




## The Geopolitics of the TTIP seen from Beijing

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Gradually, over the past decade, **China has worked hard to be at the winning end of the multilaterally-conceived World Trade Organisation (WTO) framework<sup>1</sup>**. Based on its large domestic market, its neck-breaking double-figure growth rates, its comparative advantage in labour-intensive manufacturing and its increased sophistication in international diplomacy, the Middle Kingdom is starting to use the WTO to its own advantage. China has been able to form alliances against the EU and the US with other emerging markets such as India and Brazil when it has considered that proposals emanating from Western powers would harm its national interests (the stalemate of the Doha Round epitomises this), and it has made increasingly good use of the WTO's dispute settlement mechanism (DSM), and its appeal procedures, to protect its export and import-substitution sectors. After some learning, China has become smarter in the game of the multilateral governance of trade. Thus, arguably, globalisation is working in its favour right now.



However, the announcement by the US and the EU that they are to start negotiations towards a Transatlantic Trade and Investment Partnership (TTIP) might be a game changer. Precisely at the time when an official from an emerging economy, in this case the Brazilian Roberto Carvalho de Azevêdo, will be leading the WTO, the US and the EU appear to be fed up with the gridlock in the Doha Round and are starting to favour the bilateral over the multilateral route in establishing new rules for international trade and investment. This approach has drawn criticism from convinced European multilateralists, such as the former head of the WTO Pascal Lamy, who thinks that it can undermine the trend towards global liberalisation, but above all it has raised concerns in Beijing.

**Chinese officials have the suspicion that both the currently negotiated Trans-Pacific Partnership (TPP) agreement and the TTIP project pushed forward by the Obama Administration have economic but also geopolitical objectives.** With these new treaties, the US wants to upgrade regulations in trade and investments so as to make Chinese products less competitive and the Chinese market less attractive, but, at the same time, it wants to reassert its geopolitical dominance both in the Pacific and the Atlantic.

When it comes to the EU, the view among certain strategic thinkers in Beijing is that the US is concerned about the tightening of commercial, investment and political ties between the EU and China in the wake of the Eurozone crisis, and as a consequence it wants to use the TTIP negotiations to redirect the attention of European leaders back to the US. Their interpretation of the US strategic manoeuvring is as follows. In their view, **Washington is well aware that China has a strong interest in strengthening its strategic relations with the EU in order to counterbalance US hegemony.** Hence, every time there are real

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rapprochement efforts between the two sides, the US steps in to weaken the partnership. This happened twice in the past decade.

The first occurred between 2003 and 2005 when, under the leadership of the German Chancellor Gerhard Schröder and the French President Jacques Chirac, the EU started to deepen its strategic partnership with China. At the time the Europeans started to cooperate with the Chinese in sensitive sectors such as the Galileo aerospace project and they even started to consider the option of lifting the arms embargo against Beijing. These moves raised major concerns among US policymakers and as a response Washington activated its powerful state machinery to restrain the Europeans from furthering their strategic alliance with Beijing. After this diplomatic pressure, the EU stopped the continuation of its contracts with Chinese firms within the Galileo project and dropped the possibility of lifting the arms embargo. This was the end of the so called honeymoon between the EU and China.

However, the second US interference in EU-China affairs is occurring now. In the view of Chinese officials, the Eurozone crisis again revived the potential to deepen the strategic partnership between the two partners. China has helped Europe in its moment of need. Over the past years European countries have substantially increased their exports to China, which has helped them overcome their deep recessions. Furthermore, and more importantly, unlike the US government, which has not provided any financial assistance to the Eurozone and the US press and pundits who have indulged in scaremongering about a possible break-up of the single currency, China has propped up –through both rhetorical support and concrete investments– the single currency every time it has been in danger. In fact, although the overall volume is still relatively small compared with the investment from the US (accounting for only 0.3% of the stock and 2% of the flows of EU inward direct investment), Chinese investments to the Eurozone have increased substantially over the past few years, growing by a staggering 56% in 2011 with respect to 2010.

As the former Chinese Premier Wen Jiabao said, this support, especially to the weaker peripheral countries, should set the stage for the EU to resume its strategic dialogue with China and perhaps consider granting it market economy status and lifting the arms embargo. Incidentally, in the midst of the crisis and as a recognition of China's help, the possibility of lifting the arms embargo was again raised by the head of the European External Action Service (EEAS), Catherine Ashton, who reportedly argued in a confidential strategy paper presented to EU leaders that the embargo is a major impediment to developing stronger EU-China co-operation on foreign policy and security matters.

From Beijing's perspective, the evidence points to the fact that the Europeans were again inclined to deepen their strategic partnership with China. But yet again, the US interfered to halt the rapprochement. First it was Japan, the main US ally in East Asia, which criticised Europe's proposal to eliminate the arms ban to China; a few months later it was the UK, the

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main US ally in Europe, which declared that it would oppose the lifting of the embargo and now it is Washington's turn, which –through the TTIP– wants to send a clear message to policymakers in Brussels that Europe's interests still lie in the Atlantic and not in the Far East.

For many in China, it is doubtful whether the TTIP will be signed. There are strong protectionist forces both in the US and in Europe that can derail the negotiations. But one thing is clear: **with the TPP and TTIP initiatives the US has regained its leadership role in setting the new rules for global trade and investment. Now Beijing needs to think how it responds to these moves.** It needs to show that it can be an alternative to the US. Trying to close the Investment Partnership Agreement with the EU could be a good start. It could also be a great opportunity for the Europeans to come of age and play the role of broker in the geopolitical game of establishing the new ground-rules for global trade and investment.