

COUNCIL *on* FOREIGN RELATIONS

Maurice R. Greenberg
Center for Geoeconomic Studies



INSIGHTS FROM A CFR WORKSHOP

The Transatlantic Trade Investment Partnership as a Foreign Policy Tool

April 28, 2016

*In March 2016 the Council on Foreign Relations' (CFR) Maurice R. Greenberg Center for Geoeconomic Studies held a workshop to explore ways in which the United States could derive geopolitical benefits from the pending Transatlantic Trade and Investment Partnership (TTIP). The workshop, hosted by CFR Senior Fellow Jennifer M. Harris, was made possible by the support of the Carnegie Corporation of New York. The views described here are those of workshop participants only and are not CFR or Carnegie Corporation positions. **The Council on Foreign Relations takes no institutional positions on policy issues and has no affiliation with the U.S. government.***

INTRODUCTION

The Trans-Pacific Partnership (TPP) is widely touted as a strategic centerpiece of the Obama administration's broader rebalancing toward the Asia-Pacific region. Another big trade pact, the Transatlantic Trade and Investment Partnership (TTIP), may also have the potential to advance several noneconomic U.S. foreign policy objectives rather than being circumscribed to economic concerns.

The Council on Foreign Relations hosted a workshop to examine ways in which TTIP could advance the noneconomic foreign policy interests of the United States, the European Union (EU), and EU member states. The workshop gathered experts—including current and former policymakers, economists, political scientists, investors, and business representatives—to explore whether and how the still-evolving TTIP could be designed to meet foreign policy objectives in areas such as cybersecurity, energy security, and European economic unity, and to identify how U.S. policymakers could best incorporate such elements into the agreement.

TRADE PACTS AREN'T JUST ABOUT TRADE

Historically, most nations incorporated noneconomic foreign policy into their trade policies. Britain's Navigation Acts sought to beggar the economic might of the Dutch Republic, a military rival, rather than bolster British merchant shipping. However, after the Cold War, many countries came to see trade policy as largely an economic endeavor independent of noneconomic, geopolitical calculations. That post-Cold War calculus is now changing in many parts of the world. China and Russia routinely use trade policy to influence the behavior of their neighbors. The Obama administration has explicitly presented TPP as a way to bolster the broader U.S. rebalance to Asia. Defense Secretary Ashton Carter has compared the regional geopolitical impact of TPP to that of an aircraft carrier strike group. In recent years, many lawmakers have viewed individual trade issues, such as the liberalization of fossil fuel exports from the United States, as a way to use U.S. economic heft to push back against perceived Russian bullying in the energy trade. Although some workshop participants argued that broad foreign policy considerations have always been central to trade deals, many others concurred that noneconomic factors are gaining in relative importance.

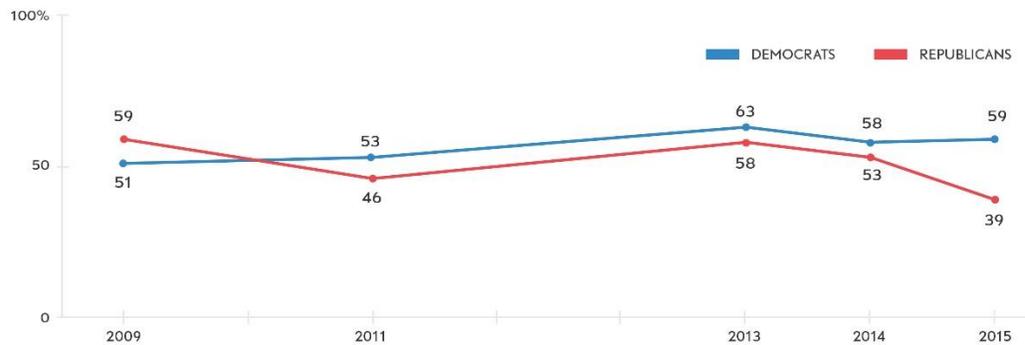
Defense Secretary Ashton Carter has compared the regional geopolitical impact of TPP to that of an aircraft carrier strike group.

TTIP Isn't What It Used to Be

Since talks began between the United States and Europe on a sweeping trade agreement, geopolitical developments have transformed the initial (primarily economic) rationale for the agreement, workshop participants said. Russia's armed intervention in Ukraine, including the annexation of the Crimean peninsula in 2014 and Russia's continued destabilization of eastern Ukraine since then, was triggered in part by Ukraine's consideration of closer economic and political ties with the EU. Russian adventurism and a divide-and-conquer approach to EU member states has sparked concern in Brussels and Washington, and has directed political attention to issues such as European energy security. Since the start of TTIP talks, the EU has suffered an acute crisis of political legitimacy and internal unity that has complicated the bloc's efforts to jumpstart economic growth, participants noted. The EU's difficulties have injected fresh reasons for a broader strategic trade deal into the debate. An economically stronger EU would be better positioned to respond to internal threats, such as extremist populism, and external challenges, such as Russian aggression or large-scale migration.

At the same time, the Obama administration's perceived focus on the rebalance to Asia has necessitated a corresponding reaffirmation of the historic importance of transatlantic ties, some participants noted. Additionally, over the past five years China has coupled a still-growing economy with increasingly centralized leadership and a more aggressive approach to international relations. This dynamic gives the United States and the EU cause to more actively promote a rules-based international order, for example, through TTIP. Another important change is the erosion of popular support for free trade pacts in Europe and diverging opinions in the United States. As figure 1 demonstrates, support for free trade in the United States has fallen among self-described Republican voters since talks about an ambitious pact with Europe began.

Figure 1. Republicans and Democrats Diverging on Trade



Source: Pew Research Center.

HOW COULD TTIP BECOME A BROADER TOOL OF STATECRAFT?

Because TTIP is still a work in progress, policymakers could choose to partially address new international challenges through an expanded trade pact with the European Union, many participants said. Such a pact could include, for example, dedicated chapters on energy security, provisions to discourage state-sponsored cyberattacks against economically significant targets, or language explicitly bolstering U.S.-EU relations as a counterweight to China's growing influence. The potential benefits of explicitly including elements of noneconomic statecraft, instead of only trade concerns, could be numerous, participants said. Ties between the two largest democratic, free market economic blocs could be deepened, which would give both the United States and Europe greater ability to counter Chinese and Russian foreign policy adventurism. Some participants suggested that a sweeping trade deal could restore the luster of the European idea and theoretically help counter disintegrating forces and internal disaffection with Brussels' inability to deliver sustained economic growth. Other participants were decidedly more skeptical, especially given the urgency of the EU's political crisis.

Further, many participants noted that an ambitious trade pact between the United States and Europe would promote the rules-based international order at a time when it is under threat from many quarters. There are also other potential advantages, including further-reaching provisions promising coordinated remedies for state-sponsored cyberattacks against economic and commercial targets. However, workshop participants stressed that obstacles abound. The EU remains bitterly divided internally. Divisions also loom large between the

United States and Europe on many issues, from data protection and cybersecurity issues to determining the best way to deal with a rising China. Ultimately, given dwindling popular support for free trade on both sides of the Atlantic, trying to use TTIP or another trade pact to advance noneconomic foreign policy goals could be an uphill slog.

A BALANCE AGAINST CHINA

“The most important international economic issue being faced by both the United States and EU for the foreseeable future is the rise of China,” one participant said. In recent decades, China has consistently used economic tools as part of its noneconomic foreign policy, some participants noted, offering both carrots and sticks to influence neighbors. Many countries are trying to determine whether to orient their economic and foreign policy decisions more toward China or more toward the West, participants noted. TTIP, by strengthening the United States and the EU, could allow the West to better compete for global influence with China. “It’s all about relative leverage,” one participant said. Others participants stressed the role that TTIP, in conjunction with TPP, could play in underscoring to China the importance of respecting global norms. These agreements could induce China to forswear the use of coercion in interstate relations; adhere more closely to international standards on human rights, labor rights, and environmental protections; and cease state-sanctioned cyber-industrial espionage.

Yet Europe and the United States have different approaches to managing China’s growing geoeconomic influence. These differences are crystallized in the divergent attitudes toward the Chinese-led Asian Infrastructure Investment Bank. Workshop participants noted that Washington long panned the initiative and urged its allies not to support it, but Britain, Germany, and other European countries quickly joined the bank. “The United States for a decade has been asking China to become a responsible stakeholder,” one workshop participant said. “Until they did, and then we were against it.” That divide persists on other issues, from China’s interest in incorporating southeastern Europe into its One Belt, One Road development and foreign policy blueprint, to militarization in the South China Sea. Participants noted that there are divergences on

FIVE YEARS AND COUNTING— WHAT IS TAKING TTIP SO LONG?

Negotiations for TTIP began in 2011 and detailed discussions began in earnest in 2013. Unlike TPP, which was concluded in 2015 and could be presented to the U.S. Congress and to Asian and Latin American signatory countries this year, participants argued that TTIP likely won’t be concluded in 2016. After three years of preliminary talks, questions about what should be included remain unresolved, participants said, because of diverging opinions on issues ranging from agriculture to cybersecurity to the energy trade.

Participants said that one reason it is taking so long is, paradoxically, because of the longstanding trade ties between the U.S. and the EU. These ties mean that issues such as high tariffs or restrictive nontariff barriers, which make for easy progress, have already been addressed. “The perception was that it could be done quickly and easily without ruffling a lot of feathers on either side,” one participant said. Participants noted that questions regarding the design of the trade deal remain unresolved. It is uncertain whether it will be open to other countries to join at a later date, like TPP, or if it is meant to be a closed agreement between the United States and the EU. “By not saying from the beginning that TTIP will be open [to other countries], you lose a lot of political capital,” said one participant.

Another important difference with many prior trade negotiations, especially talks proceeding from the General Agreement on Tariffs and Trade and the World Trade Organization process, is that TTIP is meant to be concluded in a single round. Although this structure makes TTIP appealing as a vehicle for advancing noneconomic objectives, some participants noted that such a design could complicate negotiations. Some dissatisfied interest groups would see little chance to advance their agendas in future negotiations, for example, and would be less inclined to make concessions now. Others countered that TTIP, if left open to future amendments, could better grapple with contentious issues such as cybersecurity.

China not only between the United States and Europe, but also within Europe, such as Germany's desire to deepen trade and business ties with Beijing, contrasted against the more skeptical views of countries such as France and Italy, where polling suggests a greater tendency to view China as an economic threat, some participants noted.

TTIP AS A WAY TO BOLSTER EUROPE'S ENERGY SECURITY

Europe has a large and growing dependence on imported energy, much of which comes from Russia. In recent years, however, Russia has used energy exports as a geopolitical weapon to influence the behavior of the Baltics, Ukraine, and others. This situation is cause for increasing concern in Washington and Brussels. Although TTIP today has no specific chapter regarding energy security, European officials have warmly embraced the idea. Practically speaking, there is little that TTIP could do to enhance Europe's energy security beyond measures that the market is already taking. The United States can already export natural gas and crude oil, so increasing exports to Europe's ready market could help ease Russian dominance and leverage. But one participant noted that because energy is the "leading economic security issue, its omission from TTIP would be the elephant in the room."

Explicitly including U.S.-EU energy trade in TTIP would serve, above all, a symbolic purpose by enshrining American capacity and willingness to backstop European energy needs. "This is an opportunity to put our molecules where our mouth is," one participant said. Such an inclusion could serve three further purposes, participants said. First, a dedicated energy chapter could "lock in" recent U.S. legislative and regulatory changes that allow the export of natural gas and crude oil. This would prevent any backsliding by any future U.S. administration on unfettered exports of crucial raw materials, some participants said. Participants also noted that an energy chapter with specific clean-energy and climate-change provisions could garner more support for the trade pact in Europe and help prevent a future U.S. administration from abdicating its leadership role on climate change.

Finally, given that TTIP will be in force for decades, some participants recommended that it should "certainly help, and at the very least not hinder" the promotion of clean energy technologies such as renewable energy, advanced batteries, and electric vehicles, rather than narrowly focusing on the present-day trade in oil and gas.

"If we wanted to help fix Europe's troubles, that's different medicine than trying to send a message to the rest of the world about how unified U.S. and European economies are," one said.

A EUROPEAN HOUSE DIVIDED

Roughly three-quarters of workshop participants agreed that U.S. policy should support a more coherent and unified EU. Only a handful disagreed, mostly because they see an inevitable slide into a "two-speed" EU, with a core of united European nations surrounded by loosely affiliated countries; no one was indifferent. Some participants suggested that the economic benefits of TTIP could pay geostrategic dividends if they lead to stronger economic growth in specific regions and sectors that could help defuse the political appeal of illiberal groups. Southern Europe would be the principal beneficiary of TTIP, some participants suggested, because of tariff relief on light industrial goods. Given how economic weakness in southern Europe has strained the finances and unity of the EU in recent years, exploring such granular effects of the trade deal could help refine potential benefits.

Others argued that TTIP, even before it is completed, could help restore the appeal of the European project and forestall centrifugal forces that are tearing the EU apart. Some participants suggested that making clear that TTIP will only apply to EU members, for example, could help forestall a British exit from the European Union. Yet participants expressed uncertainty about whether TTIP is the best vehicle to achieve that goal, especially when European unity is threatened by physical rupture, most notably with Britain's possible departure from the EU. "Over time, TTIP could have dramatic effects," one participant said, "but it doesn't help this immediate problem of

European disintegration.” If Britain were to leave the EU before the pact was completed, others said, the United States should halt TTIP negotiations. What’s more, several participants noted, excessive advocacy for a free trade pact could actually backfire, especially with countries that are grappling with multiple crises and where TTIP is unpopular, such as Germany (figure 2).

Several participants noted that trying to shoehorn multiple U.S. foreign policy goals into TTIP, whether to buttress Europe or push back China and Russia, could end up weakening the entire pact. Others suggested the United States should use TTIP as an anchor for developing a truly strategic relationship between the United States and the EU, but avoid trying to cram all U.S. foreign policy goals vis-à-vis Europe, Russia, and China into a single trade deal. “If we wanted to help fix Europe’s troubles, that’s different medicine than trying to send a message to the rest of the world about how unified U.S. and European economies are,” one participant said.

LESSONS FOR POLICYMAKERS

The fundamental question facing workshop participants was: is TTIP the right vehicle for the United States to pursue noneconomic foreign policy objectives? During the workshop, several concerns arose about the timing of the deal, the marketing of the deal to domestic and international audiences, and even its ultimate ratification. Some participants noted that TTIP is an appealing vehicle for foreign policy goals because negotiations are ongoing and conclusion could be within sight. Yet many worried that adding issues of noneconomic statecraft would essentially bog down the talks and threaten the pact’s viability.

Other participants stressed the geopolitical benefits of embedding noneconomic foreign policy goals in TTIP. Beyond those discussed above, several noted that an awareness of potential geopolitical benefits could make negotiations easier. Negotiators could presumably link disparate issues in talks, which would give them a greater chance at success. A broad perspective on the possible benefits of any deal, both economic and noneconomic, could better equip negotiators. “Awareness not only of the economic costs of jettisoning this or that goal, but also the geopolitical cost, could be valuable in deciding among [competing objectives],” one participant said. Others worried that loading the pact with broader foreign policy goals, while downplaying the pure economic rationale of the pact, could make it harder to sell domestically in the United States and Europe. In the United States, the pact would need congressional approval. However, unlike in years past, foreign policy is no longer a unifying force in a deeply polarized legislature.

Selling the deal to international audiences could also be more difficult if TTIP is explicitly crafted as an expression of U.S. and European noneconomic foreign policy ambitions. For example, China views TPP as an explicit form of containment, and could come to view TTIP in the same way. As to how policymakers could best incorporate geopolitical goals into TTIP, many participants suggested that it would require a whole-of-government approach, ideally led by a high-level official with an eye on more than narrow issues such as tariffs or safe harbors for data storage. Several participants suggested that the U.S. Office of the Vice President could best marshal a coherent, government-wide approach to TTIP negotiations. Others noted that Europe lacks an analogous bureaucratic structure, which could make it more difficult to move the talks out of the purview of professional trade negotiators.

Figure 2. EU Support for a Free Trade Agreement With the United States

