

BACKGROUND

No. 2953 | SEPTEMBER 17, 2014

The Transatlantic Trade and Investment Partnership (TTIP): The Geopolitical Reality

Ted R. Bromund, PhD, Nile Gardiner, PhD, and Luke Coffey

Abstract

The United States and the European Union are negotiating a trade agreement—the Transatlantic Trade and Investment Partnership (TTIP)—that is being hailed as the answer to the woes of the transatlantic relationship, as a solution to the EU’s economic difficulties, and as heralding the creation of a new institution that will reinvigorate the Western alliance. The U.S. should support all measures that would promote growth and employment by increasing economic freedom, but it should not accept any agreement that could increase government regulation in the name of promoting free trade or create a transnational regulatory body that could infringe on U.S. sovereignty. It is essential that both the geopolitical concerns that motivate support for a TTIP and the limits of a TTIP’s ability to improve U.S.–EU relations and address the rise of China be properly understood.

In his February 2013 State of the Union Address, President Barack Obama called for a free trade agreement between the United States and the European Union. This proposed agreement is now known as the Transatlantic Trade and Investment Partnership (TTIP). The President’s announcement has been taken by politicians and commentators on both sides of the Atlantic as an effort to reinvigorate U.S. trade diplomacy, as the answer to the woes of the transatlantic relationship, as a solution for the EU’s economic difficulties, and as heralding the creation of a new institution that will give renewed purpose to the Western alliance.

The reality is more complex. An agreement that reduces barriers to trade between the U.S. and the EU, thereby empowering individuals on both continents, would be beneficial. No U.S.–EU agreement,

KEY POINTS

- A Transatlantic Trade and Investment Partnership (TTIP) that increases economic freedom would be a modest economic benefit for both the U.S. and the EU. A TTIP cannot cure the EU’s economic malaise.
- Many arguments in favor of a TTIP are geopolitical. Supporters assert that a TTIP would aid NATO, help contain Russia, and bolster U.S.–EU ties. These assertions are incorrect.
- The EU favors a TTIP because it advances the illusion that the EU is an equal of the U.S. and because it appears to counter the Obama Administration’s “Asian pivot.”
- The central pro-TTIP argument is that the TTIP will become a new trading organization, reforming or constraining China more effectively than the WTO can.
- If the WTO has not succeeded in reforming China, there is no reason to believe that a TTIP will succeed. Support for a TTIP is based fundamentally on a combination of declinism and misplaced nostalgia for the post-1945 era.

This paper, in its entirety, can be found at <http://report.heritage.org/bg2953>

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

however, can do all that has been claimed for the TTIP, and there are good reasons to believe that the TTIP's economic and geopolitical benefits have been oversold by its proponents. This *Backgrounders*—the second of two—will assess the geopolitical case for and against the agreement. The first *Backgrounders*¹ examined the benefits that would flow from a U.S.–EU agreement that genuinely advances economic freedom while considering the risks that such an agreement would not achieve this objective.

The United States should look favorably on all measures that would promote growth and employment by genuinely increasing economic freedom, but it should not accept any agreement that could mandate the international harmonization of rules and thereby increase government regulation in the name of promoting free trade. Nor should it accept any agreement that would create a transnational regulatory body that could infringe on U.S. sovereignty.

The geopolitical case for a TTIP is weak. On its own, it cannot generate enough growth to be a major factor in the economies of either the U.S. or the EU. There is also no basis for accepting the existence of its purported spillovers into the military realm. In the context of U.S. policy toward Russia, the TTIP offers nothing that cannot be achieved more rapidly by the executive branch. The TTIP's potential contributions to U.S.–EU relations have been exaggerated. Nor will it create a reliable mechanism to reform or constrain China economically or politically. Most important of all, the geopolitical arguments for a TTIP rest on a combination of declinism and misplaced nostalgia for the post-1945 era.

A free-market TTIP would undoubtedly be good for the U.S. and the EU alike, but it cannot take the place of U.S. political leadership that advances a broader strategy of promoting economic freedom at home and abroad. In the absence of this leadership, a TTIP is unlikely to come into existence at all, unlikely to be a free-market instrument if it is negotiated, and unlikely to make a significant contribution to the prosperity and freedom of the democratic world.

The TTIP's Economic Benefits Have Been Oversold

The first *Backgrounders* assessed the TTIP's potential economic benefits. While recognizing that many imponderables remain and that the agreement cannot be fully assessed until it is concluded, most analysts have concluded that if a TTIP had been finalized in 2013, by 2027 it would have been worth between four and six months of growth in U.S. gross domestic product (GDP) and employment at the modest levels achieved in 2013. To put it another way, a TTIP would be like adding approximately \$100 billion to U.S. GDP, which is currently about \$15.7 trillion, over the next 15 years. While this would be a good thing, it would not be revolutionary. On the other hand, there is a serious risk that a TTIP will be based on regulatory harmonization between the U.S. and the EU, which could greatly reduce a TTIP's benefits and even damage the U.S. economy.

Leaders or commentators who attempt to sell the TTIP as a short-term cure for the EU's malaise are playing politics, not making a sensible economic argument.

Many TTIP advocates have oversold its potential benefits. On the economic side, many leaders have gone from defending the TTIP as a modest contribution to long-term economic growth to touting it as a near-term mechanism for ending the EU's economic and financial crisis. EU Trade Commissioner Karel De Gucht has said, "We are convinced that this trade agreement will result in more jobs and more growth—and that will help to get us out of the economic crisis."² During a 2013 trip to Paris, U.S. Secretary of State John Kerry said, "I believe, as does President Obama, that this [TTIP] may be one [of] the best ways of helping Europe to break out of this

1. Ted R. Bromund, Luke Coffey, and Bryan Riley, "The Transatlantic Trade and Investment Partnership (TTIP): Economic Benefits and Potential Risks," Heritage Foundation *Backgrounders* No. 2952, September 17, 2014, <http://heritage.org/research/reports/2014/09/the-transatlantic-trade-and-investment-partnership-ttip-economic-benefits-and-potential-risks>.

2. Annie Lowrey, "Sore Feelings as U.S. and Europe Begin Trade Talks," *The New York Times*, July 8, 2013, <http://www.nytimes.com/2013/07/09/business/global/sore-feelings-as-us-and-europe-begin-trade-talks.html> (accessed September 4, 2014).

cycle, have growth.”³ And former British Prime Minister Tony Blair supports a TTIP in part because, he argues, it will meet the “immediate challenge” of fighting the EU’s “economic malaise.”⁴

Although an agreement that reduces trade barriers and increases economic freedom in the United States and the EU would boost economic growth in both regions, it would not be a miracle cure for the economically oppressive growth of government or for errors of economic, monetary, or fiscal policy in either region. In the United States, economic freedom has declined for seven straight years,⁵ and most people living in the EU have even less economic freedom. A good TTIP would boost economic freedom, but it would not replace the need for other policy changes on both sides of the Atlantic.

It is important to have a balanced perspective on the potential gains from a TTIP. All economic gains are valuable, as are all advances in economic freedom, but even a TTIP that did not result in increased regulation in the U.S. and so harm its economy would merely be a modest economic positive on both sides of the Atlantic. It would not be transformative; it would merely be one of many factors acting on the American and EU economies, and it would not be among the most important of those factors. Claims that a TTIP is of great significance cannot rest on its economic value to the U.S. or to the European Union.

Moreover, the gains from a TTIP alone would not be enough to end the EU’s economic crisis. Even if a genuinely beneficial TTIP were concluded in the near future, the gains from it would materialize over many years, not immediately. Economic freedom in general and free trade in particular are valuable,

but they are not a rapid-fire cure for deeply rooted problems. Freedom works because it allows individuals to make decisions about their own interests, and those decisions take time to play out. Leaders or commentators who attempt to sell the TTIP as a short-term cure for the EU’s malaise are playing politics, not making a sensible economic argument.

The TTIP’s Purported Geopolitical Impact on U.S.–European Relations

Geopolitical arguments for a TTIP are more serious, though not necessarily more accurate. These arguments come on several levels. At the simplest level, some commentators have argued that a TTIP will produce spillover effects that will directly benefit NATO. For example, the Atlantic Council has suggested that the trade deal could boost defense spending in Europe, thus making NATO more capable. Based on the estimated economic gains for the EU of €119 billion (\$158 billion) a year (on the generous end of the estimates), analyst Leo Michel writes: “This means that if the 28 EU members simply were to keep their current average rate of defense spending—roughly 1.5 percent of GDP—the projected TTIP boost could produce an extra \$2–2.5 billion annually, or \$20–25 billion over a decade, for military capabilities.”⁶

This argument assumes that EU countries will keep their defense spending at current levels. Given the fact that European defense spending has fallen by an average of 2.5 percent a year in real terms since 2010, this assumption is unrealistic.⁷ This argument also assumes that any additional government revenue generated as a result of a TTIP will be allocated proportionally across all government depart-

-
3. Agence France-Presse, “Kerry Sells US-EU Free Trade Zone as a Win-Win Project,” March 27, 2013, <http://www.breitbart.com/system/wire/CNG---0fc04146b8d5914018a9ab947c28da66---61> (accessed August 20, 2014).
 4. Tony Blair, “A Manifesto for European Change,” Project Syndicate, June 3, 2014, <http://www.project-syndicate.org/commentary/tony-blair-proposes-a-new-approach-and-agenda-for-reform-to-realize-the-eu-s-potential> (accessed June 3, 2014).
 5. Terry Miller, Anthony B. Kim, and Kim R. Holmes, *2014 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2014).
 6. Leo Michel, “TTIP: A Ray of Hope for European Defense?” Atlantic Council *New Atlanticist* blog, June 3, 2014, http://www.acus.org/new_atlanticist/ttip-ray-hope-european-defense (accessed August 7, 2014). The 1.5 percent of GDP is indeed a rough figure. The actual average rate of defense spending across all 28 members of the EU as a percentage of GDP stood at 1.37 percent in 2012, almost 10 percent less than Michel’s approximation. Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, <http://milexdata.sipri.org/files/?file=SIPRI+milex+data+1988-2011.xls> (accessed August 7, 2014).
 7. Press release, “Military Balance 2014 Press Statement: Remarks by Dr John Chipman, Director-General and CEO, IISS,” International Institute for Strategic Studies, February 5, 2014, <http://www.iiss.org/en/about%20us/press%20room/press%20releases/press%20releases/archive/2014-dd03/february-0abc/military-balance-2014-press-statement-52d7> (accessed June 2, 2014).

ments, but events since 2010 have shown that most European governments want to cut, not increase, defense spending. In short, there is no realistic basis for claims that a TTIP will have a directly beneficial effect on NATO defense spending.

Another version of this geopolitical argument is that the TTIP will require the U.S. to end its current legal restrictions on the export of energy resources, including oil and natural gas. In a recent survey conducted by the Bertelsmann Foundation and the Atlantic Council, the potential for U.S. energy exports to alleviate European dependence on Russian supplies was viewed by U.S. and EU experts as a potentially significant achievement of the TTIP.⁸ In March 2014, President Obama claimed that “once we have a trade agreement in place, export licenses for projects for liquefied natural gas [LNG] destined to Europe would be much easier.”⁹

There is no realistic basis for claims that a TTIP will have a directly beneficial effect on NATO defense spending.

This argument is correct on the one hand, since U.S. exports of energy would be a strategic and economic gain for the U.S. and Europe alike and, in particular, should be part of the U.S. response to Russian aggression against Ukraine.¹⁰ On the other hand, the United States already has the power to lift the restrictions on energy exports on its own. It does not need a TTIP to give it the authority to change its own regulations.

President Obama’s assertion that a trade agreement would make it easier to export LNG is only a partial truth. Currently, U.S. law requires that com-

panies apply for permits to export LNG to countries that do not have trade agreements with the U.S. Over the past four years, the U.S. Department of Energy has approved only seven of 31 permit applications. If bilateral trade liberalization, promoting American exports, and responding to Russia were at the top of his agenda, President Obama could speed up this permit process.¹¹ In short, the U.S. could give Americans the freedom to sell their energy abroad immediately without waiting for TTIP negotiations to conclude.

Moreover, because of the time it takes to develop resources and build export facilities, increasing energy exports will not be an effective response to Russia in the short term. In other words, advocating a TTIP as a way to counter Russian revanchism makes little sense: A TTIP will not be concluded fast enough, and though energy exports are an important part of a longer-term strategy, the U.S. can and should begin to promote them immediately. It does not need a TTIP to do this.

On an even more sophisticated level, other officials and commentators assert that the TTIP is important for broader geopolitical reasons. Behind the Obama Administration’s “pivot” to Asia is the reality that as Asia grows in economic, and hence geopolitical, importance, Europe’s relative significance is declining. But Europe is still home to several of the U.S.’s closest allies and a disproportionate number of the world’s democracies.

While it is impossible for developed regions like the EU or the U.S. to grow as fast as developing ones like China, the future of the world’s economy and the geopolitical balance of power would look considerably different if the U.S. and the EU could grow at 3 percent a year as opposed to 1 percent or less. Faster growth in the mature democracies would not prevent the developing nations from gaining relative importance, but it would slow the rate at which

8. Atlantic Council and Bertelsmann Foundation, “The Transatlantic Trade and Investment Partnership: On Track but Off Message? 2014 Stakeholder Survey,” March 2014, p. 5, http://www.bfna.org/sites/default/files/publications/2014%20TTIP%20Stakeholder%20Survey_web.pdf (accessed June 2, 2014).

9. Reuters, “Trade Deal Would Ease U.S. Gas Exports to Europe: Obama,” March 26, 2014, <http://www.reuters.com/article/2014/03/26/us-usa-eu-summit-energy-idUSBREA2P12P20140326> (accessed June 30, 2014).

10. Nicolas Loris, “The Chorus for LNG Exports Gets Bigger and Louder,” The Daily Signal, March 25, 2014, <http://dailysignal.com/2014/03/25/chorus-lng-exports-gets-bigger-louder/>.

11. U.S. Department of Energy, “Applications Received by DOE/FE to Export Domestically Produced LNG from the Lower-48 States (as of March 24, 2014),” <http://energy.gov/sites/prod/files/2014/04/f15/Summary%20of%20LNG%20Export%20Applications.pdf> (accessed July 1, 2014).

they gained that importance, and it would give the democracies more resources—and perhaps more confidence—with which to defend their position.

Thus, Jeffrey Gedmin at Georgetown University's School of Foreign Service argues that a TTIP would be a “new, vibrant, and meaningful” way to “re-emphasize both the interests and values that tie America and Europe together.”¹² James Goldgeier, dean of American University's School of International Service, writes that “the United States cannot succeed in Asia without a stronger Europe,” arguing that if a more prosperous EU does more in its neighborhood, the U.S. will be able to pivot to Asia while still remaining engaged with Europe. By the same token, Goldgeier asserts, the EU supports the TTIP because after the announcement of the pivot to Asia, it was worried that it had lost the central place in U.S. foreign policy that Europe has enjoyed since 1945.¹³

Even if a TTIP comes into existence, it will not, unlike GATT, mark a clear dividing line between the Western-aligned democracies and the world's autocratic nations, because the autocracies are major players in the world's economy.

Similarly, Clemens Wergin of the German newspaper *Die Welt* argues that a TTIP “will counter the belief that the West is on the decline” by “tell[ing] the world that the West is alive and ready to shape the global order, and that it stands united in that effort.”¹⁴ By his argument, the euro crisis gave EU

leaders an opportunity to promote a TTIP “as a way to jump-start growth without more stimulus spending,” even though, in reality, they were at least as worried by the EU's broader loss of geopolitical significance in U.S. eyes as they were convinced by their own economic arguments.

As William Kennard, the U.S. Ambassador to the EU, puts it, “With the crisis we thought that was the right moment to get something done.”¹⁵ In other words, according to Kennard, while the EU's crisis offered a convenient justification for a TTIP, it did not cause the push for the agreement.

Finally, in a lengthy analysis, Charles Kupchan of Georgetown's School of Foreign Service argues that a TTIP would have “significant geopolitical implications.”¹⁶ Kupchan asserts that by “creating jobs and stimulating growth,” a TTIP would counteract the “virtual paralysis” of the U.S. political system and the “crisis of governance” in the EU, thereby relegitimizing the EU, creating a renewed appreciation on both sides of the Atlantic of the value of transatlantic cooperation, and, more broadly, “demonstrat[ing] to voters the merits of openness and international engagement as opposed to protectionism and retreat.”¹⁷ Kupchan does acknowledge that a TTIP, by tying the U.S. and the EU closer together, could risk further fragmenting the international trading order, but he argues that this risk can be mitigated if the TTIP becomes the center of a wider “rules-based system.”¹⁸

In short, for Kupchan, the value of a TTIP rests primarily on its economic merits and also on its ability to serve as a demonstration effect both to the publics of the U.S. and the EU and to the world at large.

Kupchan makes no effort to compare the TTIP's economic gains—which he estimates at €214 billion (\$284 billion)—to the overall size of the U.S. and EU

12. Jeffrey Gedmin, “Beyond Crimea: What Vladimir Putin Really Wants,” *World Affairs*, July/August 2014, <http://www.worldaffairsjournal.org/article/beyond-crimea-what-vladimir-putin-really-wants> (accessed July 1, 2014).

13. James Goldgeier, “Pivot to Asia Requires a Stronger Europe,” *The Hill*, April 25, 2014, <http://thehill.com/blogs/congress-blog/foreign-policy/204207-pivot-to-asia-requires-a-stronger-europe> (accessed June 2, 2014).

14. Clemens Wergin, “America Needs a Pivot to Europe,” *The New York Times*, April 3, 2014, <http://www.nytimes.com/2014/04/04/opinion/wergin-america-needs-a-pivot-to-europe.html> (accessed June 2, 2014).

15. *Ibid.*

16. Charles A. Kupchan, “Parsing TTIP's Geopolitical Implications,” Johns Hopkins University, *Transatlantic Partnership Forum Working Paper Series*, June 2014, p. 2, <http://transatlantic.sais-jhu.edu/publications/books/The%20Geopolitics%20of%20TTIP/TTIP%20geopolitics%20book%20kupchan%20final.pdf> (accessed June 30, 2014).

17. *Ibid.*, pp. 4–9.

18. *Ibid.*, p. 11.

economies. It is therefore impossible for him to arrive at an estimate of the TTIP's actual economic impact, which in turn must affect the extent to which it can serve a domestic demonstration effect. Finally, while it is possible that the TTIP, simply by coming into existence, would create closer U.S.–EU ties and demonstrate the continued vitality of the Western alliance, it is far from certain that this would happen. It is equally possible that the rule-making process created by a TTIP would be politically irritating and that it would serve—as Kupchan warns it might—as a substitute for the existing, if enfeebled, strategic alliance.

It is hard to avoid the impression that the geopolitical argument for a TTIP rests on a nostalgic affection for the post–World War II era, in which the U.S. and Western Europe created many of the world's existing international institutions, and on the belief that a TTIP would be of the same tradition and would achieve results of similar significance.

Comparisons between the General Agreement on Tariffs and Trade (GATT) and the TTIP are particularly unhelpful. GATT came into existence in a world where protectionism through tariffs and quotas was still a live and popular option in all of the Western democracies. It was also a time when a creditable case could be made that the rise of the Nazi Party—and thus World War II—was a result of the Great Depression, which had been worsened by the self-destructive turn to protectionism on the part of the democracies after 1929. None of that context exists today to make the case for a TTIP.

Furthermore, GATT rapidly became part of the Western alliance against the USSR, because most of the West's allies were in it and most Communist nations were not. This reflected the fact that part of the West's strategy during the Cold War was to make the Soviet Union feel the weight of its own failed system by trading as little as possible with it. Today, even if a TTIP comes into existence, it will not mark a clear dividing line between the Western-aligned democracies and the world's autocratic nations, because the autocracies are major players in the world's economy. Moreover, many TTIP advocates, like Kupchan, are eager to nullify whatever potential a TTIP has to unify democracies by broadening its membership as rapidly as possible.

There is much to be said for the argument that the world's democracies should advance economic freedom to improve both their own prosperity and, as a result, their geopolitical position, but as a defense of

a TTIP, this argument rests on a number of questionable or flawed premises.

- To the extent that it relies on a TTIP to drive U.S. and EU growth, it is incorrect because a TTIP, at best, will make only a marginal difference to U.S. or EU growth;
- To the extent that it rests on an analogy between a TTIP and the post–World War II environment, it is mistaken because the broader economic, political, and strategic differences between those eras make the comparison extremely weak, if not deceptive; and
- To the extent that it maintains that a TTIP will cause the U.S. to pivot back toward Europe or demonstrate to the rest of the world that the U.S.–EU relationship still matters, it rests either on mere assertions or on a failure to assess the extent of a TTIP's likely economic impact.

The EU and U.S. economies are growing more slowly than they could or should, not primarily because of their trading policies toward each other but because of their own relatively high levels of spending, regulation, and taxation. A TTIP will not change any of these policies. If a TTIP extended the EU's regulatory model, it would make the U.S. less well off. No geopolitical argument can make that negative into a positive. Only a TTIP agreement that boosts economic freedom would benefit people in addition to those living in the United States and the EU, and only such an agreement could encourage other countries to follow suit.

The EU and China: The Real Geopolitics of the TTIP

The TTIP, to an extent, has been promoted under false pretenses. As U.S. Ambassador to the EU William Kennard has acknowledged, the claim that the TTIP is a response to the EU's financial crisis was never a serious one. The forced and excessive optimism about the TTIP's economic advantages and the geopolitical arguments that flow from them is one good reason to be skeptical about a TTIP: A genuinely beneficial agreement would not have to be sold with such hype.

Over the past months, the real geopolitical arguments for a TTIP have emerged. These arguments

are more serious—though not ultimately more credible—than those commonly offered, and they deserve careful consideration. The essence of the core geopolitical case for a TTIP is that it is part of both the U.S.’s Asian “pivot” and the EU’s response to it.

From the EU’s point of view, a TTIP is in a sense just one of the free trade areas (FTAs) that it has negotiated or sought to negotiate with a variety of trading partners. The EU’s record of concluding such agreements (outside Europe, it has 18 active FTA agreements) is comparable to that of the U.S. (which has 20 active FTAs) though worse than that of the European Free Trade Association (a group of European non-EU members that has FTAs with 35 nations). The EU has made the negotiation of such areas a priority, in part for sensible economic reasons but also in part because trade negotiations are an exclusive EU competence—unlike, for example, foreign and defense policy—and negotiating FTAs therefore helps to justify the EU’s existence.

Even more important to the EU than the credibility to be derived from negotiating the TTIP is its value as a hedge against the U.S. pivot to Asia and, more broadly, the relative decline of Europe in the world.

On other hand, though, a free trade area with the U.S. is not like a free trade area with any other nation. Most of the EU’s existing FTAs are with relatively small economies. The most significant is the 2011 FTA with South Korea, which has an economy that comprises less than 2 percent of global GDP. The U.S. economy is more than 10 times larger. The main advantage of an FTA with the U.S. from the point of view of the EU, though, is not the size of the U.S. market. It is, first, the legitimacy that the EU will derive from concluding an agreement with the U.S. and, second, the hope that such an FTA will counteract—or give the appearance of counteracting—the Obama Administration’s pivot to Asia by demonstrating the continued importance of the EU to the U.S. economy and thus to U.S. policymakers.

The legitimacy derived from negotiating with the U.S. or even appearing in the same room should not be underestimated. For example, during the Cold War, the Soviet Union sought arms control negotiations with the U.S. in part because such negotiations implied that the USSR and the U.S. were equals.

The EU is well aware of such considerations, a fact highlighted in a leaked EU Commission document in late 2013. This document’s discussion of “coordination of respective communications activities around TTIP” stressed that the EU’s overall approach was to emphasize that TTIP was about the EU’s “economic gains and global leadership on trade issues” but that, in order to achieve this, it was vital to “[make] clear that this is a negotiation between equals.” The commission recognized that, even economically, this was not fully true:

Many of the fears about what TTIP may represent are linked to a perception that the EU is not in a sufficiently strong position to engage with the United States. Some of this also stems from the fact that the EU is currently in a weaker economic position than the US and that therefore we need TTIP more than they do.¹⁹

For the EU, merely negotiating a TTIP helps to give the perception of equality with the U.S. that the commission recognizes is lacking.

But even more important to the EU than the credibility to be derived from negotiating the TTIP is its value as a hedge against the U.S. pivot to Asia and, more broadly, the relative decline of Europe in the world. This decline stems fundamentally from Europe’s and the EU’s shrinking share of world GDP, which has been accompanied by Europe’s desire to focus on so-called soft power and a corresponding lack of interest in the harder forms of power.

The U.S. has naturally responded to the relative rise of other parts of the world—Asia in particular—by focusing more on them and less on Europe. This is a natural development since only if the U.S. took leave of its senses would it continue to treat Europe as if 2014 were 1945. Whatever the difficulties with the Obama Administration’s Asia pivot in practice, it reflects a reality that predates this Administration and which will endure after it leaves office: Europe

19. “Leaked European Commission PR Strategy: ‘Communicating on TTIP,’” Corporate Europe Observatory, November 25, 2013, <http://corporateeurope.org/trade/2013/11/leaked-european-commission-pr-strategy-communicating-ttip> (accessed July 2, 2014).

is not as important to the world as it used to be and therefore is not as important to the U.S. as it used to be.

The EU, its member nations, and Europe as a whole naturally resent and even fear this development; but rather than taking energetic steps to ameliorate it—which would involve promoting economic freedom in Europe to raise its growth rate and thereby reduce the speed at which the locus of world power is shifting—it has instead focused on measures like the TTIP, which are less painful since, as the EU tells the story, the TTIP will raise the EU’s rate of economic growth while not requiring it to make any changes in its regulatory system. Indeed, if a TTIP induces the U.S. to move toward the EU’s model, it could make the EU better off vis-à-vis the U.S. by outsourcing the EU’s lack of competitiveness to the U.S.

More broadly, commentators and governments alike see a TTIP as a way to tie the U.S. back to Europe and to the EU in particular.

- Clemens Wergin calls the TTIP the centerpiece of a “pivot to Europe” and, echoing the phrasing of the U.S. Constitution, describes it as a project to “bind both sides of the Atlantic into a more perfect Western union.”²⁰
- The German Marshall Fund of the United States describes the TTIP as ideal for “a world where the United States pivots to Asia and where Europeans spend less on defense” because, without close security ties, “transatlantic relations are going to be ... more regimented and rule based in trade and investment,” which is “exactly what is needed to safeguard the transatlantic relationship in the 21st century.”²¹

- A recent report by the Foreign Affairs Committee in the British House of Commons agreed that a “TTIP might provide a renewed underpinning for the Transatlantic alliance” and sympathetically recorded the contention of one witness that if the U.S. detaches from NATO, “a constant process of regulatory negotiation, convergence and debate arising from TTIP might take its place.”²²
- When German Foreign Minister Frank-Walter Steinmeier addressed a U.S. audience in February 2014, he described the TTIP as central to the creation of “transatlantic ties for a new generation.”²³

The common theme of these assertions is that the U.S. is drifting toward Asia and away from Europe—and the EU—and that a TTIP is one means of bringing the U.S. back. In reality, it is far from plausible that the U.S. strategic commitment to the defense of Europe and the transatlantic ties forged during and after World War II can be replaced by negotiations over marine equipment safety standards, arguments about subsidies to Boeing and Airbus, and complaints about French restrictions on U.S. television shows. But these claims are made; they are taken seriously; and they form, on the EU side, a central reason for the EU’s enthusiasm for a TTIP.

The timing of a TTIP is itself revealing. The initial consideration of a TTIP began at the EU–U.S. Summit meeting on November 28, 2011, barely a month after then-Secretary of State Hillary Clinton published her article on “America’s Pacific Century,” which heralded the “pivot to Asia” policy by calling for “a substantially increased investment—diplomatic, economic, strategic, and otherwise—in the Asia–Pacific region.”²⁴ From the EU’s point of view, a TTIP is a natural response to the “pivot.”

20. Wergin, “America Needs a Pivot to Europe.”

21. Trine Flockhart, “Can TTIP Be an ‘Economic NATO’?” German Marshall Fund of the United States blog, October 14, 2013, <http://blog.gmfus.org/2013/10/14/can-ttip-be-an-economic-nato/> (accessed July 2, 2014).

22. U.K. House of Commons Foreign Affairs Committee, “Government Foreign Policy Towards the United States,” HC 695, April 3, 2014, para. 52, <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmfa/695/69509.htm> (accessed July 2, 2014).

23. Frank-Walter Steinmeier, German Federal Minister for Foreign Affairs, “Transatlantic Ties for a New Generation: Why They Are Important and What We Need to Do About Them,” Statesmen’s Forum address at the Brookings Institution, February 28, 2014, <http://www.brookings.edu/events/2014/02/28-steinmeier-transatlantic-partnership> (accessed July 2, 2014).

24. Hillary Clinton, “America’s Pacific Century,” *Foreign Policy*, October 11, 2011, http://www.foreignpolicy.com/articles/2011/10/11/americas_pacific_century (accessed July 2, 2014).

The U.S. view of a TTIP is somewhat different. The Obama Administration supports the EU and a TTIP not because it cares deeply about Europe, but because it does not care deeply. It is easier for the U.S. to outsource U.S. policy toward Europe and the European periphery to the EU than it is to dedicate American time and attention to it. The TTIP is, in this sense, a bone thrown to the EU by an Administration that is not particularly interested in the region.

The EU's enthusiasm for a TTIP is misguided. The EU is being bought off cheaply by a few nice words and a trade measure behind which the Administration has put little weight in exchange for being silent about the broader U.S. disengagement from Europe. But the key to U.S. support for a TTIP—a sentiment that is increasingly shared, or at least stated, by European leaders—is not about Europe at all.

A major reason why the U.S. has supported the TTIP is its recognition that the World Trade Organization's (WTO's) Doha Round has run into the sand and its belief that, through a TTIP, it can create what in essence would be a new trading organization. This organization would be founded by and headed by the U.S. and the EU, but because of its size and influence, it would attract other members and would supposedly be able to set standards even for nations that did not formally join it.

If coupled with the Trans-Pacific Partnership (TPP), a trade negotiation that began in 2005 and is now being conducted between the U.S. and 11 other Pacific nations, a TTIP would create a bloc of nations accounting for approximately 60 percent of world GDP. Of the world's 15 largest economies, the only nations outside the TPP, TTIP, NAFTA, and the U.S.–Korea Free Trade Area would be the so-called BRIC nations: Brazil, Russia, India, and China, wherein China is larger and more important economically than the other three put together.

In short, a TTIP is not fundamentally about the EU at all. It is an ambitious attempt to create a mech-

anism that will write the rules of the global trading order—and the focus of that attempt is China.

This focus on China is now admitted by most TTIP advocates. It is widely acknowledged that, at a minimum, the point of a TTIP, as Secretary of State John Kerry put it in May 2014, is to “establish a way of doing business that can serve as the global gold standard.”²⁵ The European Commission notes that the purpose of a TTIP is, by harmonizing U.S. and EU standards, to “act as a basis for creating global rules.”²⁶ German Chancellor Angela Merkel similarly asserts that by concluding a TTIP, the U.S. and the EU will be better able to set high standards for future global trade agreements.²⁷ Foreign Minister Steinmeier asks, “if the U.S. and Europe don't lead the way how will we work things out on the global scale?” and calls a TTIP “a huge opportunity to shape the rules of the next phase of globalization together.”²⁸

The Obama Administration supports the EU and a TTIP not because it cares deeply about Europe, but because it does not care deeply. It is easier for the U.S. to outsource U.S. policy toward Europe to the EU than it is to dedicate American time and attention to it.

It is not just politicians who make this point. The German Marshall Fund claims that both the U.S. and the EU are losing global influence and that a TTIP “could constitute an excellent measure against this new shared challenge ... [by allowing the U.S. and the EU to continue] to define an important portion of the rules underpinning the rules-based international order ... [and] face a set of new and emerging challenges in the economic realm.”²⁹ At the Woodrow Wilson

25. Press release, “John Kerry: On the Occasion of Europe Day,” U.S. Department of State, May 8, 2014, <http://www.state.gov/secretary/remarks/2014/05/225839.htm> (accessed July 7, 2014).

26. European Commission, “Questions and Answers,” July 30, 2014, <http://ec.europa.eu/trade/policy/in-focus/ttip/questions-and-answers/> (accessed August 29, 2014).

27. Sean Hackbarth, “Chancellor Merkel: Transatlantic Trade Agreement Would Energize Global Economy,” U.S. Chamber of Commerce, May 2, 2014, <https://www.uschamber.com/blog/chancellor-merkel-transatlantic-trade-agreement-would-energize-global-economy> (accessed July 7, 2014).

28. Steinmeier, “Transatlantic Ties for a New Generation.”

29. Flockhart, “Can TTIP Be an ‘Economic NATO’?”

Center, Samuel Benka argues that “the greatest benefit” of a TTIP is that “it can enable the U.S. and the EU to negotiate a truly 21st century agreement that can be a template for other agreements and even for the World Trade Organization itself.”³⁰

At the London School of Economics, Robert Basedow sums it up with the observation that:

[The] predicted humble economic benefits of TTIP—a maximum of 0.5 percent of GDP—underscore that the agreement is primarily about setting the regulatory agenda of world trade for future decades. The underlying idea is that the American and EU economies jointly represent such a large share of global GDP that third countries will emulate regulatory approaches taken under TTIP.³¹

The number of politicians, officials, and experts who have made a similar assertion is impressive.

By itself, of course, the claim that a TTIP will set the rules of the global trading order for the 21st century does not mean that it is aimed at any nation in particular, but the focus on China has become obvious. It is to an extent a simple matter of math: If the TTIP and TPP are in part about setting global rules for nations outside the club, by far the nation most outside the club is China. If these new trade agreements are about the U.S.’s and the EU’s loss of global weight, the most important nation gaining global weight is, again, China.

Revealingly, when the Foreign Affairs Committee of the House of Commons reported on the TTIP, it noted that the “regulatory rules and standards set in TTIP could ... make their impact felt

in the rest of the world, including among emerging economies with typically lower standards such as China.”³² Dutch central bank economist Piet Buitelaar similarly asserts that “new rules will raise the threshold for Chinese companies to enter the EU and US markets.”³³

According to *The Guardian*, both EU and U.S. officials have said that the TTIP “was also intended as a bulwark against the economic challenge of China, aimed at forming a bloc powerful enough to lay down the rules of international trade and investment.”³⁴ The *Financial Times* asserts that the TPP and TTIP “are seen by some geopolitical strategists as a way for the U.S. to respond economically to the rise of China” and quotes EU Trade Commissioner Karel De Gucht: “The Chinese realize that they have to engage more and more in international trade.... They realize that they cannot stay outside of the club.”³⁵

In short, a TTIP, while it serves the short-term purpose of giving the U.S. and the EU something to talk about and keeping the EU happy, is part of a U.S.-led grand strategy that seeks to commit most of the economically vital parts of the world to a new, uniform, and comprehensive system of rules. This system would be the result of harmonizing the U.S. and EU regulatory systems and has the goal of pulling other nations into its orbit and, ultimately, of remaking the Chinese economy (and hence its political system) into one that would be more transparent, more rule-based, and, implicitly, more democratic than Beijing currently permits.

This is, if nothing else, a big idea, but not all big ideas are good ideas, and the strategy of relying on the TTIP has more than its fair share of caveats and cautions.

30. Samuel Benka, “What Are the Benefits of TTIP?” Woodrow Wilson Center, February 3, 2014, <http://americatradepolicy.com/what-are-the-benefits-of-the-ttip/#.U7sTRrGmUs3> (accessed July 7, 2014).

31. Robert Basedow, “Far from Being a Threat to European Democracy, the US–EU Free Trade Deal Is an Ideal Opportunity to Reform Controversial Investment Rules and Procedures,” London School of Economics and Political Science *LSE Comment*, July 2, 2014, <http://blogs.lse.ac.uk/europpblog/2014/07/02/far-from-being-a-threat-to-european-democracy-the-eu-us-free-trade-deal-is-an-ideal-opportunity-to-reform-controversial-investment-rules-and-procedures/> (accessed July 8, 2014).

32. U.K. House of Commons Foreign Affairs Committee, “Government Foreign Policy Towards the United States.”

33. “Interview: Dutch Economist Says Transatlantic Trade Deal Could Influence China’s Growth,” *Global Times*, January 31, 2014, <http://www.globaltimes.cn/content/840295.shtml#UvETvldVXZ> (accessed July 7, 2014).

34. Julian Borger, “EU Exit Would Put US Trade Deal at Risk, Britain Warned,” *The Guardian*, May 27, 2013, <http://www.theguardian.com/business/2013/may/27/eu-exit-risks-us-trade-deal> (accessed July 9, 2014).

35. James Politi, “U.S. Trade Deals Remain on Track, Says Froman,” *Financial Times*, February 2, 2014, and Shawn Donnan, “China Craves Invitation to Join Global Trade Club,” *Financial Times*, April 2, 2014. De Gucht’s comment is also disturbing because trade agreements like a TTIP should not be viewed as closed “clubs” but as open agreements that encourage market-oriented economic policies.

First, if a TTIP is to serve as the foundation for a comprehensive, rules-based trading order, it will have to be based on harmonizing U.S. and EU regulations. It is unlikely that such a system would do much to alter China's growth—because if it did seriously reduce Chinese growth, China would never join it—and it could hurt U.S. growth by imposing more regulations on the U.S. economy.

Second, the world already has a rules-based trading order: the order set by the World Trade Organization. When China sought membership in the WTO, hopes were high that admitting it, as President Bill Clinton put it in 2000, would “move China faster and further in the right direction.”³⁶ A decade later, as these hopes have not been fulfilled, expectations are far more measured. As *The Economist* put it in 2011, “the last decade [in China] has seen huge social changes, but these have been a legacy mainly of pre-WTO membership reforms, such as the privatization of housing and the loosening of controls on internal migration.”³⁷

In June 2014, China analyst Derek Scissors argued that the country still depended far too much on foreign technology, a substantial amount of it obtained illicitly, and pointed out that China has paid no significant price for its theft of this foreign intellectual property.³⁸ As the U.S. Trade Representative's report on China's compliance with its WTO commitments in 2013 dryly pointed out, “Chinese government policies and practices raised increasing concerns that China had not yet fully embraced the key WTO principles.”³⁹

In short, the approach of using a rules-based trading order to reform China's business practices has already been tried. This history points out that a strategy of reforming Chinese methods by applying external rules that cannot touch its internal behav-

ior unless the Chinese government wants them to do so is easy to state but hard to apply.

Third, while TTIP standards would apply to Chinese investment in the U.S. and the EU, they would not apply to Chinese actions inside China unless China itself joined the TTIP. That outcome is clearly desired by some TTIP advocates, but any set of standards created by the TTIP would then face the same problem as those of the WTO: They would have to be enforced. While the TTIP might be defended as a further effort to slowly nudge China toward better behavior, the U.S. already has, in the WTO, an instrument that can be used for this purpose.

Negotiating the TTIP for the sake of creating a new institution to nudge China would be like building a mountain for the sake of obtaining a molehill. A good, market-oriented TTIP could promote growth in the U.S. and the EU and thereby encourage similar reforms in China and other countries, but it would do this primarily because it would demonstrate the power of economic freedom, not because it would use external constraints to compel China to reform.

Fourth, no matter how well the TTIP works, it cannot touch the fundamental issue, which is that, largely because of earlier Chinese reforms (and its high rate of fixed asset investment), the Chinese economy is growing and hence changing the world's geopolitical balance. While there are many unknowns with respect to China's economic growth, the halting pace of further Chinese reforms, and the significance of China's illicit acquisitions of foreign technology, the TTIP itself is unlikely to affect China's growth in any fundamental way.

That growth would pose significant geopolitical challenges for the U.S. and Europe in any case, and the challenges will be far more fundamental as long as Beijing remains an autocracy dominated by the

36. William J. Clinton, “Remarks at the Paul H. Nitze School of Advanced International Studies,” March 8, 2000, <http://www.gpo.gov/fdsys/pkg/WCPD-2000-03-13/html/WCPD-2000-03-13-Pg487-2.htm> (accessed July 8, 2014).

37. “Chinese Politics and the WTO: No Change,” *The Economist*, December 10, 2011, <http://www.economist.com/node/21541461> (accessed July 8, 2014).

38. Derek M. Scissors, “Without Drastic Changes, China Could Become Japan,” Real Clear Markets, June 4, 2014, http://www.realclearmarkets.com/articles/2014/06/04/without_drastic_changes_china_could_become_japan_101100.html (accessed August 20, 2014), and Derek M. Scissors, “Possibly Doing Something About Chinese Commercial Espionage,” AEIdeas, May 19, 2014, <http://www.aei.org/article/economics/innovation/possibly-doing-something-about-chinese-commercial-espionage/> (accessed July 8, 2014).

39. U.S. Trade Representative, *2013 Report to Congress on China's WTO Compliance*, December 2013, p. 3, <http://www.ustr.gov/sites/default/files/2013-Report-to-Congress-China-WTO-Compliance.pdf> (accessed July 8, 2014), and press release, “House, Senate Trade Leaders Send Letter to Administration on U.S.–China Strategic & Economic Dialogue,” Office of House Committee on Ways and Means Chairman Dave Camp, July 8, 2014, <http://waysandmeans.house.gov/news/documentsingle.aspx?DocumentID=387067> (accessed August 20, 2014).

Chinese Communist Party. Since a TTIP cannot alter the basic pattern of Chinese growth or convince the Communist Party to give up power, it cannot have the effect on China that some of its advocates imagine.

Fifth, the fundamental argument for a TTIP is declinist. It argues that the geopolitical balance of the world is shifting away from the U.S. and the EU and that the way to mitigate that shift is to write new rules that will encourage (or constrain) China to behave better. This makes the TTIP fundamentally different from the U.S.'s post-1945 trade diplomacy, which was certainly motivated in part by concerns about the Soviet Union but was based fundamentally on the optimistic belief that the U.S. and its democratic allies could out-grow the Communists if they defended and extended the freedom of their own economies.

The prevailing case for a TTIP rests on a sincerely held liberal belief in the power of international institutions to create regimes of behavior and norms of conduct.

The new trade diplomacy, by contrast, is based on the pessimistic belief that the West cannot outgrow the rest, and so everyone else should be tied down with rules that will somehow enforce themselves even absent the economic and military leadership of the U.S. and Europe. This is not a strategy: It is a prayer.

In short, the prevailing case for a TTIP rests on a sincerely held liberal belief in the power of international institutions to create regimes of behavior and norms of conduct and a parallel faith in the idea that diplomacy is the best way to keep the peace.⁴⁰ This belief is closely identified with the scholarly work of Joseph Nye on “soft power” and G. John Ikenberry on “liberal internationalism.”

However, as Jakub Grygiel points out in a recent review of this school of thought, it is based “on the belief that the international system, a self-reinforc-

ing web of multilateralism, is leading us to a world where the exercise of power will be futile and counterproductive.” While it is quite clear why China wants to be an international actor, it is far from clear that it will be liberal. The result is that “liberal internationalism” of the sort embodied in the TTIP is based on belief in “a process of [international] interaction with no solid foundation in principle—a liberal argument without liberty at its core.”⁴¹

To put it bluntly, the argument that international institutions based on the principles of liberty (such as free trade) can survive and thrive in the absence of a liberal superpower (such as the U.S. since 1945) to back them is nothing more than a theory. To the extent that any TTIP is about writing more rules and not about freeing trade, it becomes less attractive to the U.S.

Conclusion

A conservative case for a TTIP would begin with an agreement that promotes economic freedom, which would benefit people in both the United States and the EU and could even encourage the adoption of similar policies elsewhere. The prevailing liberal case for a TTIP, however, begins with the argument that it will promote new forms of regulation, supposedly to achieve broader geopolitical objectives. But it would not be sensible to set out to redress the shift in the geopolitical balance of power, which is the result of the fact that the West is growing more slowly than the rest of the world, by adopting measures that are likely to result in increased regulation and so make the West grow even more slowly.

Nor, regardless of their supposed economic merits, should the U.S. ever join transnational institutions that would have the ability not merely to monitor commitments freely entered into, but to select and design new commitments. The preservation of U.S. sovereignty—the inherent right to self-government—is too important to risk. Any acceptable TTIP must promote individual freedom and preserve U.S. sovereignty. It must not impose new layers of regulations by empowering a transnational U.S.–EU bureaucracy.

40. Pew Research Center, *Beyond Red vs. Blue: The Political Typology*, June 26, 2014, p. 63, <http://www.people-press.org/files/2014/06/6-26-14-Political-Typology-release1.pdf> (accessed July 8, 2014). The study found that among “Solid Liberals,” an overwhelming share of 91 percent believe in diplomacy, not deterrence.

41. Jakub J. Grygiel, “Power Surge,” *Claremont Review of Books*, Vol. 12, No. 2 (Spring 2012), https://www.sais-jhu.edu/sites/default/files/20120510_CRBSpring2012Grygiel.pdf (accessed July 8, 2014).

Even though the TTIP alone has never offered a plausible means to revive EU economies from their euro-induced swoon, and even though its contributions to transatlantic solidarity and the Asian pivot strategy have been overplayed, the fact remains that these claims were made by political leaders on both sides of the Atlantic. If a TTIP fails to materialize quickly—or at all—it will be seen as a failure of transatlantic leadership. In short, the very ambition that made a TTIP appear to be a plausible flag around which to rally now risks doing further damage to U.S.–European relations.

A free-market TTIP would be good for the U.S. and the EU alike, and it is possible that the current negotiations will result in such an agreement, but a TTIP simply cannot generate enough growth on its own to be more than one factor of many in the transatlantic economies. Nor is it a plausible mechanism for either reforming or constraining China. Leaving aside all other considerations, any rules created by a TTIP will have to be enforced, and there is no reason to believe that this would be any easier than enforcing the WTO's existing rules. If China were the kind of place that reliably enforced rules on itself, new rules would not be thought necessary. As it is,

new rules are unlikely to work any better than the old rules.

Worst of all, the enthusiasm for a TTIP on the geopolitical level is based on a combination of declinism and misplaced nostalgia for the post-1945 era, when imaginative, U.S.-led free trade diplomacy really did play a vital economic and geopolitical role. That diplomacy was based, above all, on the belief that the free nations of the world would be stronger and more prosperous if they were even freer.

The fundamental error of current U.S. policy is to argue that the U.S.—and the EU—will be better off if they can work together to devise new and more far-reaching forms of regulation. That is not a cure: It is the disease.

—*Ted R. Bromund, PhD, is Senior Research Fellow in, Nile Gardiner, PhD, is Director of, and Luke Coffey is Margaret Thatcher Fellow in the Margaret Thatcher Center for Freedom, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation. The authors thank Erica Munkwitz, Operations Coordinator in the Thatcher Center, and Daniel Kochis, Research Assistant in the Thatcher Center, for their assistance with this paper.*