Preliminary Draft

Great Power Politics in a Global Economy: Origins and Consequences of the TPP and TTIP

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1. Introduction

The Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) represent the most important strategic shift in US trade policy since establishment of the WTO and pursuit of "competitive liberalization." At face value, TTIP and TTP are seen as a response to deadlock in the WTO. However, international agreements negotiated by states to address specific economic issues such as trade, finance, and monetary policy can have geo-political implications and origins that extend far beyond their initial core economic content. Policy makers must fully understand and carefully manage not only the content under debate but also these agreements' possible far-reaching geo-political implications and consequences if and when negotiations are concluded. Social scientists must attend to the murky sources and consequences of these deals.

In this essay we examine whether the pursuit of these mega Free Trade Agreements (FTAs) is (1) simply an effort to continue a US-led program of trade liberalization that began with the GATT, and was continued by the WTO; (2) a US geo-economic move, intended to establish a powerful liberalizing template that would eventually compel adherence by excluded countries ; and/or (3) a geo-strategic undertaking or consequence, quite apart from the potential gains from trade and investment that these agreements may provide. Our conclusion is that while the origins lay in efforts to provide tactical solutions to the particular trade problems participating states face, these FTAs have taken on geo-strategic and economic casts with potential for considerable systems friction and possibly deeper consequences.

In the post-WWII era, US global economic policies centered on the three Bretton Wood's institutions. The World Bank served as the foundation for policies on finance while the International Monetary Fund (IMF) served as the foundation for global monetary cooperation.

First the General Agreement on Tariffs and Trade (GATT), then the World Trade Organization (WTO), was the backbone of a US-led multilateral trading system.

For approximately 50 years (1947-1995), US trade policy focused on multilateral agreements through the GATT/WTO. As the Uruguay Round was closing, and the GATT was succeeded by the WTO in 1995, the primary focus on multilateral deals begin to shift, giving way to strategies focused simultaneously on bilateral trade agreements. By negotiating deals one-by-one with individual countries, the US was able to leverage its power, securing deeper liberalization and a more complex trade agenda than could be advanced in the WTO, where US trade bargaining power was more diffused than in one-on-one negotiations. This bilateral strategy was characterized as Competitive Liberalization: the idea that once a critical mass of bilateral agreements were achieved, states not party to these agreements would be inclined to liberalize along similar lines in order to avoid trade and investment diversion, and to remain competitive in a global economy. Ultimately, the US hoped to use the momentum gained from Competitive Liberalization to incorporate its bilateral victories into the general multilateral WTO scheme. The US was following two interwoven strategies in trade: Competitive Liberalization through bilaterals, and multilateralism through the WTO, intending that the rules set through these narrower bilateral deals would eventually be enshrined more broadly.

However, in the twenty intervening years, relative US and European power within the WTO has declined and disagreement has grown over the nature of liberalization itself. The Transatlantic duopoly, based on the Washington Consensus, is no longer sufficiently powerful to singularly shape outcomes in the WTO. This loss of relative predominance has been accompanied by growing disagreement and opposition to the Washington Consensus's view of liberalization. One significant challenge to the Washington Consensus involves the appropriate role for the state in market economies— in limiting capital flows and the terms of foreign direct investment, in particular. The BRICs' (Brazil, Russia, India, and China) economic structures and ideology, where the state is a central economic actor, were and are not consistent with the Washington Consensus vision of a limited role for the state in a primarily market driven economy. With increasing power in the WTO and interests that diverge from that of the Transatlantic players, the BRICs prevented further liberalization in the WTO on Western terms and resisted attempts by the US to leverage its bilateral trade deals into the WTOs' multilateral architecture.

It is no surprise that negotiations stalled in the Doha Round and the WTO will likely continue to remain deadlocked. This deadlock has prevented the US from continuing to pursue its vision of trade liberalization through this particular institution. Without a viable WTO option, the US has most recently begun to pursue its vision through two mega Free Trade Agreements (FTAs): the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP). Although these two mega-FTAs might initially be viewed as an attempt to incrementally liberalize in new plurilateral[1] venues after deadlock in the WTO, the TPP and TTIP were also motivated for some by significant geo-economic objectives, and for others by geo-strategic ambitions. In any event, they are themselves geo-strategic consequences, with a potential for deepening the lines of fracture they define.

We have seen in the Transatlantic shift from the GATT to the WTO that, under certain conditions, Great Powers can leverage a venue change to undo deadlock and continue to pursue their own 'rules of the road' for trade.[2] After facing deadlock in the GATT, Washington and

[1] A plurilateral agreement is an international agreement between more than two countries, but not a great many, which would be a multilateral agreement.

[2] Richard Steinberg (2002). "In the Shadow of Law or Power? Consensus-Based Bargaining and Outcomes in the GATT/WTO" *International Organization* 56. 339-74.

Brussels led a shift to a successor agreement, the GATT 1994, and a successor institution, the WTO, from which other states could not afford to be excluded.

Is there a parallel now? Could a venue shift from the WTO to TPP and TTIP have similar geo-economic consequences and allow the US to cement the ‘rules of the road’ outside the WTO? Moreover, could this effort to cement the ‘rules of the road’ have broader strategic consequences? Whatever the motivations are, the emergence of these FTAs recapitulate a real challenge to multilateral governance. Ultimately, will the consequence of TPP and TTIP be consolidation, as seen in the previous venue change from the GATT to the WTO, or divergent paths with a lack of convergence on global standards for trade and possibly for security interests and strategies?

2. Incremental Liberalization, Geo-Economics, or Geo-Strategy?

Debates on how to frame TPP and TTIP fall into three broad categories: (1) incremental liberalization, (2) geo-economic motivations, and (3) geo-strategic moves.

2.1. Incremental Liberalization

On paper and in practice, these deals intend to set standards and settle domestic and international debates in meaningful ways. As free trade agreements, TPP and TTIP are ambitious attempts to bolster growth and/or respond to client demands in member states by tackling issues such as further tariff reduction, investment liberalization, and regulatory convergence. Three primary matters are often seen to be driving incremental liberalization.

First, efficiency gains from liberalization improve welfare. In capitals around the world, and in policy-oriented papers, politicians and modelers are busy estimating and touting the economic benefits of the mega-deals. These economic consequences translate into winners (efficient, export-oriented producers) and losers (inefficient, import-competing producers and labor unions), who will support and oppose these deals. Evidently, the winners have prevailed in past deals.

Second, there are over 500 free trade agreements globally. This ‘spaghetti bowl’ is increasingly detrimental to businesses that now face a morass of complexity and associated transaction costs that are increasingly difficult to navigate. Proponents of incremental liberalization claim that TPP and TTIP can encourage trade and growth by reducing the costs of navigating that morass of complex agreements pertaining to a myriad of country configurations. Here, at face value, the emergence of TPP and TTIP represent an attempt to address the ‘spaghetti bowl of trade regimes’ that ultimately failed to be ratcheted up into the multilateral WTO.

Third, while both the EU and the US have pursued FTAs, they have not done so at similar rates. These trade agreements are not equally distributed across liberal economies, with the EU covering a larger number of countries and swath of global trade. This asymmetry between both the number of agreements and the amount of trade covered between the EU and US, may undermine US attempts to push its own trade policies globally. The US has fallen behind Europe. Moreover, some contend that this asymmetry of FTAs creates trade and investment diversion, resulting in the perception that US firms are at a disadvantage in global trade. Compared to approximately 20 US free trade agreements, the EU has concluded FTAs with over 100 countries. In a 2011 Congressional Research Service Report, Ahearn reported that EU’s Preferential Trade Agreements (PTAs) covered nearly double the exports (70%) and seven times the value ($3.4 trillion) of US PTAs (40% and $0.52 trillion respectively) in 2008.[3] It

[3] Raymond J. Ahearn (2011), “Europe’s Preferential TradeAgreements: Status, Content, and Implications” *Congressional Research Service* Mar. 3. <https://www.fas.org/sgp/crs/w/R41143.pdf>

should be noted that Ahearn's data includes EU internal as well as external trade, arguing that the EU as a preferential trade area itself also contributes to this asymmetry. For some, concerns regarding this asymmetry between the EU and US provides an economic rationalization for mega-FTAs such as TPP and TTIP. These mega-FTAs offer a partial solution the unequal distribution, create more trade, and modestly increase economic growth in the states involved.

However, the scope of the net economic benefit for the United States, which is the expectation of incremental liberalization, is uncertain. The direct economic consequences of these two liberalizing mega-deals are likely to be smaller than one might think from deals involving this many countries and such large markets. First, gains from trade are always smaller between countries with similar factor endowments than from countries with different endowments. So the TTIP gains will be smaller than if this were an agreement between the US and, say, a large group of developing countries. Second, all of the TPP and TTIP countries are WTO members, so we already have substantial market access and liberalization. It's not as if we are suddenly gaining access to markets we have been long shut out of. Third, the US already has an FTA with 6 of the 12 TPP countries.

Ultimately, the best estimate (by the Petersen Institute's partial equilibrium model) is that the TPP will boost US GDP by $78 billion by 2025, which is a bit less than a 0.4% GDP increase in ten years, or about 450,000 jobs by 2025.[4] For the TTIP, the Commission's estimate, based on a CEPR study, is that it would increase US GDP by about $105 billion, which is a bit more than a 0.4% GDP increase and will create about 500,000 jobs in ten years.[5] Together, the mega-deals will generate only a 1% increase in US GDP, spread over ten years, and about 8,000 jobs a

[4] Peterson Institute for International Economics (2015), "National Economic Interests" <http://www.piie.com/publications/chapters_preview/6642/06iie6642.pdf>

[5] EU Commission (2013) "Transatlantic Trade and Investment Partnership: The Economic Analysis Explained" <http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151787.pdf>

month. While TPP and TTIP may very well allow for continued liberalization after a deadlocked WTO, the direct effects of the mega-deals are not likely to match the political rhetoric we hear in Washington.

2.2. Geo-Economic

Should we view TPP and TTIP as an effort to cement American trade objectives through a new set of plurilateral agreements? The combined power of TPP and TTIP might be seen as holding a potential to set the ‘rules for the road’ for international trade. Together these mega-FTAs may represent an opportunity to create and/or sustain a Western template for liberal economies in a transforming global system. Geo-economically, TPP and TTIP may be leveraged to cement the Washington Consensus through plurilateral agreements, outside the stalled WTO.

With the US and 28 EU countries in TTIP, and the US and 11 likeminded countries in the Asia-Pacific in TPP, some have thought that these two agreements may be able to become the basis for new multilateral trade regime. That regime may either be (1) extraordinarily attractive to other states or at the extreme, (2) cement standards from which no other WTO member can afford to be excluded. This includes the BRICs – Brazil, Russia, India, and China – which are notably absent from these agreements. This possibility has can be seen in the negotiating positions of states. Note, the Commission’s Textual Proposal on the State Enterprises chapter of the TTIP, leaked in January, starts by noting that “The EU’s main objective for including SOE-related disciplines in the TTIP is to develop a joint platform of rules which could be used in other agreements/forums to address concerns raised by the development of state capitalism.”[6] In vague terms, the sense is that if we can get a critical mass of countries to sign on to a particular set of liberalizing trade rules, then the rest of the world will climb aboard.

[6] European Commision “EU negotiating texts in TTIP” <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1230>

More specifically, remaining outside these structures could lead to significant trade and investment diversion, pressuring them to adopt some tenets of deep liberalization in order to gain entrance. Approximately 40% of global economic output will be covered by current TPP states once an agreement is reached[7] while the US and EU together account for nearly half of global GDP and approximately a third of trade flows.[8] Even though the WTO is deadlocked, perhaps deeper economic liberalization could be cemented globally through the critical mass provided by TPP and TTIP. For a time, it appeared that these blocs could very well have the power to replicate the Transatlantic shift from the GATT 1947 to the GATT 1994 and the WTO, and define the rules of the road for a new multilateral trade regime.[9]

Recall, the WTO was created when Europe and US constructed a new trade regime from which other countries felt they could not afford to be excluded. After experiencing a relative decline of power in the GATT and growing opposition, the Washington Consensus, the US and Europe leveraged their still significant power to engineer a venue shift. The new venue favored their 'rules for the road' on trade and contained a critical mass of states, successfully pulling the outliers into the new WTO.

In order to assess the likelihood that a repeat of this strategy will be successful with TPP and TTIP, we need to examine which states are remaining on the outside of these agreements as well as the number of countries and percentage of global trade covered. The swath of trade and the number of countries present in these agreements, and the trade and investment diversion they create, will define the TPP and TTIP's ability to either entice or pull outlying states into this new

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[7] Shawn Donnan (2015). "US trade Chief Mike Froman sees prize within reach" *The Financial Times.* Feb. 2. <http://www.ft.com/intl/cms/s/0/cb067d52-a893-11e4-ad01-00144feab7de.html#axzz3UVvDN0cO>

[8] European Commission (2014). "Trade: Countries and Regions - United States". Last updated Oct. 31. <http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/>

[9] Steinberg (2002).

framework. Presently, the BRICs have remained outside TPP and TTIP. Will they be drawn gravitationally in, or this time will a new competitive framework emerge?

China seems to have given a loud geo-economic response: the Regional Comprehensive Economic Partnership (RCEP). By using its own gravitational pull, China has induced a majority of TPP countries, plus India, to join its own trade agreement. Depending on the extent of RCEP liberalization, that move likely radically diminishes the trade and investment diversion that some have thought could be used to bring China to accept the TPP template. Beyond incremental liberalization, the geo-economic question remains: do TPP and TTIP have the potential to be the basis of a new multilateral trade regime, or will they institutionalize divergent paths through competing multilaterals (TPP and TTIP versus RCEP)?

2.3. Geo-Strategic

Are TPP and TTIP more than an attempt to make the world safe for American multinationals? Geo-strategically, the emergence of these two mega-FTAs has been framed by some as an attempt to contain rising powers, particularly China, or an attempt to re-cement traditional security alignments. These interpretations hinge on the notable absence of China from the TPP and Russia from the TTIP. Proponents argue that likeminded states are using these economic agreements for political ends. Geo-strategic explanations for TPP and TTIP are largely two-fold.

The first explanation argues that TPP and TTIP represent or should represent a conscious geo-strategic attempt to contain rising powers. Here, the mega-FTA story is simply another verse in the balance of power saga in International Relations. In the case of China, this interpretation is bolstered by perceptions from some significant Chinese players that TPP is as an economic tool with a clear geo-strategic aim. Domestic Chinese academics and party members have articulated

TPP as the economic arm of the US pivot to or rebalancing in the Asia Pacific. For them, this deal is not viewed as incremental liberalization but rather a blatant attempt to contain a rising China. For example, Ding Gang, a prominent journalist for the People's Daily, writes "the U.S. does not want to be squeezed out of the Asia-Pacific region by China…(the) TPP is superficially an economic agreement but contains an obvious political purpose to constrain China's rise."[10] Li Xiangyang, Director of the Institute of Asia Pacific Studies under the Chinese Academy of Social Sciences (CASS), similarly sees TPP as a conscious attempt to contain China while Song Guoyou, an Associate Professor from the School of International Relations at Shanghai Fudan University, bolsters this claim by pointing out a significant correlation between military allies and TPP states.[11] This overlap between security and economic ties fuels Chinese perceptions of these mega-FTAs as geo-strategically motivated. Here, the argument is that TPP is leveraging economic tools for strategic ends, most notably, containing China's rise.

TTIP can also be viewed as an attempt to leverage economic tools for strategic ends. It has been seen by some as revitalizing the transatlantic community as a signal to Russia. A notable example of such sentiment appeared in Foreign Policy in November. James Stavridis' "Vladimir Putin Hates the TTIP: Which is Exactly Why Europe and America Need to Get it Done," prioritized the geo-strategic consequences behind TTIP as a main motivating factor for its timely completion.[12] The US should push through the deal to thwart Putin's strategy of driving a wedge between the EU and US and reaffirm that "Europe and the United States stand together in all dimensions — values, politics, security, and trade". [13] Stavridis goes so far as to

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[10] Wen Jin Yuan (2012). "The Trans-Pacific Partnership and China's Corresponding Strategies" A Freeman Briefing Report. <http://csis.org/files/publication/120620_Freeman_Brief.pdf>
[11] Yuan (2012).
[12] James Stavridis (2014). "Vladimir Putin Hates the TTIP" *Foreign Policy.* Nov. 19, 2014. <http://www.foreignpolicy.com/articles/2014/11/19/vladimir_putin_hates_the_ttip_europe_united_states_free_trade>
[13] Stavridis (2014).

point out the key geographic location of the EU and the importance of maintaining close ties with NATO member states. While he acknowledges that there are economic benefits to TTIP, he views the main contribution as a strategic one. Here too, TTIP can be understood as an attempt to contain a resurgent Russia. This mega-FTA is not viewed as incremental liberalization or setting the rules of the road but as an economic arm for NATO.

The second line of explanation, and in some ways a milder version of the former argument, is that these agreements may represent an attempt to re-cement old alliances. TTIP is most notably conceived of as a return to the transatlantic community and a commitment to a core transatlantic pole in world politics. These negotiations represent, for some, a return to transatlantic relations, and the Washington Consensus, and their primacy within visions of world order. The past 13 years or so have seen a growing rift between Europe and the US after 9/11 and the US pivot away from Europe toward Asia. Hence, these negotiations can be interpreted through the lens of a renewed spirit of regional cooperation, as well as the affirmation of a transatlantic community's strategic importance. The importance of TTIP within the context of the transatlantic community also holds implications for future FTA negations and multilateral institutions/organizations. The outcome may create a 'transatlantic pole' similar to the post-WWII era with which other states, especially rising powers, will likely need to contend.[14]

However, if both these strategic arguments hold merit, how do we reconcile TPP and TTIP? If TTIP is a reaffirmation of the transatlantic community, are these two mega-FTAs ultimately in conflict? TPP is consistent with a pivot to Asia while TTIP is consistent with a pivot back to Europe. Other than the US, there is little overlap in membership. If these two agreements are meant to represent a grand-strategy either for the US or other negotiating states,

[14] Daniel S. Hamilton (2014). "TTIPs Geostrategic Implications" in *The Geopolitics of TTIP: Repositioning the Transatlantic Relationship for a Changing World. (*Washington, DC: Center for Transatlantic Relations).

the purpose and architecture of these mega-FTAs needs to be compatible. At the moment, if TPP is seeking to contain China, it is doing so without the EU. This makes little sense if we also consider TTIP to be reaffirmation of Transatlanticism in world politics.

2.4. Causes and Consequences: Intertwined and Contradictory

Motivations and purposes behind these two FTAs are murky, intertwined, and sometimes contradictory. For the major players, there are certainly geo-strategic concerns and geo-economic motivations, while at the same time they pursue narrower economic benefits. For others, the focus may be purely trade creating efficiency. Certainly, the purposes and priorities have evolved over the decade that TPP has been negotiated. Not only are there mixed motivations, there are often contradictions in purpose. The contradictions are at least as interesting as the debate about motivations.

The first contradiction involves the role of India. If the purpose is to contain China, can such a strategy be successful if India is not involved? While a geo-strategic move to hem in China would seek to exclude them from these agreements, any strategic move to hem in China without India will likely be unsuccessful. Why then has India remained outside of TPP? One could interpret India's absence as an attempt on its part not to aggravate China or as part of ongoing disagreement over how the role of the state should be embedded in trade deals. Regardless, even if the West's objective were broadly geo-economic, a split over the role of the state may cement divergent paths between the BRICs and the US/EU. Geo-strategically, cementing divergence is also concerning. Reinforcing blocs creates a clearer fault line for competition and conflict. With this in mind, efforts to contain China through TPP without India may result in the creation of a bloc that runs counter to "the West." As a crucial geo-political player, the current absence of India begs the following question: At what point does it become too late to shape the development path of India toward TPP and TTIP? If we pass this point, will we have cemented divergent paths, intentionally or otherwise?

Moreover, the combination of narrow deals, a geo-economic effort to keep liberal global rules, and larger geo-strategic competition may lead to confusion and undesirable outcomes in geo-strategic domains. One such example is the current Ukraine Crisis. Embedded within the larger geo-economic and strategic context of EU and NATO eastward expansion, the EU and Ukraine pursued a bilateral FTA. On face value, like TPP and TTIP, this was one of many EU bilateral FTAs prioritizing liberalization. However, it did not occur in isolation and was accompanied by larger geo-economic and geo-strategic concerns in the region. The prospect of Ukrainian membership in the EU, a customs union, would have precluded Ukrainian participation in a Russian FTA. Ultimately, what could be seen as another step toward economic liberalization between the EU and Ukraine was perceived or at least claimed to be perceived as part of a larger Western geo-political agenda. This larger context garnered a strategic response from Russia to what it saw as Western encroachment. Ukraine serves as an important lesson. FTAs are not independent from the environments they are embedded within. Even incremental liberalization or geo-economically-motivated TPP and TTIP negotiations can have significant, unintended strategic consequences when the security environments they are embedded within are taken into account.

A final contradiction, perhaps better understood as a domestic political tension, involves the relationship between these international deals and domestic policy making. Competitive Liberalization had as its objective urging the remaking of the rules of the global economy, and the domestic structures and dynamics of those party to it, to fit American, and secondarily European, visions. Using international trade negotiations to force others to reshape their internal rules by agreement to international rules and to international arbitration was, principally, a one-way bargain. The US intended to set the global rules, and have others adjust. Certainty, the US has wanted to adjudicate what it considers inappropriate regulatory policies abroad. The policies of others that it targets are often conceptualized as harmful for US firms, perhaps principally but not exclusively multinationals, by creating barriers to trade. The US was perfectly content that an international mechanism should, in effect, set domestic policy abroad.

There are two difficulties this time around. One difficulty for the US is that the tables risk being turned. Are we willing to open ourselves to the reverse process? American domestic disputes about economic rules over matters such as intellectual property and antitrust, and Transatlantic differences over issues like appellations of origin, the precautionary principle, and genetically modified foods, become entangled with these negotiations in unpredictable ways. As another example, some members of Congress have raised concern that the deals struck in TPP unnecessarily opens the US to foreign suits based on domestic labeling standards, such as 'Made in America.' Domestic outcomes risk being resolved by those domestic and foreign interests who can influence the negotiating position in the process of this round of international trade deals. Those winners through international negotiations might not be those who would win in a purely domestic political arena. Moreover, precisely because effective international trade negotiations are of necessity conducted in the shadows, the outcomes achieved through importing international deals into domestic law are less likely to be viewed as legitimate. Hence, one must ask whether the process of competitive liberalization will turn on its creator. The second (and related) difficulty, of course, is that since the US no longer has the same domination of rule making, it is harder to force the adaptation of our preferences in other countries.

Finally, in so far as the mega-deals also stem from broader geo-political concerns or brinkmanship, then the impetus to open up the US market may be a compromise to achieve these goals. Opening the US market may be seen as a necessary or even reasonable compromise in order to contain China or re-cement a core Transaltantic consensus or pole. However, in so doing, the US may inadvertently create new winners and losers domestically from these regulatory debates.

In conclusion, the causes and consequences of TPP and TTIP are intertwined and often contradictory. Precisely because these FTAs emerged out of complex origins, there are in many contradictions present.

3. **Consequences of TPP and TTIP for Multilateral Trade Governance**

There has been extensive debate about the motivations and character of TTIP and TPP. This section speculates on the consequences.

3.1. The Promise of the Mega-FTAs

Advocates of TPP and TTIP claim clear benefits. Those benefits range from immediate gains from trade to the possibility that the US might be able to leverage these agreements into larger plurilateral templates, if not a WTO Mach II.

First, the WTO, the multilateral mechanism for negotiating trade deals, has stalled but the interests driving negotiations have not disappeared. TPP and TTIP have the potential to create real progress in international trade, tackling the 'spaghetti bowl of trade regimes,' addressing pressing issues of regulation, and yielding efficiency and welfare gains for the members. Advocates argue that the benefit of incremental liberalization and efficiency, as previously discussed, is not insignificant. Mega-FTAs can conceivably provide promise, regardless of larger geo-political divisions.

Second, advocates argue that TPP and TTIP provide significant advantage for US policy makers. Smaller trade groupings contain fewer veto points which can make it easier to negotiate. Fewer veto points allow for more breadth and depth in liberalization as well as opportunity to settle difficult questions pertaining to regulation and the digital economy. Moreover, US market size affords US negotiators more leverage in negotiating the terms of liberalization with a contingent of economies that is smaller than the combined WTO membership. Supporters claim that the mega-deal approach offers a better chance than WTO negotiations of shaping national economies and trade rules in the US image. Not only is the WTO stalled and these FTAs provide a venue with fewer veto points, they provide a venue where the US is more likely to be able to push through its vision of economic governance. This is of clear utility to the US.

Third, TPP and TTIP could potentially establish a new baseline for liberalization that is beyond the WTO standard. The already existing WTO baseline of liberalization would continue to exist across TPP, TTIP, and even the Chinese-led RCEP. This baseline would significantly limit trade diversion while still allowing for those in TPP and TTIP to pursue higher standards. Moreover, if TPP and TTIP successfully set ‘the rules of road’ toward these higher standards, we may see either a return to the WTO or the creation of a new global trade organization, WTO Mach II.

3.2. The Risk of Divergent Paths: Geo-Economic and Geo-Strategic

There are also clear risks. First, there is the risk that two ideologically divergent paths might emerge; one caricatured as a neo-Washington Consensus; the other a neo-Beijing Consensus. In broad strokes, the neo-Washington Consensus would likely be economically defined by shared objectives of progress toward zero tariffs and quotas, state enterprises dissolving or behaving like commercial players, and no capital controls. The neo-Beijing Consensus would likely be defined by limited tariff and quota reduction, the state as a central player in the market, and explicit capital control.

Would TPP and TTIP push India and Russia toward China, creating a more unified bloc running counter to the West, a result that might otherwise not have occurred? Following this scenario to its extreme, TPP and TTIP alongside RCEP may signal the beginning of the formation of discrete competing blocs. These blocs, arguably, will replace the US led global multilateral governance of the World Bank, IMF, and WTO.

However, up to this point, we are not observing the formation of discrete blocs or ideologically divergent paths between the West and the BRICs. Instead, for now the two contending frameworks overlap. Although China and the US, notably, are not participating in the each others' initiatives, there is significant overlap in membership between the US led 12 country TPP and the Chinese led 16 country RCEP. Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, and Vietnam are currently engaging in both sets of negotiations. India, we note, is currently only participating in RCEP. This overlap so diminishes the trade and investment diversion effects of the TPP that it likely negates the pressure that a Western geo-economic strategy depends upon. At the same time, rather than suggesting the emergence of ideologically divergent paths, such significant overlap in membership is much more consistent with a power struggle between the US and China over who should set the 'rules of the road.' This power struggle differs from what we saw in the Cold War where there were separate and discrete US and Soviet blocs. In this case, China and the US are attempting to cement their power and influence over a common set of countries. However, neither China nor the US has yet to create a distinct consensus or bloc of countries behind them.

Therefore, what we are witnessing is a very significant change in international politics; both political economy and security structures are currently undefined, fluid, and very much interconnected. We cannot yet tell what will take their place. TPP, TTIP, and RCEP are still under negotiation and the outcomes of these negotiations are far from determined.

If all three agreements are successfully concluded, the question then becomes to what extent are these three frameworks compatible? How will states navigate membership in multiple mega-FTAs? The debates then focus on ways to negotiate between Chinese and American led visions. If the US is unable to conclude TPP, which would leave the door open to RCEP and China, the resulting economic and security structure that emerges will look very different. RCEP states represent 28% of the global economy.[15] Without TPP overlap, RCEP may very well contain the critical mass, both in terms of states and swaths of trade, to set the more global 'rules for the road'. At a minimum, it could cripple efforts by the EU and US to implement their vision, as one global set of rules. The result of these negotiations will, in important ways, set the stage for what political economy and security structures can or will emerge within the context of these complex power struggles.

Finally, what had up to now been a relatively cohesive Washington Consensus on these issues may be fracturing as European states seek membership in Chinese led institutions and agreements parallel to their participation in US led agreements and institutions. Finance serves as a prime example. Just this year, several EU states have joined China's new Asian

[15] BRIGDES (2015). "China Eyes December Outcome for Asia Trade Deal" *International Center for Trade and Sustainable Development.* March 12. 19(9). <http://www.ictsd.org/bridges-news/bridges/news/china-eyes-december-outcome-for-asia-trade-deal>

Infrastructure Investment Bank (AIID). They did so despite significant US disproval. The UK, an historically strong US ally, became a founding member in March 2015 followed by Germany, France and Italy. South Korea and Australia have considered membership, as well. AIID has been seen in Washington as an attempt by China to create parallel and alternative institutions to those largely controlled by the US and Europe. Significantly, overlap between the World Bank and AIID does not point to two or even three ideologically distinct trajectories but a real battle between those who would champion those trajectories. While these dynamics will play out differently across domains (trade is markedly different than finance), the current geo-political environment is characterized more by fractures then coherent and competing blocs. TPP may very well "leave rivals in Beijing and Brussels salivating,"[16] but as of yet, these agreements are still under negotiation; clear poles have not emerged; and the result of these fights remains uncertain.

In conclusion, rather than diverging paths, these mega-FTA negotiations have highlighted ongoing struggles between great or rising powers to determine what political economy and security structures will emerge in the future and whose, if any, vision will prevail. While Washington, Beijing, and even Brussels may want to be the prime driver for policy and vision, what will materialize remains undefined, fluid, and deeply interconnected. There is a lack of a clearly articulated or emerging neo-Washington Consensus to replace the Washington Consensus embodied in the World Bank, IMF, and WTO or even a neo-Beijing Consensus to rival it. What will take shape remains both critical for US policy makers and as of yet, unknown.

[16] Donnan (2015).

4. Divergent Paths or Contradictory Harmony: Concluding Thoughts

The last time the US, and its European partners, wanted to re-cast 'the rules of the road', we saw a successful shift from the GATT to the WTO in 1995. With that as reference, we began with the question to ourselves: Will we observe this same result with a shift from the WTO to TPP and TTIP?

The underlying conditions of this new shift in venue are meaningfully different. There are more outliers with greater heft for the US to contend with than were present in the mid-1990s. Now the foundation for a real challenge to US dominance in setting the 'rules for the road' has emerged. China and Russia are major geo-political players. India and Brazil no longer have subordinated status. Increasingly, they have the potential to form a real challenge to US dominance in setting the rules. Moreover, unlike the shift from the GATT to the WTO, the Washington Consensus is no longer as cohesive as it once was. Cracks are beginning to show, not just in trade, but in broader geo-economic and geo-strategic contexts as well.

The original objective of consolidating Competitive Liberalization in a new universally agreed (i.e. multilateral) template seems beyond reach, or better a diverting delusion. We speculate three possible outcomes stemming from the ongoing negotiations currently embodied in the TPP and TTIP: (1) divergent and competing trajectories between a neo-Washington and neo-Beijing Consensus, (2) divergent but partially complimentary trajectories, built upon a baseline of WTO liberalization, and (3) a splintering of the West and the emergence of three trajectories stemming from Washington, Beijing, and Brussels. In trade, taking into account the Chinese and Russian responses to TPP and TTIP, and the current lack of a clear neo-Washington consensus, the most likely outcome is parallel trajectories, with a risk of divergence, and unlikely convergence between RCEP and the West, at least in the foreseeable future.

Geo-politically, we are equally unlikely to see convergence. The parallel trajectories in trade are themselves outgrowths of the diffusion of power that defines the evolving geo-political system. The US and European led world trade system, was once defined by the GATT and the WTO. The hope was that with Russian and Chinese entry the principles embodied in the WTO would truly be globalized. Instead, the system, is 'Balkanizing.' Perhaps that is not a surprise. The system of global project finance, once defined by the World Bank, is fracturing. The once mighty IMF has since the mid-1990s needed support from national central banks and cooperation from China to save currencies. The US is no longer the sole system maker and now finds itself struggling to maintain the systems it created and championed. Hegemonic stability is gone.

As we proceed down these paths in trade, systems friction is unlikely to abate. State-led capitalism in the BRICs will likely continue to roil Western businesses and government as they find themselves shut out of the fastest growing markets. Friction between the RCEP, TPP, and TTIP may be dampened by the WTO baseline, but that friction will persist and may worsen. Within the broader geo-politics surrounding TPP, TTIP, and RCEP, we wonder to ourselves whether we will see the return of Great Power politics and the divisions and conflicts it brings with it.

Hence, the TPP and TTIP may incrementally liberalize trade among its members, but it is unlikely that they will succeed in reestablishing transatlantic primacy. Power is as fractured outside of the WTO as it is within. The transatlantic powers have likely lost the capacity of their hegemonic duopoly that once ran world trade. Hegemonic stability in trade is likely lost. Therefore, as we try to extend our own view of the world, policy makers should concern themselves with how to negotiate deals across the blocs, and how to otherwise manage the risk of divergence and decay with deeper geo-strategic fractures. The promise of these agreements is substantial but so are the risks, especially if the risks are not acknowledged or well managed.