Replacing Geopolitics with Geo-economics: TTIP, the ascent of the emerging powers and the threat of a divided global order

By Marcel Humuza

Stop counting carrier fleets, fighter jets and cruise missiles, Stephen Phillips wrote in the Financial Times. The US failure in Afghanistan and Iraq exposed the limits of military might to the rest of the world. Since then, geopolitics are being replaced by geo-economics and the troubled global power has discovered trade agreements as a new means to protect its hegemony in the international system.

And indeed, learning the lessons from its predecessor's military overstretch, the Obama administration is implementing a new strategy, which relies on the expansion of economic and financial ties as a strategic means to consolidate power. That way, it is trying to preserve the US status as the center of the world economy for the foreseeable future. This is important, because newly developed sanctioning methods allow the US to exclude even big states from international trade and, more importantly, from the financial system. However, the prerequisite for these methods to work is to ensure that the US Dollar remains the reserve currency of the world. If this plan succeeds, the weakened threat of its military might will be reduced to a supporting instrument of US global policy and Washington will remain the rule-making hegemon in the international system.

The EU, with its under-developed Common Foreign and Security Policy structures, has been using trade relations for quite a while as an instrument for the protection and expansion of its sphere of influence, traditionally in the context of development cooperation. It used Association and Cooperation agreements to tie preferential market access to political conditions, in order to encourage reforms in third states. The goal of these measures was the export of the European model: liberal democracy, regional integration and open markets. In accordance with its self-conception as a normative peace project and its status as the world's largest trading power, Europe followed two lines of thinking, combining ethics and self-interest: On the one hand, it wanted to liberalize foreign markets, in order to open them for its own products. On the other hand, it followed democratic peace theory, according to which the support of democracy in third states increases its own security and welfare.

Abandoning multilateralism

However, the ascent of the emerging powers Brazil, Russia, India, China (so-called BRICs) and the financial crisis of 2008 lead to a change in the international environment. In accordance with their increased economic importance, the emerging powers demanded a greater say in global governance. Especially China threatens Western predominance in international rule-making, given that by pure size it could soon be able to establish its own international trade regime. Western leaders already feel that Beijing isn't playing by the rules, liberalizing its economy "à la carte", thereby giving its state-owned enterprises an unfair advantage in competition with US and European corporations. The Global Financial Crisis increased the relative loss of economic power in Washington and Brussels and exposed the weaknesses of the Western model of neoliberal liberalization and deregulation, limiting its appeal to third states. In Europe, the effects of the austerity measures implemented in the wake of the crisis also meant that economic growth was a problem for the EU and not for its partners.

Brussels therefore changed the strategic direction of its trade policy. The core of its new outlook is competition with other trading powers. It wants to defend its status as an economic power, secure its future access to energy and other important resources, open new markets for European enterprises and grab a piece of the pie of economic growth in the emerging markets. In order to reach these goals, and under the impression of the repeated stalling in the Doha Development Round, the EU de-facto turned

its back on multilateral trade negotiations. Instead, it has begun to establish a network of comprehensive regional and bilateral trade agreements. Not only with developing countries and emerging powers, but also with industrial nations such as Japan, Canada and the US. In doing so, it changed EU trade policy from being a means for the export of the European model, to a defensive instrument of counterbalancing. In this context, the currently negotiated Transatlantic Trade and Investment Partnership (TTIP) is of particular importance for both the EU and the US.

TTIP: A bulwark against new competition?

The TTIP, according to its initiators, is meant to establish a benchmark for the rules of global trade and investment, which can't be implemented multilaterally due to the deadlock in WTO negotiations. They argue that what is at stake is the model of a rule-based free market economy, governed by a constitutional state bound by the rule of law. This model has come under threat, because the changes in the international system mean that global trade could soon be dominated by powers whose economy is neither rule-based nor bound by law. This is a clear shot at China. In order to prevent this threat, TTIP should be designed as a blueprint that can incorporate existing trade agreements and which encourages other states to join the standards it establishes. In the eyes of its proponents, TTIP is thus complementary to and not an abandonment of multilateralism.

Critics are less enthusiastic. They see TTIP as a bulwark against unpleasant competition, meant to establish a new trade regime that excludes the emerging powers. Or rather, which forces them to accept its rules, if they don't want to be excluded. This is because, even though bilateral agreements facilitate trade between the contracting parties, they serve as barriers to third states. Especially if they are not only reducing tariffs, but harmonize regulatory standards, which is the main aim of TTIP. Seen from this perspective, TTIP establishes a closed transatlantic market which provides the EU and the US with a competitive advantage. All those who want access need to accept rules they were not invited to negotiate. China in particular considers TTIP, as well as the simultaneous US efforts to negotiate a Transpacific Trade Partnership (TPP), as a threat and warns against a "cold trade war".

Undeniably, benchmarks established in an EU-US trade regime do not necessarily mean that the emerging powers will be excited to join or begrudgingly accept the continuation of Western dominance. An outcome, just as or maybe even more plausible, is that they will resort to counterbalancing. The result would be a world divided between competing trading blocks. China already started to negotiate a comprehensive regional trade agreement comprised of the ASEAN states, Australia, South Korea, India and Japan, while at the same time trying to push for a free trade zone between the BRICs. It is also making efforts to reduce the importance of the US Dollar as a reserve currency.

A divided global order?

Careful observers are therefore warning that the increasing regionalization of global trade could lead to a dangerous division in global order, reminiscent of what happened in the aftermath of the great depression of 1929. Even some proponents of TTIP are foreseeing this. In their eyes, the agreement prepares Europe and the US for a "world war for prosperity", which they will have to wage against the emerging powers, especially China. In such a post-multilateral world, opposing trading blocs would try to establish barriers against their competition and incorporate third states into their spheres of influence through bilateral trade agreements. The resulting multi-polarity in the international system would be characterized by increasing conflicts and instability. This would not only intensify economic crises, but also diminish world security.

Not too long ago, such a scenario would have appeared highly improbable. But the unexpected and violent escalation of the crisis in Ukraine has served as a reminder of the dangers that lie in conflicts where economic and geopolitical interests overlap. It is no coincidence that, at the beginning of the crisis, lay two competing trade projects which forced Ukraine to choose between two of its major partners. By now, even reserved security experts warn of a major military escalation "by accident" and economic and financial warfare has already begun between the parties involved, making Russia a test case for Washington's new global sanctioning mechanisms. In order to withstand those sanctions, Russia will be looking for partners, which it might find in other emerging powers. China in particular can't be keen on letting the US set an example. In the meantime, Beijing's rivalry with Washington and its ally Japan is increasing strategic tensions in Asia. The foundations for a divided global order might already be set.

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