



Why the Road to TAFTA Leads Through Baghdad

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German Chancellor Angela Merkel visited US President George W Bush in Washington on 4 January, just days after Germany assumed the rotating presidencies of the European Union and the Group of Eight major industrialized nations. Merkel said the visit was supposed to be a signal that transatlantic relations would be an important issue for Germany during its six months as leader of Europe and the G-8.

Indeed, if anyone can improve transatlantic relations, it is Merkel. She has succeeded in establishing a surprisingly warm relationship with Bush since she took office just over one year ago: In that time, the two leaders have met six times in a mutual effort to rebuild US-German relations, which suffered a major breakdown following former German Chancellor Gerhard Schröder's

opposition to the US-led intervention in Iraq.

In a recent in-depth profile of Merkel, the *New York Times* proclaimed that she has emerged as the "leading political actor in Europe—not to mention the go-to person in Europe for Washington." And there is much truth to this. Indeed, Tony Blair of Britain and Jacques Chirac of France are in the final months of their political careers, while Romano Prodi of Italy lacks credibility in Washington. Meanwhile, José Luis Rodríguez Zapatero of Spain has so alienated the United States that Spanish-American relations are certain to remain frozen until the post-Zapatero era. This leaves Merkel as Bush's main ally in Europe.

An Ambitious Agenda

In any case, 2007 is certain to be a big year for Germany. As president of the European Union, Merkel will try to re-energize a European integration project that has slowed to a near halt, and as chair of the G-8, she will have to resolve some of the most pressing issues facing the world's industrialized nations.

So the purpose of her latest meeting with Bush was to brief him on her agenda and try to coordinate policy with the United States over the coming year. In this context, Merkel and Bush discussed global trade issues, Iraq, Iran, Afghanistan, the Arab-Israeli conflict and Kosovo, as well as the question of Russia and energy security issues.

But Merkel's most ambitious initiative, by far, is her push for a transatlantic free trade agreement (TAFTA). She wants to see the United States and European Union merge into a single trans-Atlantic common market that would include roughly 800 million people and a combined gross domestic product of half the world's economic output.

Just before she traveled to Washington, Merkel told the London-based *Financial Times* that she wants to see "ever-closer economic cooperation" between the European Union and the United States. "Our economic systems are based on the same values," she said. "We should be looking for ways to keep developing these together at a transatlantic level. We must watch out that we do not drift apart but instead come closer together, where there are clear advantages for both sides."

But is Merkel being realistic? The obstacles to building a transatlantic free trade zone are immense. For example, Merkel's desired approach is to deeply integrate the technical aspects of transatlantic economic regulation, highly invasive measures that are modeled on the European Union's own internal regulatory structure. (Merkel singled out financial market regulations and intellectual property law as two areas on which she wants to focus, saying that there were "clear advantages" for both sides in coming together.)

By contrast, Washington has always favored traditional sovereignty-protecting approaches such as brokering bilateral agreements, as opposed to deeper integration. In any case, the president's authority to negotiate trade agreements without detailed Congressional involvement (also known as fast track trade promotion authority) expires in July 2007, making complex trade accords less likely. Moreover, Democrats who now control the American Congress are known to be more protectionist than Republicans, further casting doubt on the viability of a TAFTA.

But perhaps the biggest obstacles to realizing a TAFTA can be found within Europe itself. For example, many European leaders fear that allowing unrestricted competition with the United States would give Americans the ability to drive Europe out of a large number of markets. For this reason, previous attempts to forge a TAFTA have

been opposed by a number of EU member states, most notably France.

Yet another obstacle to a TAFTA lies with Merkel: EU presidencies are limited to six-month terms. Since all 27 EU states would have to agree unanimously in order even to launch TAFTA talks, many analysts think it is unlikely that Merkel can make much progress before the end of the German presidency in June 2007.

Bush Has Other Priorities

In any case, Merkel seems not to have convinced Bush on the merits of moving ahead with the TAFTA at this point in time. In fact, Bush did not even mention the idea of a common market during the joint press conference following their meeting.

This is probably because Bush understands that transatlantic trade relations are in a fragile state after talks to reduce barriers to global commerce failed in July 2006. Those negotiations broke down following a disagreement over how much the EU, the United States and other wealthy countries should reduce the farm subsidies and tariffs that poorer states in Africa, Asia and Latin America say prevent them from selling their agricultural goods abroad. Those cuts in farm subsidies and industrial tariffs are essential to concluding a World Trade Organization agreement on liberalization, known as the Doha round.

EU Trade Commissioner Peter Mandelson and EU Commission

President José Manuel Barroso met with Bush in Washington on 8 January to try to salvage the Doha round. After that meeting, Bush, said: "I believe we can get a deal done. It's just going to take a lot of will and a lot of hard work to do it.... Trade is the best way to help poor nations develop their economy so that people can realize the benefits of wealth moving throughout their society."

Some analysts say that if there is a deal, it will most likely be announced during the World Economic Forum in Davos, Switzerland, which is scheduled to be held from 24-28 January. But even if Bush wants to reach a deal, important changes to the American political landscape will make it more complicated to reach an agreement. For example, a number of incoming Democrats in the new American Congress made opposition to trade deals a center-piece of their electoral campaigns. Moreover, many influential farming lobbies in the United States are opposed to America making more concessions until they see tariffs fall in Europe and in key developing countries such as India and Brazil.

In any case (and despite the political tensions between Europe and America in recent years), there has been a tremendous surge in trade and investment flows across the Atlantic. In fact, the transatlantic economy in terms of trade and investment accounts for \$3 trillion dollars a year, which is about half of all global economic activity. So, despite all the concerns about China and India be-

coming the economic superpowers of the twenty-first century, the US-European relationship will fundamentally remain the most important part of the global economy for well into the foreseeable future.

The real key, therefore, to improving transatlantic relations probably lies less with a TAFTA than with enhanced political and security cooperation. And what Bush needs most is more cooperation from Europe in Afghanistan and Iraq. But with many EU countries refusing even token support in those conflicts, it is hard to see why the White House would want to spend political capital by agreeing to make potentially painful concessions on European trade priorities.

In an article titled "Europe's Afghan Test" Robert Hunter, the former American Ambassador to NATO, writes that "European allies watch the US debate about Iraq with a mixture of *schadenfruede* and bemused detachment" even though they will share in the consequences of an American failure in Iraq. He also makes the point that NATO allies unanimously accepted respon-

sibility for the success of the United Nations mandated the International Security Assistance Force (ISAF) in Afghanistan, but that most allies have fallen far short of what they agreed to do.

"The EU has been demanding respect from NATO and the United States for its foreign policy and security ambitions. By assuming a greater role in Afghanistan, Europeans can show Washington that they are prepared to take on serious security responsibilities in the Middle East, not just to kibitz and criticize what the United States is doing in Iraq or not doing in Arab-Israeli peacemaking," Hunter writes. "Afghanistan is put up or shut up time for European nations in general and the EU in particular in the greater Middle East."

The price for American support for a transatlantic free trade agreement will almost certainly be a significantly increased European commitment to transatlantic security and defense. The road to a TAFTA, therefore, will lead through Afghanistan and Iraq.