling the TTIP as an ‘economic NATO’ probably amounts to *Etikettenschwindel* (a misnomer), but is also not entirely frivolous, or wrong. The TTIP is not primarily about economic containment, or using trade as a ‘weapon’ in a strategy of coercion or deterrence. At the same time, the TTIP is an intrinsic part of the debate about the future of the transatlantic West, and should therefore not be examined in isolation of NATO’s future.

The TTIP can – depending on the level of ambition – become the new economic foundation for the transatlantic West. A comprehensive and ‘living’ TTIP agreement (working towards close EU–US cooperation at all stages of the regulatory cycle) will form a major step towards a transatlantic common market.⁷⁰ Depending on its openness and transparency, the TTIP may well attract non-EU members and widen its scope to other strategically relevant third countries, both in Europe and beyond. Depending on its commitment to open regionalism, the TTIP may (jointly with the TPP) form the basis of a global multilateral trade order for the twenty-first century. The logic of modern trade, which is largely based on GVCs, is likely to encourage China to accommodate, or even join, the TPP. This will be the best way to avoid the undesirable scenario of competing regions and growing mercantilism. Yet given the nature of modern trade, competing FTAs will be less about trade preferences and trade discrimination than about the quality and normative basis of their rules and regulations. Comparisons with the videotape format ‘war’ of the 1990s comes to mind (between VHS and Betamax), or today’s rivalry between Microsoft Windows and Apple’s iOS operating systems. Which regulatory system will dominate (and become the global standard) depends on the size of the market, as well as its intrinsic quality and attractiveness. For the TTIP (and the TPP),

67 ‘The West and the Rest: The Changing Global Balance of Power in Historical Perspective’, public discussion with Niall Ferguson, Chatham House, London (10 May 2011).

68 Daniel R. Pearson, ‘The Obama Administration’s Trade Agenda is Crumbling’, *CATO Institute Free-Trade Bulletin* (19 March 2014).

69 Silvia Liebrich, ‘EU-Parlament Winkt Sonderrechte für Gro konzerne Durch’, *Süddeutsche Zeitung* (1 May 2014).

70 The idea of such a transatlantic common market was already floated by German Chancellor Merkel and US President Bush in April 2007.

the challenge will be to sell its regulatory hegemony as benign. Serious efforts should also be undertaken to bring China to the WTO's table in Geneva and to restart the Doha Round. Yet the bottom line for all trading partners of the EU and US will be simple: comply with the TTIP's new rules, or do not export at all.

The dynamic impact of an ambitious TTIP on the EU should be carefully monitored. Although successful completion of the TTIP will no doubt be considered a major victory and further proof of the EU's regulatory prowess, it may well be a poisoned chalice. The TTIP will prove that non-European countries can *de facto* 'join' the EU's Common Market. This will set a precedent, encouraging already prevalent centrifugal forces within the EU. The variable geometry of the EU's policies and attachments will expand, putting the cohesion of the EU as a single actor at risk.

Despite these challenges and difficulties, the EU and the US should cherish this opportunity to get back together. After decades of 'benign neglect', both partners should acknowledge that both economically and politically, they remain joined at the hip. The TTIP is the best vehicle to remind US and EU policy-makers of that reality, and to embrace today's renaissance of transatlanticism.