

Summary: This paper aims first to answer some of the main operational questions of the economy-security nexus, such as the possibility to use economic statecraft as an efficient tool of power in the 21st century, before relating these more abstract considerations to the geopolitical implications of the U.S.-EU Transatlantic Trade and Investment Partnership, or TTIP. The author reflects on the current attempts at enhancing transatlantic security cooperation through TTIP by replacing these efforts into the global context of geopolitics and geoeconomics.

Coin of the Realm: Transatlantic Economic Statecraft and the Economy-Security Nexus

by Daniel S. Hamilton

Economic Statecraft and Hard Security

Whether economic statecraft can serve as an alternative or a complement to hard security depends on the context in which such choices may be posed; whether decision-makers facing such choices are able and willing to deploy a range of power resources, including economic and military instruments to advance their goals; what outcomes they seek; and the relative power and preferences of other relevant actors. The relative utility of economic statecraft, hard security, or other dimensions of power depends on the ability of those possessing such resources to harness the full spectrum of available power assets and to combine them in ways that successfully influence outcomes.¹

In certain situations, military power is indispensable. Joseph Nye equates the role of force and the centrality of security to oxygen. “Under normal circumstances, oxygen is plentiful and we pay it little attention. But

once those conditions change and we begin to miss it, we can focus on nothing else.”² As we have seen most recently in both Iraq and Afghanistan, however, military force alone is insufficient to win war or sustain peace; other instruments of power must also be engaged.

Sometimes economic statecraft can complement hard power resources. The end of the Cold War was not due solely to the U.S. nuclear deterrent, NATO’s military might, or the West’s relative political cohesion, but also to the vibrancy and success of Western economies and free societies, and the relative inability of Soviet-led systems to generate adequate economic resources or a dignified life for their people. Another example is the coercive economic statecraft employed against Slobodan Milosevic and his allies by the United Nations, United States, and European Union between 1992 and 1995, which together with intense military pressure on the regime by Bosnian and Croat forces backed by NATO air strikes, ultimately forced Milosevic to make a deal and end the

1 Joseph S. Nye, Jr. offers a clear overview of the different dimensions of power in *The Future of Power* (New York: Public Affairs, 2011), and *The Paradox of American Power* (New York: Oxford University Press, 2002). See also Robert Zoellick, “The Currency of Power,” *Foreign Policy*, November 2012; and David A. Baldwin, *Economic Statecraft* (Princeton University Press, 1985).

2 Nye, *The Paradox of American Power*, op. cit., p. 7.

Policy Brief

war.³ Today, targeted sanctions against Iran are an important complement to Western diplomatic efforts to get Iran to abandon efforts to acquire nuclear weapons, against the backdrop of U.S. statements that “all options remain on the table” should Iran in fact acquire such weapons.

At other times, economic statecraft can offer an alternative to hard power, and perhaps even achieve the same effects, at less cost. In the 1956 Suez Crisis, for instance, President Dwight Eisenhower used the power of the U.S. dollar over the British pound to halt Britain’s use of force in Egypt. Between 2002 and 2006, the Illicit Activities Initiative mounted by 16 countries against Kim Jong Il drove North Korea out of a range of criminal businesses and cut the nation’s illicit trading companies and leadership off from bank accounts around the world, which helped to stall, although not stop, North Korea’s nuclear ambitions.

What’s Old, What’s New, and What’s Newly Important

Geoeconomics is not replacing geopolitics; the two are integrally related. In fact, the very definition of grand strategy is balancing ends and means to promote the security and interests of the state.⁴ The relevant question is the degree to which various dimensions of power have become more or less important in a world of shifting relative influence among states, Great Power peace, and diffusion of state power to non-state actors. Some trends are new while others are newly important; all the while, some old truths still remain.

One particularly relevant old truth is that a vibrant economy remains the foundation of all elements of power.⁵ Economic resources not only underpin military power, they underwrite diplomatic capacity and generate attractiveness. Greater attention is currently being paid to geoeconomics in part because we find ourselves in a situation in which the key stewards of international order, Europe and the United States, are each challenged by rather fundamental economic problems emanating largely from their respective inability to tackle tough political challenges at home. This comes at a time when rising powers

Geoeconomics is not replacing geopolitics; the two are integrally related.

are measuring their influence more in economic than in military terms.

What is newly important is that the financial crisis and attendant recession, exacerbated in Europe by the challenges within the eurozone and in the United States by extreme political polarization, have damaged the position of the West in the global system. Cyclical economic weakness, longer-term structural challenges, and severe fiscal constraints, all exacerbated by dysfunctional political infighting, have combined to weaken U.S. leverage. Without U.S. fiscal solvency, economic growth, job creation, and some modicum of bipartisan political leadership, the United States is unlikely to be a consistent and outward-looking partner. Washington’s leverage will be undermined and its instruments, including military power, diminished. Similarly, Europe’s protracted crisis threatens to drain international confidence in European institutions, derail U.S. support for major transatlantic policy initiatives, and force European decision-makers into unpalatable choices, not only between guns and butter, but about the very sustainability of their economic model. 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.

Economic revival at home is also an essential underpinning for continued transatlantic leadership in the wider world, because the normative appeal and continued relevance of the U.S. and European models for others depend heavily on how well they work for their own people. In this regard, the twin crisis of deficits and debt could be a watershed moment: either they are the political spur to more competitive economies in the United States and Europe, or it is the time when each began to lose out to more vigorous powers. The challenge is not simply a choice between austerity or growth. It is rather to gain political support for policies that can generate economic opportunity at home without piling up debt, while implementing structural reforms that can ensure global competitiveness.

3 For a first-hand account, see Victor D. Comras, “Pressuring Milosevic: Financial Pressure Against Serbia and Montenegro, 1992-1995,” in David L. Asher, Victor D. Comras, and Patrick M. Cronin, *Pressure: Coercive Economic Statecraft and U.S. National Security* (Washington, DC: Center for a New American Security, January 2011).

4 John Lewis Gaddis, “What is Grand Strategy?” Duke University working paper, February 26, 2009, cited also in Michael J. Mazarr, “The Risks of Ignoring Strategic Insolvency,” *The Washington Quarterly*, Fall 2012, pp. 7-22; David S. McDonough, “Beyond Primacy: Hegemony and ‘Security Addiction’ in U.S. Grand Strategy,” *Orbis*, Winter 2009, pp. 7-8.

5 Nye, *The Future of Power*, op. cit., p. 80.

Policy Brief

These domestic challenges are particularly important in relation to what Nye calls the transition of power underway among states. Despite its current problems, the United States remains predominant and able to employ a broad spectrum of power resources as no other. And as Andrew Moravcsik has noted, Europeans have been the only others able to exert global influence across the full spectrum of power.⁶ Yet European nations, singly and collectively, are increasingly challenged on that score and Washington is distracted, even as a host of emerging states are growing in influence and power relative to both the United States and Europe.

What is new in this context is that these powers are rising primarily by amassing economic power rather than building armies. China has risen as a global economic power without becoming a global military power — yet. But this has not stopped China from becoming a regional military power, or from engaging in some saber-rattling on security issues it considers important, such as territorial claims in the South China Sea. Beijing is also energetically seeking to translate its growing economic clout 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 to direct state-owned companies not just to generate profits but to wield power on its behalf.

There is nothing new about countries using economic power to exert influence over others. But what is new are the unprecedented resources at their disposal and their ability to deploy such resources in interconnected global markets.⁷ In a world of fluid alignments and Western distractions, secondary powers are setting their own agendas. They are not waiting to fit into some supposed multilateral or multipolar order that the Great Powers will “shape.” They are creating their own alliances and coalitions while engaging the major powers in ways they believe can best advance their own interests. The result is that powerful states find themselves challenged by assertive coalitions of lesser states and non-state actors ready to stall or block negotiations until their interests are acknowledged, or

scrambling to catch up with secondary states that press ahead with their own initiatives.⁸

As this shift of relative power continues, what in the aftermath of the Cold War had been a sense of global convergence around such Western norms as rule-based institutions of collaboration, open non-discriminatory trading rules, the “democratic peace,” and the “Washington consensus” on development has drifted toward a broader and more complex global competition of ideas over such issues as multilateralism, the use of force, the rights and responsibilities of state sovereignty, international justice, and alternative models for domestic governance, particularly the relationship between state and market.⁹ Unless addressed, these relative shifts in economic power can have important consequences for how we think and act on security issues.

Another development that is new, as opposed to newly important, is the diffusion of power away from all states toward non-state actors.¹⁰ This will limit the relative effectiveness of efforts by states to employ economic statecraft unless they engage private actors. In the 1960s, for instance, official development assistance accounted for about 70 percent of the capital that went to developing nations. Today it represents only about 13 percent of total investment in these growing markets. Public-private partnerships are critical to more effective development strategies.

Another development that is new, as opposed to newly important, is the diffusion of power away from all states toward non-state actors.

8 For examples, see Daniel Hamilton, “Forging Networked Security in a Nobody-in-Charge World,” *International Spectator*, Vol. 45, Issue 4, 2010; and Parag Khanna, “A Second Tour Through the Second World,” *World Politics Review*, July 13, 2010, <http://www.worldpoliticsreview.com/article/6021/a-second-tour-through-the-second-world>.

9 Giovanni Grevi and Richard Youngs, “What Norms for a New-Order Transatlantic Relationship?” and Bruce W. Jentleson, “Normative Future: A U.S. Perspective,” both in Daniel Hamilton and Kurt Volker, eds., *Transatlantic 2020: A Tale of Four Futures* (Washington, DC: Center for Transatlantic Relations, 2011).

10 As Nye notes, “For all the fashionable predictions of China, India, or Brazil surpassing the United States in the next decades, the greater threats may come from modern barbarians and non-state actors....power diffusion may be a greater threat than power transition.” *The Future of Power*, op. cit., p. xii.

6 Andrew Moravcsik, “Europe: The Quiet Superpower,” *French Politics* 7, no. 3 (September-December 2009), pp. 406-407.

7 Hillary Clinton references these changes to argue for greater attention to “economic statecraft” in U.S. foreign policy. See her October 2011 speech to the New York Economic Club, available at <http://www.state.gov/secretary/rm/2011/10/175552.htm>.

Policy Brief

The diffusion of power also carries considerable implications for the interrelationship between economic statecraft and hard security. As the global economy grows ever more connected, complex flows of capital, goods, services, energy, information, and people are creating new interlinked networks. Yet this dynamism also creates vulnerabilities that can lead to disruption of such critical functions as transportation, energy flows, medical services, food supply chains, business systems, communications, and financial networks. Governments accustomed to protecting their territories must now protect their society's critical functions, the networks that sustain them, and the connections those networks bring with other societies. Since most of these systems are owned by the private sector, effective societal security efforts necessarily must engage critical economic actors and be international in scope.

The Economic-Security Nexus and the Three Faces of Power

To understand what these changing dynamics mean for the relationship between economic statecraft and security, it is useful to consider what Nye calls the “three faces” of power.¹¹ The first is the power to command change, to get others to act in ways contrary to their initial preferences and strategies. The second is the ability to structure the agenda of actions in a way that limits or frames another's choices. The power to set or influence agendas can help a state highlight its preferences while keeping those of others at bay. It can help determine who is at the table and whose issues get attention. It is related to what Arnold Wolfers once called “milieu goals,” such as promoting an open trading system, defending human rights, or establishing basic standards guiding regional security arrangements or norms of global order. Nye's third face of power is the ability to influence preferences so others want what you want and you need not command them to change.

In certain contexts, the second and third faces of power can be as important as, or more relevant than, the command face of power. A state or grouping of states adept at wearing these different faces of power would be able to tap the full spectrum of available power resources, ranging from hard power elements in order to force change on others to soft power elements such as attraction or persuasion in order to induce others to change in ways they would consider legitimate.

Nye's first face of power would seem to be most directly relevant to hard security, with its focus on forcing or compelling change. Yet both through the process of enlargement and via its various partnership mechanisms, NATO has proven adept at shaping the security agenda in and around its region, and its basic standards of interoperability have become the international gold standard by which militaries work with each other, thus influencing preferences when it comes to cooperative security.

Similarly, Nye's second and third faces of power would seem to align more closely with economic statecraft. Yet the WTO system reflects each face of power. Its success attracts others to join and abide by its rules. Its rules-based structure offers both orientation and frames the agenda for most of the world as countries engage economically with each other. And because WTO members agree to use the WTO dispute settlement mechanism and abide by its decisions, the WTO can in fact command change by forcing countries to alter their behavior and initial preferences.

At first blush, the European Union would also seem to be most relevant to the second and third faces of power. In an increasingly networked world, the EU's success in pooling sovereignty and resolving differences via interlocking mechanisms of variable integration can influence preferences. The process of enlargement gives the EU tremendous leverage over candidate countries. It not only shapes their preferences, but it structures their agendas. But as the world's largest economic entity, the EU can also use the promise of access or the threat of denial vis-a-vis others to command change.

I choose these three institutional examples because the driver behind each of these institutions was a core group of primarily Western states that created each framework and eventually expanded it to others. Those countries paid attention to the full spectrum of power resources at their disposal, and utilized them to wear each face of power as

Effective societal security efforts necessarily must engage critical economic actors and be international in scope.

¹¹ Ibid., pp. 12, 80.

Policy Brief

warranted by particular situations. This lesson underscores the need for the transatlantic partners to forge a new architecture of cooperation that addresses challenges at home while building synergies that can shape agendas, influence preferences, and when necessary, command change in a world of both power transition and power diffusion.

TTIP and Transatlantic Statecraft

It is in this context that the U.S.-EU Transatlantic Trade and Investment Partnership (TTIP) deserves significant attention. TTIP reflects a new transatlantic consensus that the world that created the original transatlantic alliance is fading fast, and that Americans and Europeans must work more urgently to build a partnership that is more effective in generating economic opportunity at home, dealing with new partners, especially in emerging growth markets, and shoring up basic norms and principles guiding the international system.

At its core, TTIP is about generating regulatory coherence and breaking down barriers to transatlantic commerce in ways that can stimulate growth without piling on debt. A transatlantic deal would not do this automatically, but rather would create opportunities that could in fact generate new jobs, trade, and investment from Hawaii to the Baltic Sea. However, TTIP is about more than trade: it is about creating a more strategic, dynamic, and holistic U.S.-EU relationship that is better positioned with regard to third countries' open markets and strengthening the ground rules of the international order. Until now, most analysis of TTIP has been limited to its economic impact. Its geopolitical impact may be even more profound.

A central question is 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 is — 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

element of strategy in a G20 world must be to protect and reinforce the institutional foundations of the liberal order, beginning with the partnership between the United States and Europe. This means not only refraining from imposing such national protectionist measures as trade tariffs, export subsidies, or buy national policies, but coordinating efforts to ensure high standards globally, which can lift the lives of their own people and create economic opportunity for billions of others around the globe.

Europeans and Americans certainly share an interest in extending prosperity through multilateral trade liberalization. But the Doha Round has stalled and the WTO system is under challenge, especially from emerging growth markets that have benefited substantially from the system. In this regard, TTIP can represent a new form of transatlantic collaboration to strengthen multilateral rules and lift international standards. Given the size and scope of the transatlantic economy, standards negotiated by the United States and EU can quickly become the benchmark for global models, reducing the likelihood that others will impose more stringent, protectionist requirements for either products or services. Mutual recognition of essentially equivalent norms and regulatory coherence across the transatlantic space, in areas ranging from consumer safety and intellectual property to investment policy and labor mobility, not only promises economic benefits at home but also promises to form the core of broader international norms and standards.

TTIP may be useful not only to shore up the multilateral system but to extend it to new areas and new members. Even a successful Doha Round agreement would not

A key element of strategy in a G20 world must be to protect and reinforce the institutional foundations of the liberal order, beginning with the partnership between the United States and Europe.

Policy Brief

address a host of issues that were not part of its mandate and yet are critical to the transatlantic partners and the global economy. Transatlantic initiatives in investment, clean technologies, or services, for example, could be extended to WTO members who are willing to take up the same responsibilities and obligations covered by such agreements. The United States and the EU could also codify and align their existing free trade agreements to boost the multilateral system. An alignment and extension of free-trade arrangements among the United States, EU, and all partners with whom they have such free-trade agreements would be a major boost to the global order.

In this regard, the “multilateral vs. transatlantic” dichotomy is a false choice. The United States and EU should advance on both fronts simultaneously: push multilateral liberalization while pioneering transatlantic market-opening initiatives in areas not yet covered by multilateral agreements. The alternative to this WTO+ agenda is not drift; it is growing protectionism, U.S.-EU rivalry in third markets, and the triumph of lowest-common-denominator standards for the health and safety of our people. The absence of agreed rules and procedures weakens the leverage of the two regions to ensure that high standards prevail. In this regard, those who worry that TTIP could threaten the multilateral system should consider that the opposite may in fact be true.

There is also a reassurance element to the TTIP. NATO is wobbly and many Europeans worry that U.S. attention and commitment to Europe are waning. 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 the United States’ “partner of choice.” In this regard, TTIP has the potential to serve as a new binding element for the transatlantic partnership. It is not an “economic NATO” — a term that can easily be misinterpreted — but it can be a second transatlantic anchor, rooted in the deep and growing integration of our economies and societies.

TTIP challenges fashionable notions about a “weakened West.” It can be both a symbolic and practical assertion of Western renewal, vigor, and commitment, not only of Europeans and Americans to each other but both together to high rules-based standards and core principles of international order. It is an initiative that can be assertive without being aggressive. It could position the West

anew with regard to Nye’s three faces of power, as it would give the West tools with which to shape preferences, set agendas, and — if necessary — command change. It is rooted in an old yet relevant 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, and still a potent force in the multilateral system — when they work in concert.

About the Author

Dr. Daniel Hamilton is the Austrian Marshall Plan Foundation Professor and director of the Center for Transatlantic Relations at the Paul H. Nitze School of Advanced International Studies (SAIS), Johns Hopkins University. He also serves as executive director of the American Consortium for EU Studies, designated by the European Commission as the EU Center of Excellence, Washington, DC.

About GMF

The German Marshall Fund of the United States (GMF) strengthens transatlantic cooperation on regional, national, and global challenges and opportunities in the spirit of the Marshall Plan. GMF does this by supporting individuals and institutions working in the transatlantic sphere, by convening leaders and members of the policy and business communities, by contributing research and analysis on transatlantic topics, and by providing exchange opportunities to foster renewed commitment to the transatlantic relationship. In addition, GMF supports a number of initiatives to strengthen democracies. Founded in 1972 as a non-partisan, non-profit organization through a gift from Germany as a permanent memorial to Marshall Plan assistance, GMF maintains a strong presence on both sides of the Atlantic. In addition to its headquarters in Washington, DC, GMF has offices in Berlin, Paris, Brussels, Belgrade, Ankara, Bucharest, Warsaw, and Tunis. GMF also has smaller representations in Bratislava, Turin, and Stockholm.

Contact

Dr. Alexandra de Hoop Scheffer
Director, Paris Office
German Marshall Fund of the United States
Tel: +33 1 47 23 47 18
Email: adehoopscheffer@gmfus.org