

Summary: This brief argues that a transatlantic free trade pact would have significant geopolitical implications. In particular, TTIP, by creating jobs and stimulating growth, would help revitalize the Western democracies and advance the prospects for the West's reclamation of political and strategic purpose. TTIP could, however, potentially have significant geopolitical downsides. The more ambitious and exclusive the "club" constituted by the Atlantic democracies, the higher the barriers to entry, and the less likely it is that emerging powers will want or be able to play by Western rules. The pact's overall economic and geopolitical effects are definitively positive. Nonetheless, it is important for the Atlantic democracies to proceed with eyes wide open.

The Geopolitical Implications of the Transatlantic Trade and Investment Partnership

by Charles A. Kupchan

Introduction

U.S. and European negotiators are hard at work to bring negotiations over the Transatlantic Trade and Investment Partnership (TTIP) to a successful conclusion. The primary motivation behind this effort is to boost economic growth on both sides of the Atlantic. Amid a prolonged economic downturn, U.S. and European policymakers are searching for measures capable of stimulating growth and creating jobs. Structural constraints in Europe and political gridlock in the United States make a free trade agreement one of the more attractive options available for achieving these objectives.

Although the deal's economic impact is the chief driver behind TTIP, the pact would also have important geopolitical consequences. These geopolitical consequences are, however, not well articulated by policymakers. Moreover, the scholarly literature provides indeterminate findings as to the geopolitical implications of increased economic interdependence. Some studies indicate that commercial interdependence facilitates political cooperation and geopolitical stability, suggesting that TTIP, if successfully concluded, may be an important source of transatlantic

solidarity.¹ Other studies are more circumspect about the strategic implications of interdependence, finding little evidence that economic integration on its own is an important contributor to geopolitical stability.² High levels of interdependence among Europe's major powers did little to stave off World War I. In similar fashion, commercial and financial flows between China and Japan appear to have little effect on dampening geopolitical rivalry. From this perspective, policymakers and analysts alike should be careful not to overstate TTIP's political and strategic implications.

The goal of this essay is to explore the likely geopolitical impact of TTIP. It argues that a transatlantic free trade pact would have significant geopolitical implications. In particular, TTIP, by creating jobs and stimulating growth, would help revitalize the Western democracies and advance the prospects for the West's reclamation of political

¹ See, for example, Edward D. Mansfield and Jon C. Pevehouse, "Trade Blocs, Trade Flows, and International Conflict," *International Organization*, Vol. 54, No. 4 (Autumn 2000), pp. 775-808.

² See, for example, Charles A. Kupchan, *How Enemies Become Friends: The Sources of Stable Peace* (Princeton: Princeton University Press, 2010).

and strategic purpose. As the distribution of global power continues to shift from the West to the “rising rest” in the years ahead, it is essential that the Atlantic democracies remain a strong and effective bulwark of liberal values and practices. TTIP has an important role to play in guiding the West out of its economic and political malaise, thereby enabling it to serve as the anchor of liberal democracy in a world headed into an era of profound change.

This essay will also argue, however, that TTIP could potentially have significant geopolitical downsides. The more ambitious and exclusive the “club” constituted by the Atlantic democracies, the higher the barriers to entry, and the less likely it is that emerging powers will want or be able to play by Western rules. In this sense, TTIP could exacerbate dividing lines between the West and rising states. Another risk is that the Atlantic democracies come to view TTIP as a substitute for strategic partnership and turn to commercial ties to serve as the West’s binding glue. To do so would be a dangerous mistake. The strength of commercial ties across the Atlantic notwithstanding, the Western democracies must ensure the continued viability of NATO and work to uphold their historic commitment to collectively shoulder geopolitical burdens. TTIP cannot serve as a substitute for NATO.

The essay begins by exploring TTIP’s geopolitical upsides. It then examines the pact’s potential downsides and illuminates the need for sobriety about its positive geopolitical effects. The analysis is not meant to argue against TTIP. On the contrary, the pact’s overall economic and geopolitical effects are definitively positive. Nonetheless, it is important for the Atlantic democracies to proceed with eyes wide open.

The Positive Geopolitical Effects of TTIP

The Weakening of the Liberal Order

Europeans and Americans have been the world’s trend-setters for the last two centuries; together, they forged the liberal international order that has accompanied the onset of a globalized and interdependent world. The long run of the West’s material and ideological hegemony is, however, coming to an end. The liberal international order erected during the West’s watch will face increasing challenges in the years ahead. The collective wealth of the developing world has surpassed that of the developed West, limiting the capacity of the advanced industrialized economies to set the terms of a rules-based order. In addition, expecta-

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tions that the end of the Cold War would readily clear the way for the global spread of liberal democracy have proved illusory. State capitalism is alive and well in China, Russia, Vietnam, Saudi Arabia, and a host of other countries. In most of Central Asia, the Middle East, and Africa, democracy has yet to put down firm roots. Emerging powers that are liberal democracies, such as India and Brazil, seem at best ambivalent about aligning themselves with the West. It no longer seems plausible, as many analysts have predicted, that emerging powers, democracies and non-democracies alike, will readily embrace the rules of the liberal order on offer from the West.³

The weakening of the liberal international order erected during the West’s watch is in part the product of immutable processes of global change. Globalization is speeding the diffusion of power, reallocating wealth and productive capability from the Western democracies to the developing world. This diffusion of power is leading to growing ideological diversity rather than ideological convergence. China and Russia, backed by other non-democracies, are bent on resisting, not embracing, the rules of the road associated with *Pax Americana*. In the Middle East, the Arab Awakening has strengthened political Islam, challenging the West’s preference for demarcating a boundary between the realms of politics and religion. Participatory politics may well be arriving in the region. But, if so, the Middle East will be following its own path to modernity, which is not one that portends ideological convergence with the West.

The West’s diminishing ability to anchor a liberal international order is a product not only of a relative decline in its share of global wealth and the rise of emerging powers that are challenging prevailing norms. In addition, the West is experiencing a stubborn economic downturn coupled with unprecedented political polarization and dysfunction. As a consequence, the Western model has lost some of its luster. Domestic difficulties have also hampered the conduct of

³ See, for example, Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992); G. John Ikenberry, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order* (Princeton: Princeton University Press, 2011)

statecraft and prompted an inward turn at the very moment that the West needs to be fully engaged in the task of managing peaceful change.

This downturn in the West's fortunes represents a new and surprising development. The West's economic success and political stability have long given it global allure and encouraged developing nations to emulate the Western path of development. Indeed, initial confidence about the likely universalization of a liberal international order was predicated upon a process of convergence that would over time bring the developed and developing world into institutional and ideological alignment. The Western model worked; developing nations would follow it, convergence would take place, and they would gradually integrate into the Western liberal order.

But the prospects for such convergence have considerably dimmed. Western economies are struggling, the United States' political system is in a state of virtual paralysis, and the European Union is experiencing its own crisis of governance resulting from the populism and discontent stoked by the eurozone crisis. In the meantime, China's brand of state capitalism has produced impressive results. Beijing has brought hundreds of millions of its citizens out of poverty, and the Chinese economy weathered the recent financial crisis far more successfully than Western economies. Chinese firms and development agencies are increasingly present throughout the developing world, undercutting Western efforts to tie aid and trade to liberal reforms. At least for now, the Western model no longer has a monopoly on the aspirations and plans of nations seeking to better their economic and political futures. The Chinese model is not about to overtake the world. But its success indicates that multiple versions of modernity will be vying with each other in the marketplace of ideas.

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The West's economic and political troubles have also produced a diminishing appetite for strategic engagement abroad. To be sure, Russia's actions in Ukraine have served as a wake-up call of sorts, prompting Europeans and Americans alike to entertain the prospect of beefing up NATO's capacity for collective defense. But barring further bouts of Russian adventurism, the EU will remain focused on recovering financial stability and repairing the project of European integration. The U.S. public and their elected representatives alike are weary and wary after more than a decade of war in the Middle East. Washington will be choosing its fights very carefully, as made clear by President Barack Obama's insistence on keeping the United States' distance from the civil war in Syria. His caution is reflected in the electorate. A recent Pew opinion survey revealed that over 50 percent of Americans believe the United States should "mind its own business internationally."⁴ Americans are tired of distant wars and want investment in schools and bridges in Kansas, not in Kandahar. Partisan polarization is also taking a toll on U.S. statecraft. The shutdown of the U.S. government in the fall of 2013 prevented Obama from attending key summits in Southeast Asia, undercutting his effort to "pivot" U.S. policy toward Asia. A U.S. trade delegation heading to Brussels for negotiations on TTIP also had to cancel due to the shutdown.

Pax Americana has rested on the readiness of the United States and Europe to provide public goods and serve as the global providers of last resort. Recent economic and political trends within the West appear to be limiting its capacity and willingness to continue playing that role, suggesting that the liberal order erected after World War II will suffer from lack of enforcement and maintenance.

Revitalizing the West

There are multiple sources of the West's political weakness, but the primary cause is its lackluster economic performance. The wages of the U.S. middle class have been stagnant for the better part of three decades. Today, the real income of the average U.S. worker is lower than it was 20 years ago. In the meantime, the wealth of the nation's top earners has increased markedly, making inequality in the United States the highest in the industrialized world. European workers have suffered a similar fate. Even in Germany, the EU's top performer, the middle class has shrunk by

⁴ Pew Research Center for the People & the Press, "Public Sees U.S. Power Declining as Support for Global Engagement Slips," December 3, 2013, <http://www.people-press.org/2013/12/03/public-sees-u-s-power-declining-as-support-for-global-engagement-slips/>.

some 15 percent. Youth unemployment in the EU's southern tier hovers around 40 percent.

These economic conditions are at the heart of the political dysfunction plaguing the West. In the United States, inequality and economic insecurity are bringing back to life ideological cleavages not seen since the New Deal era, contributing to polarization and paralysis. Across the EU, economic duress is leading to the renationalization of political life, turning electorates against the project of European integration and eating away at the EU's social solidarity. Populist, Euroskeptic parties fared extremely well in elections for the European Parliament in May 2014, revealing the depth of the electorate's discontent.

It is on this front that TTIP can make its most important geopolitical contribution. Estimates vary, and the economic impact of TTIP would depend upon the details of the pact. Nonetheless, TTIP promises to significantly boost jobs and growth on both sides of the Atlantic.⁵ In light of political constraints in the United States and the prospect of continued austerity in Europe, a transatlantic free trade pact offers one of the few options available for creating jobs and stimulating growth. By reducing non-tariff barriers and harmonizing regulations, TTIP would also help advance the extension of the single market within the EU, thereby promoting further economic gains.

Growth rates in the United States are already picking up, but income gains have been restricted largely to the upper echelon. Broadening the rebound to include Americans of lower and middle income is a pressing priority. Although the EU has enjoyed a measure of recovery, growth remains anemic and unemployment high, sustaining high levels of political disaffection. A perilous gap has opened up between EU elites and the European "street." Elites are fashioning plans for a fiscal and banking union, steps vital to stabilizing the euro. In the meantime, however, electorates are growing ever more doubtful of the merits of deeper integration. Indeed, European electorates are increasingly skeptical of the prospect of ceding more power to Brussels. According to a recent Pew poll of eight EU member states (including the six largest), "positive views of the European Union are at or near their low point in most EU nations, even among the young, the hope for the EU's future. The favorability of the EU has fallen from a median of 60 percent in 2012 to 45

⁵ According to one official assessment, TTIP could create 400,000 jobs and boost the EU economy by €119 billion a year and the U.S. economy by €95 billion.

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percent in 2013. And only in Germany does at least half the public back giving more power to Brussels to deal with the current economic crisis."⁶

Reviving economic growth is critical to relegitimizing the EU in the eyes of European voters — just as a robust recovery is essential to restoring the efficacy of democratic institutions in the United States. It is particularly important that economic recovery on both sides of the Atlantic advantage middle class workers and not just the elite. Improving the living standards and restoring the optimism of average Americans and Europeans are top priorities. TTIP promises to do just that, in part by increasing exports in mainstream industries, such as automobile manufacturing.⁷ Replacing economic dislocation and uncertainty with improving fortunes and confidence is the *sine qua non* of efforts to reclaim political efficacy and purpose among the Atlantic democracies. An economic and political recovery advanced by TTIP would also demonstrate to voters the merits of openness and international engagement as opposed to protectionism and retreat.

TTIP would thus constitute an important step forward in renewing the West's political vitality and enabling it to continue serving as the anchor of liberal democracy amid a world in change. So too would the West's recovery refurbish the allure of the Western model, of particular importance as emerging powers chart their courses in the years ahead.

Regionalism and Free Trade

The era of global trade liberalization appears to be on hold, if not over. The Doha round of negotiations shows few signs of moving forward. The United States, which has been the

⁶ Pew Research Global Attitudes Project, "The New Sick Man of Europe: The European Union," May 13, 2014, <http://www.pewglobal.org/2013/05/13/the-new-sick-man-of-europe-the-european-union/>.

⁷ See "TTIP and the Fifty States: Jobs and Growth from Coast to Coast," published in 2013 by the Atlantic Council of the United States, the Bertelsmann Foundation, and the British Embassy in Washington, DC, http://www.atlanticcouncil.org/images/publications/TTIP_and_the_50_States_WEB.pdf.

shepherd of successive rounds of liberalization since World War II, is no longer ready to play that role; globalization and the accompanying loss of manufacturing jobs have sapped Washington's enthusiasm for large-scale trade initiatives. It is worth noting that over the course of the George W. Bush and Obama administrations, Washington has concluded only three minor trade pacts: with South Korea, Colombia, and Panama. The growing influence of emerging economies with trade agendas different from those of the industrialized West, such as India and Brazil, also contributes to stalemate in the Doha round.

Under these circumstances, bilateral and regional trade agreements for now offer the most promising means of advancing trade liberalization. In particular, TTIP looks to be one of the most politically viable pacts currently under consideration. Tariffs across the Atlantic are already quite low. The economies of the United States and the EU are at relatively similar levels of development, meaning that legislatures in both the United States and Europe would not see TTIP as an agreement that would result in out-sourcing and job loss. A transatlantic free trade pact thus represents an attractive target of opportunity when it comes to advancing the cause of trade liberalization.

Should TTIP be successfully concluded, it has the potential to have positive knock-on effects in other regions. A transatlantic pact could help set global standards, creating an example that other trade groupings might follow as they seek to advance liberalization. So, too, might a transatlantic free trade agreement expedite liberalization in other regions. Concerned about being left out of the gains in commerce

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and growth produced by TTIP, China, Brazil, and other emerging economies might undertake their own efforts to liberalize trade. Such “competitive regionalism” appears to have helped advance liberalization in the 1990s, when separate trade initiatives in different regions — including Europe, South America, North America, and the Asia-Pacific — all made significant steps forward. With global liberalization seemingly stalled for the foreseeable future, regional pacts may well be the only game in town; TTIP holds the most promise of getting the ball rolling.

If a transatlantic free trade area does indeed help advance economic integration in other regions, the benefits promise to be geopolitical as well as economic in nature. As the United States and Europe become less able and willing to provide public goods, and as global institutions potentially become more unwieldy due to the ongoing diffusion of power, regional institutions may well have to pick up the slack. It could well be that bodies like ASEAN, the Gulf Cooperation Council, the African Union, Mercosur/UN-ASUR, and the EU become ever more important contributors to providing governance and security in their respective regions. Developing the capacities of regional institutions is thus an important investment in future stability. To the degree that TTIP helps encourage integration and capacity building in other regions, it would have geopolitical benefits well beyond the Atlantic area. As Europe's own history has demonstrated, economic integration can usefully serve as the leading edge of political integration.

Commercial Contributions to Atlantic Solidarity

Despite developments in Ukraine, the strategic partnership between the United States and Europe is likely headed into a less activist phase. NATO is in the process of winding down its presence in Afghanistan — a mission costly and inconclusive enough to make it very unlikely that the alliance would again undertake an operation of similar scope. NATO's intervention in Libya was more effective in military terms, but the consequences for stability in Libya have raised doubts about the mission's merits. Moreover, only a handful of NATO countries contributed to that mission, raising questions about the readiness of alliance members to participate in future operations. So, too, has defense spending in Europe been on a downward trajectory. To be sure, NATO will remain an institutional pillar of the Atlantic community. And Russia's behavior in Ukraine has put renewed attention on the alliance's traditional mission of collective defense. Nonetheless, as long as Russia does

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not come to pose a direct and potent threat to members of NATO, the long-standing strategic partnership between the United States and Europe may well be poised to decline in political salience.

TTIP can help offset the strategic drift that could set in across the Atlantic. Both U.S. and European leaders are expending significant political capital on TTIP, bringing the transatlantic partnership back into the limelight. After TTIP negotiations were launched, some commenters suggested that the United States was “pivoting back” to Europe. The negotiations themselves regularly bring together U.S. and European diplomats as well as stimulating dialogue among top representatives from the private sector. These activities are raising the public profile of the transatlantic partnership and propagating a narrative of mutuality and commonality. Should TTIP succeed in creating jobs and growth on both sides of the Atlantic, publics would reap the concrete benefits of transatlantic cooperation and their appreciation of the partnership would rise accordingly.

TTIP thus has the potential to consolidate the political bond between the United States and Europe at a time when security ties may become less prominent. However, as the next section indicates, it would be illusory — and perhaps dangerous — to see increased commerce as a substitute for strategic partnership.

Cautionary Reflections on the Geopolitical Effects of TTIP

Although TTIP promises to have positive geopolitical effects, these effects should not be overstated. Moreover, the pact may have significant geopolitical downsides. Most importantly, it has the potential to widen the political gap between the West and emerging powers.

Conventional wisdom foresees the universalization of the rules-based order erected during the West’s watch; emerging powers are expected to embrace this order as they modernize. However, today’s rising states, as those that have come before them, have made clear that they would like to change the existing order in ways that give advantage to their interests and ideological preferences. The BRICS grouping, for example, is intended to provide Brazil, Russia, India, China, and South Africa with a forum that serves as an alternative to preexisting institutional venues, which they see as dominated by and serving the interests of the Western democracies. On issues of sovereignty, intervention, legitimacy, global justice, and other order-producing norms, emerging

powers often take issue with the established democracies.

TTIP could well exacerbate this problem. The higher the standards set by Western rules, the less likely it will be that rising states are willing and able to play by those rules. The nature of the trade agreement being negotiated between the United States and the EU, inasmuch as it focuses heavily on harmonization and regulatory convergence, is unique to economies at similar stages of development that already enjoy relatively free commerce. To be sure, the WTO, along with other regimes aimed at governing international commerce, has helped foster convergence toward common rules. But TTIP, precisely because of the far-reaching scope of the agreement, could do the opposite: stratify, if not fragment, a rules-based order.

TTIP also has the potential to foster a political backlash among emerging powers. The maintenance of a rules-based international order in the years ahead will depend upon the ability of the Atlantic democracies to work with emerging powers, not just with each other. Nonetheless, TTIP deepens integration within the Atlantic community, not more broadly. In this sense, it could communicate an exclusionary impulse toward rising states. Emerging powers may see the agreement as another instance of the West focusing on the West rather than on the well-being and prosperity of the broader international community. TTIP thus could make more elusive one of the paramount strategic tasks that lies ahead: fashioning consensus between the Atlantic democracies and emerging powers on the terms of new rules-based order.

This potential downside does not offset TTIP’s main upside, its ability to help revitalize the West economically and politically. That revitalization is an urgent priority; only if the West reclaims its sense of political purpose will it be able to effectively engage rising powers and play a guiding role in managing international change. Nonetheless, the Atlantic democracies should keep in mind TTIP’s potential to widen the political and perceptual gap between the West and the “rising rest.” The Atlantic community should therefore take compensatory steps, such as addressing head-on the need

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to work with emerging powers to forge a new rules-based system.

Finally, Western elites and publics alike must guard against the view, sometimes articulated by proponents of a transatlantic free trade area, that “TTIP is the new NATO.” As discussed above, a free trade pact between the United States and Europe would help give new political salience to the transatlantic partnership and engender transatlantic solidarity. Nonetheless, deepening commercial engagement is no substitute for strategic partnership. The realms of commerce and security tend to be relatively compartmentalized. If the United States and Europe drift apart as security partners, commercial interdependence is unlikely to be affected. At the same time, however, commercial interdependence will not be able to forestall strategic drift. TTIP should be pursued for its own sake, not as a replacement for a meaningful and robust strategic partnership.

Accordingly, even if TTIP is successfully concluded, the Atlantic democracies cannot afford to let their strategic bond atrophy. That means that EU member states will have to step forward on the defense front, doing more to pool their assets and coordinate their policies — especially in an era of enduring constraints on defense spending. The United States will certainly have to demonstrate patience as the EU seeks to recover from the renationalization spawned by its financial crisis. But it should nonetheless continue to stress the need for the EU to aggregate its will and capability on foreign and defense policy. In the meantime, Washington should ensure that NATO receives adequate political and material support, even as the focus of U.S. defense policy tilts toward East Asia. Russian aggression in Ukraine has made matters somewhat easier on this front by prompting renewed concern about NATO’s eastern frontier. Deepening NATO’s training and partnership programs outside the Atlantic area would also help maintain political support for the alliance inasmuch as its members continue to face significant security challenges beyond Europe’s borders.

Conclusion

TTIP represents a golden opportunity to expand jobs and growth on both sides of the Atlantic. Economic renewal promises to help foster political renewal, better enabling the West to remain an anchor of liberal values and practices — of paramount geopolitical importance as power shifts from the developed to the developing world. At the same time, TTIP cannot offset strategic drift among the Western allies, an issue that will have to be addressed on its own terms.

Moreover, even as the Atlantic democracies deepen their ties to each other, they must keep their eyes on the task of working with emerging powers, democracies and non-democracies alike, to fashion a new rules-based system for the 21st century. The Atlantic democracies already constitute a peaceful and prosperous community. The challenge ahead is helping to extend that accomplishment to the rest of the world.

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