

TTIP's Geostrategic Implications

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Chairman Poe, Ranking Member Keating, distinguished members of the Committee, the Transatlantic Trade and Investment Partnership (TTIP) currently under negotiation by the United States and the European Union (EU) promises to unleash significant opportunities to generate jobs, trade and investment across the Atlantic. Yet while much discussion has focused on TTIP's potential economic impact, there has been little exploration of its geostrategic and national security implications.

TTIP is first and foremost an economic negotiation, but it is far more than just another trade agreement. TTIP seeks nothing less than to reposition the U.S. and its European allies and partners for a more diffuse world of intensified global competition.

TTIP is important to U.S. national security and foreign policy in three ways.

First, it has the potential to reinforce America's geostrategic base -- the transatlantic alliance.

Second, it can enable the U.S. and its allies to be more effective when engaging third countries and addressing regional and global challenges.

Third, it can help us strengthen the ground rules of the international order. Let us look at each of these elements in turn.

TTIP and the Transatlantic Alliance

TTIP is politically important to the transatlantic relationship itself. The transatlantic economy generates \$5.5 trillion in total commercial sales a year and employs up to 15 million workers. It is the largest and wealthiest market in the world, accounting for three-quarters of global financial markets and over half of world trade. It accounts for over 35% of world GDP in terms of purchasing power. No other commercial artery is as integrated. In many ways, the transatlantic economy is a major geostrategic base for the United States.

TTIP is rooted in a core truth: despite the rise of other powers the United States and Europe remain the fulcrum of the world economy, each other's most important and profitable market and source of onshored jobs, each other's most important strategic partner, each other's closest partner in terms of values, and still a potent force in the multilateral system—when the two partners work in concert. The transatlantic relationship remains a foundational element of the global economy and the essential underpinning of a strong rules-based international order. Americans and Europeans literally cannot afford to neglect it. TTIP is evidence that the two partners are committed to open transatlantic markets, strengthen global rules and leverage global growth.

Despite this strength and potential, the U.S.-EU relationship regularly punches below its weight and fails to capitalize on significant opportunities for American and European citizens, companies, workers, consumers and the multilateral system they helped bring to life. In recent years the relationship has been buffeted by daunting economic challenges on each side of the Atlantic.

Without U.S. fiscal solvency, economic growth, job creation and an end to partisan gridlock, Washington is unlikely to be the type of consistent, outward looking partner that Europeans need and want. The United States has the same stake in Europe's success. Europe's protracted sovereign debt crisis and anemic economic recovery threaten to drain U.S. confidence in Europe and its institutions and derail American support for major transatlantic policy initiatives. The single most important effort the partners could make to improve their ability to act together abroad is for each to get its act together at home. To the extent that TTIP can energize growth and restore mutual confidence, it can help get the relationship back on track.

TTIP can be an operational reflection of basic values shared across the Atlantic. TTIP's fundamentals are those of democratic societies rooted in respect for human rights and the rule of law. The United States and the European Union are among the few entities that include basic labor, environmental and consumer protections in their trade agreements. They boast the two most sophisticated regulatory systems in the world. An agreement that commits both parties to sustain and uphold such principles and protections, not only vis-a-vis each other but together around the world, would be a strong affirmation of common values and a powerful instrument to ensure that such standards advance globally.

In all these ways, TTIP can be both a symbolic and practical assertion of Western renewal, vigor and commitment, not only to each other but to high rules-based standards and core principles of international order. It can be assertive, yet need not be aggressive. It challenges fashionable notions about a "weakened West."

TTIP can also serve to reassure each side of the Atlantic about each other. In recent years the transatlantic relationship has been challenged less because either partner assigns lesser value to the same norms, but rather that both have assigned lesser value to each other, due in particular to the shift away from Europe as the central theater of world affairs to a more diffuse world, which is exacerbated by the mix of generational and ethnic change within American politics towards

cohorts who put less value on relations with Europe. The challenge is less antipathy than apathy, not more conflict but rather less priority.

This relative inattention had had political consequences. In many quarters NATO is perceived to be wobbly. Moreover, a military alliance is insufficient as the sole anchor to what is a much broader and deeper transatlantic community of values and interests. Many Europeans are worried that the U.S. "pivot" to Asia will translate into less U.S. attention and commitment to Europe. Creation of what would essentially be a Euro-American market, together with a commitment to work together to advance core Western norms and standards, would offer reassurance that Europe is in fact America's "partner of choice" and that the pivot to Asia is not a pivot away from Europe.

Europeans are more likely to have greater faith in America's security commitments if they are anchored by strong trade and investment links. TTIP would also reassure Americans that the European Union is committed to look outward rather than inward. It would provide a new sense of purpose and direction for the transatlantic relationship at a time when transatlantic solidarity has been challenged by Russia's forceful annexation of the Crimean region of Ukraine and its direct military intervention to support armed separatists in other parts of the country.

Some proponents have characterized TTIP as an "economic NATO." This is a mistake that easily invites misinterpretation. In the American political context, the term "economic NATO" can be convenient shorthand to convey that TTIP is about a renewed sense of transatlantic solidarity. But for many Europeans the term doesn't translate so readily. The term's military allusion, for instance, conveys the impression that TTIP is directed against a particular threat, which it is not. In addition, NATO is dominated by one large military superpower, whereas TTIP is comprised of two roughly equal economic entities; references to an "economic NATO" offer unnecessary fodder to European critics concerned that the TTIP is a thinly veiled U.S. effort to assert economic dominance and steamroll the European way of life. And for other Europeans who are worried about America's staying power in Europe, the term raises concern that the United States may be diluting its strategic commitment to Europe in favor of a more transactional commercial partnership. For all of these reasons, TTIP is best characterized as offering a second anchor to the transatlantic partnership, in addition to NATO, and not as an "economic NATO." TTIP and NATO are two sides of the same coin; one cannot substitute for the other.

TTIP is also important to each partner's own goals for itself. The United States, for example, is also negotiating a second mega-regional economic agreement, the Trans-Pacific Partnership, with 11 other Asia-Pacific partners. If TTIP and TPP are successful, the United States and its partners will have opened trade and investment across both the Atlantic and the Pacific with countries accounting for two-thirds of global output. Since the United States is the only party to both initiatives, the negotiations give Washington a distinct advantage in leveraging issues in one forum to advance its interests in the other, while potentially reinvigorating U.S. global leadership.

Terms of Engagement: Working with Other Powers

Second, TTIP is important in terms of how the transatlantic partners together might best relate to rising powers, especially the emerging growth markets. Whether those powers choose to challenge the current international order and its rules or promote themselves within it depends significantly on how the United States and Europe engage, not only with them but also with each other. The stronger the bonds among core democratic market economies, the better their chances of being able to include rising partners as responsible stakeholders in the international system. The more united, integrated, interconnected and dynamic the international liberal order – shaped in large part by the United States and Europe – the greater the likelihood that emerging powers will rise within this order and adhere to its rules. The looser or weaker those bonds are, the greater the likelihood that rising powers will challenge this order. So a key foreign policy goal must be to protect and reinforce the institutional foundations of the international rules-based order, beginning with the partnership between the United States and Europe.

There are already signs that TTIP is affecting third countries such as Brazil and Japan. TTIP was "the elephant in the room" at the last EU-Brazil summit; it is causing Brazilian leaders to reframe how they think of their evolving role and position. Japan's decision to join the TPP arguably was due as much to the start of TTIP negotiations as to inner-Asian dynamics. With the EU now also negotiating a bilateral trade agreement with Japan, both the United States and the EU are in direct talks with Tokyo about opening the Japanese market -- a goal that for decades has seemed unattainable.

TTIP has particular meaning for U.S. and EU relations with China and with Russia.

TTIP is lazily portrayed as an effort to confront and isolate China. Yet is less about containing China than about the terms and principles guiding China's integration and participation in the global economy. China's burgeoning trade with both the United States and Europe attests to U.S. and EU interest in engaging China, not isolating it. Yet Beijing has yet to embrace some basic tenets of the international rules-based order, and has sought to translate its economic clout into military influence, for instance saber-rattling on territorial claims in the South China Sea; or into diplomatic and political influence, for instance by holding down the value of its currency to boost its companies, leveraging its near-monopoly on rare earths to advance its strategic objectives, or directing state-owned companies not just to generate profits but to wield power on its behalf. TTIP, TPP and related initiatives are important instruments to help frame Beijing's choices -- by underscoring China's own interests in an open, stable international system as well as the types of norms and standards necessary for such a system to be sustained. China itself has changed its position and signaled a willingness to join plurilateral talks on services. Its motivations remain unclear, but there is no denying that TTIP and related initiatives are injecting new movement and energy into efforts to open markets and strengthen global rules.

TTIP is also important with regard to U.S. and EU relations with Russia and Eurasia. TTIP is a values-based, rules-based initiative that is likely to strengthen Western economic and social

cohesion, reinforce U.S. commitment to Europe, strengthen transatlantic energy ties, and contribute to greater attractiveness of the Western model. TTIP would also bolster the resilience of central and east European economies, stimulate U.S. investment and enable such countries to more easily resist Russian encroachment. These changes are likely to resonate across Wider Europe, especially Ukraine, Moldova, Georgia and even Belarus.

This is anathema to the current leadership in the Kremlin. TTIP presents a huge challenge to the Kremlin's efforts to divide Europeans from Americans. It offers something that the Kremlin cannot match: a transparent, mutually beneficial agreement that creates a rules-based framework for international cooperation. A reinvigorated transatlantic marketplace among highly-connected, highly-competitive democracies, whose people enjoy greater economic growth and rising standards of living, would challenge the Kremlin's version of "managed democracy;" render Russia's own one-dimensional natural-resource-based economic model increasingly unattractive; and consign its rival economic project, the Eurasian Economic Union, to irrelevance. Greater U.S.-EU energy cooperation would blunt Russia's monopolistic approach to European energy markets. And if such benefits extended to non-EU neighbors, particularly Ukraine, Russians themselves are likely to ask why their own country can't be better run.

For all these reasons, the Kremlin is conducting "active measures" in Eastern Europe, and in the EU itself, including tactics of pressure and intimidation, to derail the TTIP. The West should push back while indicating a readiness to engage with Russia economically on the basis of the very rules and procedures being advanced through the TTIP -- if Russia adheres to obligations it has made in the WTO and, in particular, with regard to the inviolability of borders and principles enshrined in the Helsinki Final Act. The West is not excluding Russia; Russia is excluding itself.

TTIP and the International Rules-Based Order - Standard-Makers or Standard-Takers?

Third, TTIP is a potentially important instrument to bolder the international rules-based order. Since World War II the United States and the evolving European Union, each in its own way, has been a steward of the international rules-based order. Yet as new powers rise, older powers rise again, and the West faces challenges at home, the prospect now looms that Europeans and Americans could become standard-takers rather than standard-makers.

Europeans and Americans share an interest in extending prosperity through multilateral trade liberalization. The December 2013 Bali agreement on trade facilitation is a sign that piecemeal progress can be made. But the overall Doha Round has been underway for almost a decade and has registered only marginal progress, with no final agreement in sight, and the WTO system is under challenge, especially from emerging growth markets that have benefited substantially from the system.

Given this situation, EU and U.S. officials are using TTIP to unblock the WTO Doha negotiations and jumpstart multilateral negotiations. There is precedence for this. When the

Uruguay Round stalled in the early 1990s, the United States, Canada and Mexico negotiated the North American Free Trade Agreement in just 14 months in 1992; it came into force in 1994. This plurilateral effort had a catalytic effect on the multilateral system; the Uruguay Round restarted and concluded successfully. The Information Technology Agreement negotiated by the United States and the EU also eventually became the basic multilateral agreement in this area. With the Doha Round stalled, we may again be at a point where plurilateral initiatives can ultimately reenergize the multilateral system.

Even a successful Doha Round agreement, however, would not address a host of issues that were not part of its mandate and yet are critical to the United States, the European Union, and the global economy. In this regard TTIP can be a pioneering effort to extend the multilateral system to new areas and new members. Each of TTIP's three pillars has the potential either to strengthen and expand multilateral rules (WTO-plus), or to generate standards and norms in new areas beyond the current system (WTO-extra).

The standards being negotiated as part of TTIP are intended to be more rigorous than comparable rules found in the WTO. Agreement on such issues as intellectual property, services, discriminatory industrial policies or state-owned enterprises could strengthen the normative underpinnings of the multilateral system by creating benchmarks for possible future multilateral liberalization under the WTO. U.S.-EU agreement on such principles, and agreement to act together to advance such norms globally, could not only take the international trading system further but establish broader political principles regarding the rule of law, human rights, labor, environmental and consumer standards.

As both President Obama and Congressional leaders in Congress have stated, if we don't write the rules of the global economy, somebody else will.

In short, TTIP promises significant advantages to U.S. national security and foreign policy. Yet TTIP could be even more significant if the United States and the EU would address three gaps in their current approach.

Three Missing Pieces

Energy

TTIP has become important in the context of changing transatlantic energy realities. More effective energy cooperation originally was not a major impetus for the talks, but should now be incorporated to facilitate U.S. energy exports to Europe as part of a more strategic transatlantic approach to energy cooperation.

Recent events in Ukraine and Russia have made clear that creating a transatlantic energy market is about more than economic efficiency. Energy cooperation has become an indispensable pillar

of the Western community. Today the EU produces only a small portion of its energy needs, importing about 80% of its oil and about 60% of its gas. More than a third of this oil and 30% of the gas is of Russian origin. Some EU member states are 100% dependent on Russia for their gas needs.

Over the past few years America's oil and gas boom has rendered the United States over 80% self-sufficient in energy production and use. It will soon become an exporter of natural gas and surpass both Russia and Saudi Arabia to become the world's largest producer of oil and liquid natural gas.

A successful TTIP would enable the United States to export gas more easily to Europe, since U.S. law proscribes such exports/requires onerous licensing procedures except to countries with which the United States has a free trade agreement. In essence, members of the TTIP and the Trans-Pacific Partnership alike should be eligible for waivers to Department of Energy licensing requirements. In addition, TTIP could enable the United States and the EU to align standards in areas such as e-mobility and energy efficiency, reduce tariff and non-tariff barriers to clean energy goods and services, and create mechanisms for mutual recognition of regulatory processes regarding energy innovation. It also offers a mechanism for the United States and the EU to agree on basic normative principles that could have important global repercussions. One example is mandatory access for third parties to pipelines in the hands of a monopoly. Both U.S. and EU law provide for this, but if extended more broadly as an international norm it would have significant impact on countries such as Ukraine or those in Central Asia.

Some critics are skeptical that substantial U.S. energy could flow to Europe anytime soon, given the fact that it will take years to build appropriate new infrastructure to send and receive American gas. They also note that LNG from the United States will never flow to Europe in large enough quantities to replace the 160 billion cubic meters the EU imports from Russia.

Such criticisms miss the point that even small amounts of LNG can be important bargaining tools for countries otherwise dependent on Russia as a monopoly supplier; just the prospect of American gas flows to Europe has forced Russia to break the link between oil and gas prices and to negotiate better terms with a number of European customers, including in Germany, Poland and Lithuania. And while it will take time to build new infrastructure, likely investors are deciding today on such multi-year projects. A strong U.S.-EU political signal of intent to build a more strategic energy partnership, including through TTIP, can influence such investment decisions, even as it sends a strong message of transatlantic solidarity in the face of Russian troublemaking.

The Issue of Openness

A second issue also requires greater definition and clarity. Despite TTIP's inherent potential to leverage U.S-EU efforts to engage rising powers on the terms of their integration into the international rules-based order, governments have not stated whether and how the eventual TTIP

agreement, once concluded, might be open to others willing and able to commit to similar goals and ground rules. USTR Mike Froman has characterized TTIP as an "open platform," but the two parties have made no official statement to this effect. This stands in contrast to the TPP, where the United States and its negotiating partners have stated explicitly that the TPP is open to other APEC members (including China and Russia) and in principle much of the Asia-Pacific region.

Framing the TTIP as an element of 'open architecture' accessible to others could give the West tremendous leverage in terms of ensuring ever broader commitment to the high standards and basic principles governing modern open economies, much as NATO and EU enlargement gave the West significant leverage over transitional democracies in central and eastern Europe. One reason why many Turks are interested in TTIP, for instance, is that it represents a "transatlantic form of governance" rooted in the rule of law, as opposed to authoritarian or dirigiste models, and thus is important as a means to influence Turkey's own modernization.

The fact that the United States and the European Union have not yet stated that TTIP is part of an open architecture of trade, however, contributes to concern among other countries that TTIP is a "West against the rest" initiative, and thus more about trade diversion than trade creation. It invites counterbalancing coalitions and undermines TTIP's own rationale as a values-driven lever to open global markets.

As a first step, President Obama and EU leaders should issue a Leaders Statement that TTIP is part of an open architecture of trade. Such a Statement does not yet need to outline modalities. The Leaders Statement could also announce that the two parties are initiating consultative/information mechanisms for third parties potentially affected by a final agreement, recognizing that some of this is already underway.

Once such a Statement is made, further internal work should be done to make it operational. The underlying premise is that the TTIP package would be opened only after negotiated. On this basis, various options may be worth exploring. One is straightforward accession; countries that are willing and able to meet the same high standards as negotiated could accede. There may be an option to open individual elements to others, for instance market access or signing on to basic investment principles. This option would recognize that there are likely to be limits as to how open TTIP can be. For instance, it will be difficult simply to open some regulatory arrangements that might emerge from TTIP, or to open the "living agreement" aspect of a TTIP process, because such elements are likely to be based on trust and confidence generated among U.S. and EU regulators, legislators and certifiers. But countries may be able to join or attach themselves to some provisions. For instance, when the United States and EU finalized their Open Skies agreement on transatlantic air transport in 2007, legal texts were created enabling a range of additional countries, not only in Europe but in other parts of the world, to also implement provisions of the agreement through separate accords.

Special arrangements might be needed for countries like Turkey, which has a Customs Union with the EU but nothing similar with the United States; EFTA countries Switzerland, Norway,

Iceland and Liechtenstein, with related arrangements with the EU; and NAFTA members Mexico and Canada. The issue of "open architecture" also has great resonance for Ukraine, Moldova and Georgia, with which the EU has signed Deep and Comprehensive Free Trade Agreements, and whose stability and prosperity is linked to U.S. interest in a Europe whole and free.

Another variant might be for the United States and the EU to negotiate new or additional WTO-compatible agreements. There is some precedent for this option as well. For instance, since Chile could not accede to NAFTA, the United States negotiated a separate bilateral arrangement.

Whatever modalities are chosen, after the agreement is concluded the two parties should be proactive about making "open architecture" real.

Addressing Concerns of Poorer Countries

A related consideration has to do with how the United States and the EU approach poorer countries. Much depends on the way the two handle the multiple trade agreements that each has with third countries and regions. They would do well to send an early signal that the TTIP is about common efforts to open markets by harmonizing their current hodgepodge of trade preference mechanisms for low-income African countries.

Sub-Saharan Africa, the poorest region in the world, accounts for a minuscule 2 percent of world trade. This marginalization of the region is holding back its development at a time when its economic governance is rapidly improving. Sub-Saharan Africa needs generous access to developed consumer markets to spur investment in labor-intensive export sectors that can spark growth and contribute to its successful economic transformation.

Both the United States and the European Union give trade preferences for (some) products from (some) countries in sub-Saharan Africa. The EU provides duty-free and quota-free access to its markets for all products — but only to the 27 least-developed countries in the region. It also offers less generous access to former colonies through preferential deals. The U.S. scheme benefits 40 of the 48 countries in the region, but excludes key agricultural products (such as cotton) that African countries can produce competitively. These schemes may look good on paper, but they are actually underutilized because of their administrative complexity and outdated rules. Local content requirements are too high, and the rules of origin required for product eligibility were created decades before the development of today's value chains, which involve many countries specializing in fragmented tasks. Moreover, the United States and the EU use different methods to define origin, forcing exporters to cope with a myriad of rules.

It will be difficult to justify or implement a North Atlantic deal in which the participants have differing rules for developing countries. What foreign policy interest is served, for example, if the EU and the United States provide different access to Kenya's products? In addition, once a

Transatlantic Marketplace is in place it will make no sense to have differing access arrangements for companies from third countries. The United States and the European Union could gain considerable political advantage while following through on the logical consequence of their own negotiations by harmonizing their trade preference schemes for sub-Saharan Africa, either as part of or as a complement to their partnership pact.

As the Congress considers new legislation regarding the African Growth and Opportunities Act, it would do well to consider this issue.

In other writings, my colleague Eveline Herfkens and I, together with K.Y. Amaoko, President of the African Center for Economic Transformation suggest that a new transatlantic deal for the poorest African countries would do well by covering all products, since excluding just a few could encompass most products that these countries can produce competitively. Rules of origin need to be relevant, simple and flexible for beneficiaries to be able to use the schemes and benefit from the growth of value chains. Such value chains have virtually bypassed the region so far, but they hold considerable potential for less-developed African countries. It is much easier for these countries to develop capabilities in a narrow range of tasks than in integrated production of entire products or processes.

Updating these rules to the realities of 21st century production networks is long overdue. WTO negotiations on clarifying rules of origin are likely to take decades; the United States and the EU could do something together now. As an interim solution the European Union and the United States could recognize each other's origin regime. If an import is eligible for preferential treatment in America, it should be also in Europe, and vice versa. By acting now, the United States and the European Union would also demonstrate that TTIP is about opening markets rather than diverting trade.

Conclusion

TTIP is ambitious. It will be tough to conclude. But the potential payoff is high, and the geostrategic impact of such an agreement could be as profound as the direct economic benefits. If legislators and executives on both sides of the Atlantic grasp the moment, they may well become best known for having re-founded the Atlantic Partnership. If they do not, then issues of failing trust and confidence, so visible today, will continue to eat away at America's premier alliance like termites in the woodwork.