As we well know, over the past 200 years the world economy has been led by the North Atlantic countries, first by Europe alone, later by Europe and the US and then with a marked US leadership after WWII. This is what has been labelled the Great Divergence between the West and the Rest, between us and them.

We have now entered a new phase, the era of the Great Convergence, and over the period the transatlantic economy’s loss of relative weight, which began in the 1950s, is expected to speed up. Already, and measured in PPP, China’s economy is the world’s biggest, India has overtaken Japan and there are new players, such as Brazil, Indonesia and Mexico, amongst the largest.

I shall not look into the entire array of causes for such a global shift. But there is one that is frequently forgotten: demography. It is often claimed that the founder of sociology—or at the very least of the word ‘sociology’ itself—, the Frenchman Auguste Comte, once said that demography is destiny. However, although he actually never made the assertion, the fact is that, as the Italians say, se non e vero e ben trovato. Because it is actually an important truth. Europe accounted for 25% of the world’s population a century ago; the figure was still 20% half a century ago. But it is now 7%, and falling. Meanwhile, the US accounts for a further 7%. Asia accounted, and still does, for around 60% and Africa will soon represent from 20% to 25%. Africa alone will be bigger than the entire West combined, including Latin America. So demography does indeed matter.

Add to this that the West long enjoyed a monopoly over science and technology, and therefore productivity. But today science and technologies, both hard and soft, travel east and west, as do capital and investments. Hence, we no longer monopolise technology, as we did for several centuries.

The winners will be, or already are, the new emerging powers, especially in Asia but also in Latin America and later, probably, in Africa.

1 The author would like to express his gratitude to Federico Steinberg, Senior Analyst at the Elcano Royal Institute.
In view of this scenario, to which should be added that the Western economies are highly indebted and burdened by low economic growth, the EU and the US have opened negotiations to create a free trade and investment area (the TTIP) that will be the world’s largest, covering more than 40% of global GDP, a third of global trade flows and almost 60% of global accumulated investment stocks. The explicit aim of the negotiations is to create a tariff-free integrated economic zone for manufactured and agricultural goods, with a significant degree of regulatory harmonisation to facilitate cross-investment and the provision of services.

We very well know that the TTIP is surrounded by controversy. There are European concerns about investment arbitration, transparency and environmental and health standards. At both the Elcano Royal Institute and the Centre for European Reform we have devoted a great deal of resources to analyse these controversial aspects. But this is not what I shall focus on here, but rather on the agreement’s prospective strategic and geopolitical impact.

Although the authorities emphasise the significant economic benefits that could accrue to such an agreement, the TTIP’s purpose is also geopolitical. On the one hand, it aims to revitalise the transatlantic relation to counter the increasing weight of the Pacific basin; on the other, it aims to restore Western power to shore up the ground rules for the world economy as established following WWII.

To start, it would be apt to briefly mention some key aspect of the EU-US economic relationship. The close link was forged during the Cold War and has intensified during the current phase of globalisation, leading to the (partial) integration of both markets.

So, after decades of rounds of trade liberalisation under the tutelage of the GATT, today the transatlantic trade in goods is more open than ever, with tariffs below 4% on most manufactured goods and some higher tariffs in the agricultural and textile sectors. The same is true of the services markets where, although the process is incomplete on account of regulatory barriers, we also have the world’s highest degree of integration.

Furthermore, both sides share the same ideas about how markets should operate, have liberalised and open economies, and have fairly compatible interests, something which is not so evident between the West and the emerging nations.

Nevertheless, integration is far from complete.

There is no single market in the free movement of goods, services and factors of production, contrary to the case both within the EU and between the states of the US. There remain significant non-tariff barriers on issues such as intellectual property, food safety, taxes, immigration, health and plant-health measures, audiovisual services, labour, accounting and financial legislation, and competition, energy and environmental policies. Examples are the auto and public procurement sectors. In the former, norms and standards (especially as regards security) are very different, acting as a protectionist barrier. In the procurement sector, local or state rules, particularly important in the US, mean that a huge market is practically closed to international competition.
Until a few years ago, the existence of these barriers, which naturally increased transaction costs and reduced economic efficiency, were not seriously questioned. Though for some it was a case of unjustifiable ‘economic nationalism’, to many it was a legitimate way of preserving national identity and economic sovereignty.

Nonetheless, the new international economic and geopolitical scenario has changed the situation on two counts: growth and geopolitics.

Of course, the main reason for launching the agreement is that it will generate growth and jobs. According to a study by the Centre for Economic Policy Research, commissioned by the European Commission, the accord could generate €119 billion per year for the EU and €95 billion for the US, which would imply an average additional disposable income for a four-member family of more than US$500 in the EU and more than US$600 in the US, assuming benefits are evenly spread over the population and that losers are compensated, which is most unlikely.

So, in a context of low transatlantic economic growth, little or no room for monetary policy and little scope for increases in public expenditure, trade liberalisation appears to be a good initiative to boost growth, and at zero cost to the public treasury. The TTIP is thus a desirable initiative.

However, all these potential gains were also here 10 years ago, and will likely be there in the future. So the question is: why now? And the answer seems to be: geopolitics.

As already mentioned, as globalisation spread the focal point of the world economy shifted back from the Atlantic to the Pacific, returning to where it once was, as Chinese leaders remind us time and again. At first the changes did not pose a challenge to the West. Newcomers were urged to adopt the already existing rules. But since the outbreak of the global financial crisis in 2007 and the Great Recession that followed it, the process of convergence has speeded up. While the newcomers withstood the crisis relatively well, the old powers have become enmeshed in a vicious circle of low growth and high debt, which hinder their recovery (especially in the Euro Zone).

Thus, in the space of a few years the West has seen the legitimacy of its economic model questioned, its leadership in the world economy weakened and the international economic order it had designed contested. More importantly in symbolic terms, a new narrative has appeared in which the future belongs to the emerging nations.

The TTIP should also be seen as part of the European and US reaction to their relative decline. As at the time of the GATT, the target is to redefine the world’s economic structure in accordance with the West’s own rules, reflecting our own values and interests.

This geopolitical reading of the TTIP becomes even clearer bearing in mind that both the US and the EU have signed or are negotiating a large number of free-trade agreements focused on services and investment with third countries. The most recent is the one the EU signed with Canada in November 2013, which could be considered a precursor to the TTIP since Canada already has a free-trade agreement with the US (NAFTA, also
including Mexico). Furthermore, the EU has also signed an agreement with South Korea, and is negotiating others with Japan and India, in addition to having a wide-ranging network of free-trade agreements with emerging countries, particularly in Latin America (although these accords do not cover many of the non-tariff barriers that are intended to be included in the TTIP).

For its part, the US, which also completed an agreement with South Korea in 2012 and has a large number of accords with Latin American and Arab countries, has concluded the negotiations for a Trans Pacific Partnership (TPP), which includes the major economies on both sides of the Pacific, but –and this is a huge but– excluding China.

Hence, the US and the EU are at present leading a number of bilateral and regional mega-agreements, both with advanced countries and with emerging nations, that are sufficiently open to FDI, and that are well established in the new global value chains, which today determine the patterns of world trade. All aspire to a deep-seated integration, beyond merely tariffs, but always under the regulatory leadership of the US and the EU.

If all the agreements are finally signed, and if they share more or less similar regulations and standards, it would not be difficult to multilateralise them in the WTO, since there would be de facto new rules for practically all of the world’s trade, whose model would be the TTIP. A kind of WTO 2.0, with new rules under transatlantic leadership, thereby breaking the deadlock in which the organisation has been immersed for years.

In sum, closing an ambitious trade and investment accord could provide us with a double dividend:

- On the one hand, the treaty could boost economic growth on both sides of the Atlantic. And, furthermore, at zero cost, which is especially important in the current scenario of budgetary cuts. For this reason alone, the TTIP is a good idea.

- However, on the other hand, there is also an unspoken reason: to restore economic and geopolitical leadership to the West by re-writing the rules of international trade and investment, which are the infrastructure on which globalisation is built.

The process is not going to be easy. First, it will be necessary to overcome domestic transatlantic resistance and ensure all goes according to plan before the US presidential elections next year. Secondly, once the agreement starts coming into force, it remains to be seen what the relative strengths of the advanced and emerging countries will be, and how much elbow room the emerging nations will have to turn their backs on the TTIP, if they consider they can go it alone.

To conclude, we are indeed talking of the economy; but it is good to bear in mind that we are also talking of politics and geopolitics as well.