

From Alliance to Coalitions—
The Future of Transatlantic Relations

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Bertelsmann Foundation Publishers

Bibliographic information published by Die Deutsche Bibliothek

Die Deutsche Bibliothek lists this publication in the Deutsche Nationalbibliografie;
detailed bibliographic data is available on the Internet at <http://dnb.ddb.de>.

© 2004 Bertelsmann Foundation Publishers, Gütersloh
Responsible: Nicole Renvert
Translation: Toby Axelroth, Michael Prince, Dr. Barbara Serfozo
Editing: Nicole Renvert, Maren Qualmann
Production editor: Sabine Reimann
Cover design: HTG Werbeagentur, Bielefeld
Cover illustration: Zefa/MEV
Typesetting and printing:
Hans Kock Buch- und Offsetdruck GmbH, Bielefeld
ISBN 3-89204-762-6

www.bertelsmann-stiftung.de/verlag

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Acknowledgements

Werner Weidenfeld

The year 2001 witnessed a profound change in transatlantic relations, for the attacks of September 11 signaled a new epoch of security politics. Decision makers on both sides of the Atlantic had to respond to new threats and find new ways to work together. Ultimately, there were vastly different approaches to the challenges at hand; thus 2001 marked the end of a period of transatlantic thinking and the dawning of a new political era. Differences in procedure and method led to this crisis in the transatlantic partnership, a crisis that was foreshadowed with the end of the Cold War but only became manifest during the intervention in Iraq in 2003. The resulting fissure between Europe and the USA extended through Europe as a whole.

Responding to these new challenges, the Bertelsmann Foundation undertook to identify the pressures on the transatlantic partnership as a kind of early-warning system and to confront these stresses through concrete strategy recommendations. Within the framework of the project, “The Future of Transatlantic Relations” (2001–2004), the Bertelsmann Foundation created two high-level bodies, the Transatlantic Strategy Groups on Economics, Finance and Trade and the Transatlantic Strategy Group on Security. Members of the Strategy Groups worked for two years to develop a package of recommendations as to how, and in which areas, the USA and Europe might cooperate in the future and to identify interdependencies between economic challenges and those of the new security policies.

The results of this initiative are reflected in this publication. It is the product of intensive conferences on strategy in the USA and Europe, bilateral discussions and the procurement of additional testimony to illuminate specific points.

The first part of the book introduces the processes, composition and terms of reference of the Strategy Groups. The second section deals with questions related to security politics. The third part covers economic cooperation, energy security and environmental issues.

In addition to the authors of this publication, there were numerous outside experts and international decision makers who assisted in this initiative, above all the chairpersons of the Strategy Groups:

Dr. John Hamre of the Center for Strategic and International Studies, CSIS, and Dr. Walther Stütze, former Deputy Minister of Defense (Transatlantic Strategy Group on Security); Dr. C. Fred Bergsten, Director, Institute for International Economics, and Caio Koch-Weser, State Secretary, Ministry of Finance (Transatlantic Strategy Group on Economics, Finance and Trade).

I wish to extend my thanks to all participants—and particularly to the chairpersons—for their commitment and active support of this initiative. For the transformation of the project into this publication, my thanks go to Nicole Renvert and Nicole Schley.

Introduction: The Intertwining of Security and Economics

There is little doubt that transatlantic relations are under pressure, even if we now are experiencing a period of “*détente*,” of relaxation; and we wonder: “Will it last?”

As this century begins, world politics stands at the dawn of a new epoch. Almost daily, new examples surface to show that this new era is marked by dangerous chaos, including terror attacks and the efforts of certain states to acquire weapons of mass destruction, as well as the corresponding negative reaction of the established powers. More than a decade after the end of the East-West confrontation, world politics has reoriented itself to face transnational crises and security threats.

One would be naive to assume that the European-American partnership remains untouched by these upheavals in world politics. The result for the partnership is clear: the traditional emotional warmth has disappeared. Today’s situation is marked by harsh rhetoric, mutual recriminations of undermining cooperation, and American hegemonial designs with a tendency toward an unprecedented unilateralism.

It will take a while for this latest transatlantic crisis—which started with the third Gulf War, climaxed with the U.S.-led invasion in Iraq and, from a German viewpoint, came to an official end when Schröder visited the American president at the end of September 2003—to die down. The crisis was not only unusually serious, but its stridency was unfamiliar to observers.

In its deepest dimension, the transatlantic relationship has suffered tremendous erosion. The displacement of foreign policy strategies, growing apathy, generation change and dissolving personal networks, a focus on domestic affairs, less stable definitions of position, unexpected changes in political standpoint; in short: Europe and America are experiencing the end of a nearly 50-year transatlantic relationship that was taken for granted. Relations across the Atlantic have entered the vortex of changing global political constellations, under the threat of terrorism, and must provide new answers for new challenges.

In assessing these future challenges for the transatlantic community, the radically changed international political conditions must be taken into consideration. Many formerly decisive figures and models of international politics have lost relevance in recent years and no longer stand ready to guide future strategies or to train new transatlantic leadership. Two changes in international politics seem particularly relevant in light of this situation:

First of all, international terrorism has replaced the East-West conflict and the dominant classical security concerns as the strategic, main determinant of international politics. At the same time, the number of actors in the international political scene is growing, together with the potential for cooperation and conflict.

A consequence of this development is the relativization of former power structures. In addition, the advancement of international law and the globalization of media, with worldwide on-the-spot coverage, contribute to this phenomenon.

The United States, while remaining the only “superpower,” has greater difficulties in bringing its influence to bear, because military and political pre-eminence are less crucial elements for the resolution of today’s conflict situations (terrorism, civil war, nuclear proliferation, economic crises).

Secondly, the traditional concept of national sovereignty turns out to be an idyllic, naive excerpt from history books. The problems and tasks of politics largely have outgrown national bounda-

ries. There is as yet no adequate political decision-making model corresponding to the internationalized structure of today's challenges. Consequently, politics gradually loses its capacity to make decisions—as long as politics is unable to redevelop its authority in the form of international organizations.

These challenges were taken on by a new transatlantic initiative of the Bertelsmann Foundation and the Center for Applied Policy Research (CAP) within the framework of the project “The Future of Transatlantic Relations,” under the title “The Intertwining of Security and Economics.” Two specially convened Transatlantic Strategy Groups—one focusing on security and the other on economics, finance and trade—met three times. Their initial meeting took place in July 2002 in Berlin.

Alongside high-level political representatives, including EU Minister for Foreign Policy and Security Javier Solana, President of the International Crisis Group Martti Ahtisaari and Deputy Director of the Carnegie Center in Moscow Dmitri Trenin, there were also economic experts Pascal Lamy (EU Trade Commissioner) and Robert B. Zoellick (U.S. Trade Representative), media representatives from the *Frankfurter Allgemeine Zeitung* and the *Washington Post*, and representatives of think tanks (Brookings Institution, Center for Strategic and International Research, Carnegie Endowment for International Peace).

Given the strong common interests in finding answers to global questions, such as the mutually advantageous trade and investment relationship, but also in the fight against terrorism, the support of a democratic Russia, promotion of stability in the Middle East and Persian Gulf and in relation to China, a new strategy of transatlantic cooperation is needed to meet the challenges of the 21st century.

All the members of the Strategy Groups felt that such an initiative definitely would enhance the transatlantic relationship. In their initial meeting, the Strategy Groups reflected on ideas and expectations for defining a “new global partnership” between the

United States and Europe, and introduced the concept of an informal steering group, the G-2, which will be described in more detail in the contribution by Caio-Koch-Weser and Fred Bergsten.

In Berlin, the Security Group primarily discussed the fight against terrorism; the future role of NATO; and the new strategic partnership with Russia. The Group on Economics focused on International Finance, Corporate Governance and International Trade. During the Miami meeting, the agenda of the Transatlantic Strategy Groups was further developed and again dealt with a long list of issues: NATO and global security, Russia, trade, corporate governance/regulatory convergence, and international accounting standards.

The overarching aim of the G-2 would be to advance the transatlantic agenda more aggressively by means of greater networking. This G-2 concept obviously should not come at the expense of other groups. It should be pursued inclusively rather than exclusively.

In their Eltville/Reinhartshausen meeting, the Transatlantic Strategy Groups focused on three principle issues:

1. Security following the war with Iraq, addressing the question of whether existing institutions still have a role to play or whether new institutions, new mechanisms and new procedures are needed.
2. The European Union's role in foreign and security affairs. Suggestions for a core union certainly will not suffice to deal with the problems at hand and therefore will require further deliberation.
3. What does this mean to future EU/NATO members? How do they interpret current developments?

The key question on which the two groups have worked is how to keep transatlantic relations vital. Both groups have contributed a great deal toward defining the problem. The second step was to define the criteria for solutions. The third step, then, was the devel-

opment of strategies to overcome existing conflicts. One important suggestion was to tackle problems on the security side through closer cooperation in economics, finance and trade on the basis of an institutionalized G-2 approach.

The historically rooted partnership of two continents: A story of dialectics

For most of its history, the European-American relationship has escaped simple definitions. One longstanding characteristic of the relationship has been an apparent contradiction: regular, at times spectacular turbulence on the surface always was accompanied by a stable foundation of transatlantic friendship, firmly fixed on the profound level of public opinion and societal orientation. Current debates about today's transatlantic discomfort frequently neglect to illuminate sufficiently the history of the transatlantic relationship.

The United States was nourished on the world of ideas embodied in the European enlightenment: reason, human rights, freedom, equality and democracy. The progressive idealism of the European Enlightenment is the source of the "American Dream" and "Manifest Destiny."

For many Europeans, emigration from the Old World to the New World represented an act of liberation from suffering. In the creation of the United States of America, a new world was formed out of the ideals of the old. Even the superstructure of the new American society, its legal and administrative systems, its religion and customs, were brought from Europe. This meant that Americans always would view Europe as the continent of their roots, without which their own identity could not have developed.

On the other hand, America also has played an important role in the development of European ideas and politics since its independence from Great Britain. For Europe, the United States served

as a flourishing ideal, unburdened by the European legacy of feudalism and bloody war. The United States was seen as the first truly modern land, a dynamic democracy whose economic work ethic, with its freedom from social restrictions, redounded to the advantage of the individual.

But ambivalence marked the relationship between Europe and the United States from the very start. The young American nation intentionally tried to separate itself from the European political system—which was dominated by notions of position and power, characterized by feudalism and religious intolerance—so as not to allow the European system to obstruct the creation of a healthy and strong America. Up to the Civil War, the blocking of European influence on American development was an important premise of American politics.

In foreign policy, the United States long followed the credo codified in 1801 by Thomas Jefferson, its third president: Avoid being caught up in entangling alliances that could drag one into a foreign power play. However, this never implied the U.S. rejection of active foreign policy. It quickly became obvious that, in order to realize the goals of American foreign policy, it was necessary to exert a calculated influence, particularly on the European states.

So already in the 19th century, the United States was far from indifferent toward the European Continent; the simple slogan of isolationism would not be an apt description of their foreign policy, which when it came to inner-European matters would better be described as vigilant neutrality.

With the exception of the War of Independence, the United States conducted its first war against a European nation, Spain, in 1898. It also became clear at this point with whom the United States would side in Europe. Since 1895, Great Britain had tried to build a strategic alliance with the United States. A crucial influence toward American cooperation with the United Kingdom and the Entente were traditional views on European notions of balance of power: the fear of a European Continent dominated by Germany.

President Wilson's essential argument for America's entry into the first World War and thereby into European politics was the endangerment of the "American Dream," a threat to the basic values of freedom and self-determination in the very continent where these values had been born and with which the United States was most closely bound. In contrast, an entry into war in Europe for purely tactical political self-interest would have been difficult to square with the Jeffersonian imperative of avoiding "entangling alliances."

President Theodore Roosevelt's reinterpretation of the classical ban on intervention, turning the Monroe Doctrine into a U.S. duty to intervene, later was dubbed the "Roosevelt Corollary." Roosevelt delivered his argumentation for this reinterpretation in his annual address to Congress in 1904, regarding the American intervention in the Dominican Republic:

"Chronic wrongdoing, or an impotence which results in a general loosening of the ties of civilized society, may in America, as elsewhere, ultimately require intervention by some civilized nation, and in the Western Hemisphere the adherence of the United States to the Monroe Doctrine may lead the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power."

In simple English this means that the United States is prepared to guarantee the security of the free nations of Europe with military intervention, if Europeans give up their traditional, undemocratic war diplomacy and build—together with the United States—a society based on democratic values.

This doctrine of U.S. policy regarding Europe, upheld through the entire 20th century, was—after the Second World War—an essential condition for the founding of NATO as well as for U.S. support for European integration and the creation of the European Economic Union. The United States therefore has played a decisive role in safeguarding and promoting the original European ideas of freedom, equality and self-determination as guide-

lines of foreign policy, first in Western Europe and today also in Central and Eastern Europe.

Europe and the United States thus can look back on a rich history of common political as well as economic interdependence, even before the reorganization of transatlantic relationships following World War II. On both sides of the Atlantic, there was a deeply rooted understanding that international strategies for problem solving only could succeed through transatlantic cooperation.

The formation of the Western alliance—first of all NATO, but also its economic-political correlative in Europe, the European Economic Community—nevertheless was anything but obvious, as is clear from the numerous disputes between European countries. It is only the success of these new structures in the course of the post-war and Cold War years that allows us now to see them as the only possible consequences of World War II.

But the development of the transatlantic alliance did not proceed without breaks and inner conflicts following the establishment of the post-war order. In the 1950s, on both sides of the Atlantic, positive aspects were played up. Particularly in West Germany, the United States was seen as an absolute model, the ideal to follow. Just as the U.S. public imagined East Germany to be a Russian Germany, so did they see West Germany as American and good—“our Germany.”

The rebuilding of German democracy was seen as an American re-importation of European Enlightenment. To West German eyes, the successful linkage of stable democracy with high economic growth embodied the American ideal.

The second phase of German-American post-war relations, characterized by the dramatization of the negative, began with the end of the 1960s. Culturally, for many the United States became the embodiment of the abysmal, a representative of the abominable whose values were to be rejected: Vietnam symbolized a war-hungry aggressivity; Watergate symbolized a political and

moral decline; fast-food temples and soap operas were symbols of the abandonment of cultural legitimacy. These became the standard patterns of perception of the United States among European intellectuals.

This emotional distance between the transatlantic partners, combined with the loss of the ideal role model, also caused an identity debate among Europeans. Various interpretations of the extent of European enlargement and the creation of a European political order accompanied various presentations of the transatlantic relationship and security alliance as well as the East-West conflict. The debate about Europe's future role in the world already had begun.

In the 1980s, the third phase saw the playing down of both negative and positive. Europe's earlier admiration of the United States as a glorified role model, and its later rejection as an anti-power, were overcome. Henceforth both partners held a sober appreciation for the possibilities and limitations of transatlantic cooperation. The awareness of parallel interests as well as disagreements—commonalities and differences—became sharper.

The breakdown of the Soviet Union and with it the loss of relevance of the Warsaw Pact's security policy presented completely new challenges for the transatlantic partners. The downfall of their former opponent was not celebrated as a triumph, but rather was understood as a challenge toward concrete political and economic reconstruction in the eastern region of the formerly divided continent.

This further strengthened the tendency toward sober realism in the transatlantic relationship. Sobriety also was necessary because the interests of the western allies in the reconstruction were hardly identical.

In addition, the fall of the Soviet Union unleashed an acute threat that turned both Europe and the United States toward domestic problems with unprecedented intensity. Since then, the EU sees itself facing central challenges on parallel tracks: on the

one hand a deepening of integration and on the other hand the promised expansion of the EU to include 12 reformed states, scheduled for 2004 and 2007.

In the United States, until the terror attacks of September 11, 2001, the presidential and congressional elections from 1992 to 2000 symbolized a growing and at times exclusive dominance of domestic issues on the American political agenda.

At the end of the Clinton-administration, differences once considered subordinate were pushed to the center of transatlantic political awareness, including the fight against international terrorism, various reactions to crises in non-member countries (for example Somalia, Afghanistan, Haiti), nuclear proliferation and the control of weapons of mass destruction, but also the frequent transatlantic conflicts over trade and global environmental politics.

After the election of George W. Bush in 2000, these differences came to a head and led to considerable tensions in 2001 regarding—among other things—the scandal over the rejection of the Kyoto Protocol, the abandonment of the ABM Treaty and the U.S. withdrawal of its signature on the statute for the International Criminal Court.

The political elite on both sides played a significant role in this atmospheric change in the transatlantic relationship. For the generation of Reagan, Thatcher and Kohl, transatlantic solidarity was the cornerstone of security and freedom in Western Europe. From that arose a both emotional and programmatic framework that gave politics an orientation and stable foundation beyond the interests of the day.

Broad segments of today's generation of politicians on both sides of the Atlantic have experienced a different political socialization. Their youth was dominated by opposition to the fossilization of the founding era of transatlantic relations. From that opposition arose a new mental filter—not anti-Atlantic, but coolly considering how to weigh factors of international politics in any given situation.

Changes in the foreign policy strategies of the United States and Europe

The United States knows it is the only remaining world power since the fall of the Soviet Union; there are no equal competitors with similar ambitions. Though the European Union has the economic capital and infrastructure of a world power, it lacks efficient military and security politics as well as strategic thinking. This reduces pressure on the United States to enter into lasting alliances.

But a single super power also needs supporters. So it seems useful to have at least occasional partners in Europe, Asia and the Arab world. Then burdens can be shared and partnerships entered into for stability. But these networks are neither as firmly established nor as long-term as they had been. They are intended to be functional and to serve selected purposes.

Naturally, Europeans must bear a large part of the burden of rebuilding the Balkans, Afghanistan and Iraq; naturally Europeans must take part in the financial burdens of the Middle East. But the strategic decisions fall on the shoulders of the only world power.

Since 1994, quite soon after Clinton's entry into office, influential forces, particularly the Congressional leadership, have prescribed a far-reaching new interpretation of American foreign policy. Domestic political challenges are considered a guiding principle for foreign policy. According to this new American interpretation, foreign policy, like domestic policy, was tied up in bureaucracy and was too inefficient, and in general was seen as removed from the views and interests of the American people.

Parallel to this, cooperation with international organizations also was questioned radically; attempts at a fundamental new interpretation failed repeatedly. Much blame for the numerous recent failures of American foreign policy was placed on the United Nations, in that American policy supposedly was bogged down in multilateral decision-making structures.

The unsuccessful involvement in Somalia under the U.N. flag, the contradictory maneuvers in Haiti and the participation in the failure of U.N. politics in former Yugoslavia were ever-present reminders.

According to this logic, Congress concentrated after 1994 on —among other points—limiting possibilities of cooperation with the United Nations. This was linked with a more restrictive doctrine regarding deployment of American troops abroad for peace-keeping tasks. The long-term consequences of this were the solo entry of the United States in Afghanistan and Iraq.

This displacement of foreign policy coordinates has been misinterpreted as party politics, that is to say a phenomenon solely due to the new Republican majority in Congress. In reality, it speaks to a generation change in both parties. Virtually all the most recently elected representatives, whether Democrats or Republicans, at least until September 11 filled their election campaigns with attacks on what they saw as the Washington establishment's misguided foreign policy goals. This trend of generation change is bound to strengthen. And with that change, many traditional transatlanticists are lost.

When George W. Bush took office as president in January 2001, many noted and experienced foreign policy experts followed him into the government: Condoleezza Rice as National Security Advisor and Colin Powell as Foreign Minister, Donald Rumsfeld as Defense Minister and Richard (Dick) Cheney as Vice President. Already in the first months after Bush's assumption of power in January 2001, the administration headed into a confrontation with Clinton's foreign policy. The Clintonian multilateralism was replaced with a new unilateralism that pushed U.S. national interests into the foreground.

A "new realism" (Condoleezza Rice) was announced as the leading foreign policy principle. Terms like "à la carte multilateralism" (Richard Haass) made the rounds. The spokespersons of this new American foreign policy strategy defended themselves

vehemently against charges from the European side that they were promoting a new American isolationism.

On the contrary—according to their reading, it was all about a new assertion of America’s claim to leadership in the world, freed from the encumbering burdens of both American bureaucracy and multilateral considerations. The representatives of this strategy were best described as “unilateralists.”

This new nationalism earned Bush warm support from Republican hardliners on the one hand, and harsh criticism on the other hand from the political opponents at home as well as from foreign partners.

U.S. foreign policy, as well as its reception in domestic and foreign media, changed abruptly with the terror attacks of September 11, 2001. Criticism of the policies and the person of President Bush was hushed in the wake of worldwide shock; and the Bush administration also recognized very quickly that its campaign against terrorism depends on the support of other countries. Bush left no room for doubt that this new multilateralism would be oriented clearly to U.S. interests. His definition of multilateralism was: You are either for us or against us. He allowed no room for variations on this theme.

Well before September 11, the United States was the world’s military superpower, with more than 250,000 soldiers stationed around the world. The United States also is understood as a world leader economically and culturally, with 23 percent of worldwide imports, 15 percent of world exports and doubtless the lion’s share of the pop music and film culture at the start of the century. This “empire” was shaken to the core by the terror attacks on the World Trade Center and the Pentagon.

Whoever does not understand the meaning of September 11 for the American people does not understand the new America. Because the country saw itself as having been dealt an existential blow, the patriotic American self-image saw the war on terror as necessary to ensure the nation’s survival.

As little prepared as the world was for the terror attacks of September 11, the perception of terror as a threat to international security and stability is not new. By the 1990s, all players agreed that international terrorism must be considered a multi-faceted threat. But there were no clear and shared perceptions of how to deal with this threat. Without the common threat of an imperialistic ideology, embodied in the power apparatus of the Soviet Union, the intellectual cement of the transatlantic community crumbled in its institutionalized form, NATO.

Moreover, terrorism upset the premises of the previous security system. The guiding principle was always the concept of deterrence between rational players. This consideration had secured peace for decades between east and west. But such rationale does not apply to the global, professional network of terror. The Hobbesian lesson of one's own death as the summum malum loses its political implication if death is sought consciously in return for divine prospects.

In addition, terror is no longer the classical enemy from without. Instead, it is located simultaneously within and outside the target society. Thus the difference between inner and outer security is negated. Above all in the United States, the search for protection takes the place of deterrence.

In planning political and military moves against terrorism, it quickly became clear to both the White House and Pentagon that they could not win this struggle without the support of other nations. The unilateralism of the Bush government's first nine months therefore had to be replaced by a limited multilateralism, a "coalition of the willing," at least for the fight against terror.

The USA chose several partner countries, luring them with economic gain and prestige—even if it meant damaging international organizations that previously had been useful. This applied equally to NATO, the European Union and the United Nations. Bush left no doubt that the United States was prepared to go it alone, should other powers not cooperate.

The new national security strategy as of September 2002 was characterized by this fundamental new alignment of American foreign policy and security policy. The United States sees itself, from its vantage point as a superpower, as being in the position to carry out a worldwide, unique hegemony and to form an international order according to its own image.

At the same time, it sees both international and national order threatened by the “three T’s”: terror, tyrants and technology in the sense of weapons of mass destruction. This unprecedented constellation of threats demanded a new defense procedure. Preventive and pre-emptive actions against terrorists, “rogue states” and weapons of mass destruction—including the use of military means—are the solutions of the day.

Militarily, the United States reacted to the terror attacks with a long-term restructuring of its army to a mobile task force, rapidly deployable worldwide, as well as with an increase in the military budget. Not only is it to be doubled to about \$700 billion by 2007, but in absolute numbers—not as a percentage of the gross national product—it will be the highest defense budget the United States has had since the massive buildup under President Reagan. The perception of an asymmetrical threat remains unchanged. The Bush administration follows the slogan: An attack is the best defense.

The military successes against the regimes in Afghanistan and Iraq must not ignore a fundamental issue in the fight against international terrorism: Regime change alone does not work. Long-term peace and economic perspectives are necessary to remove the fertile ground for terrorism.

In this view, the process of nation-building returns with renewed strength to the political foreground. The message that displays of military power do not automatically bring the desired result must still be conveyed to large parts of the U.S. public. The widespread lack of appreciation of U.S. citizens for the critical or even negative stance of many European governments regarding the new Iraq War makes this clear.

While the German war experience in particular is still based on World War II and every military action since then has been greeted with skepticism, in the United States—the superpower with a high percentage of people who are uninformed about foreign policy—the lost Vietnam War led only to temporary critical (self-)reflection. Without a sustainable concept of fighting terrorism, the United States, with its short-term military actions, risks being branded the aggressor and becoming the target of international criticism, thus paving the way for new generations of terrorists.

Iraq presents the most obvious expression of the new foreign policy. After George W. Bush's entrance into the White House, a significant number of political hardliners under the leadership of foreign policy "hawks" Donald Rumsfeld, Dick Cheney and Paul Wolfowitz promoted a political mission to finish the job left undone by the previous Bush administration: the removal of Saddam Hussein.

The terror attacks of September 11 fed the ambitions of these hawks, who placed Saddam Hussein in the camp of terror groups and accused him of illegal possession and proliferation of weapons of mass destruction. Whether or not the presumption of Iraqi cooperation with the al-Qaida network and possession of weapons of mass destruction was accurate, most Americans agreed that the United States should proceed militarily against Iraq. Even Congress supported the president's resolution regarding the course of war, despite some debate over the details.

With this support, President Bush also was able to initiate a regime change despite the negative convictions of his allies and without the international legal backing of the U.N. Security Council.

The war against Iraq is not, however, a unique event on the international political stage. It is one stone in the large mosaic of security and stability. To complete this mosaic, many other stones are needed: after Afghanistan came Iraq. And still more venues

may follow. North Korea, Iran, Syria, Saudi-Arabia, Pakistan—wherever threats originate, the United States will protect itself.

Washington would welcome the assistance of organizations like the United Nations or NATO; but if the solidarity of international organizations offers no help, then Washington will manage on its own. The same goes for international law: If it is useful, then it will be embraced—when not, then one must make do without legitimation under international law. The vital interests of the security of the United States come first.

While the United States pursues its new mission, unified through patriotism, Europe finds itself in a period of profound change in its self-image and structure, a process whose outcome remains unclear. Since the end of the East-West conflict, integration politics have changed rapidly. Contradictory and concurrent trends in integration and disintegration determine the image of the European Union up to today, as evidenced by its newly presented constitution.

The old line of conflict on expansion versus deepening constantly comes to the fore; visions of Europe's ultimate identity are crushed before they can be formulated clearly. Moreover, after the end of the tight bipolar embrace, Europe's political unity must form itself from the shared market and the continuous defining and widening of European solidarity—and social models in a global economy—and not from the concrete resistance to external dangers. Europe's territorial reach is not based on imperialism, but rather results from a voluntary normative agreement between current and future member states.

The fast-approaching expansion also is accompanied by new challenges in security politics. The expansion to 10 states in May of 2004 takes the EU to Europe's territorial boundary. As a result, Europe will be faced with the challenge of taking on even more stabilization work.

Central trouble spots in the Balkans, the Middle East or in the Caucasus are suddenly in the immediate vicinity of the EU's sphere

of influence. Because the European community exists in part to guarantee security for EU members and citizens, a common foreign and security policy must be advanced in such a way that ensures the legal capacity to act. The new threats of international terrorism and the proliferation of weapons of mass destruction underscore Europe's need to develop clear political security strategies.

But the parallel deepening and expanding of the EU prompt a vastly increased skepticism and distance on the national level. There is an unmistakable re-nationalization in the form of a partial return to classical models of power within the European Union.

Both the stubborn insistence on special national regulations—for example in the realms of taxes and agriculture—and the EU's foreign policy division into backers and opponents of war on Iraq make it clear that most member states focus primarily on internal politics and consider the broad European perspective as subordinate.

These simultaneous and opposing developments deliver an odd profile of the European players—with their uncertain constellations and new conflicts and Europe's imprecise political compass. The United States is challenging this complicated Europe to define its interests clearly. The United States expects that a European instrument for this conversion is at hand. Thus the renewal of the transatlantic partnership depends on the Europeans doing their basic homework—with development of a global security policy heading the list.

Among Europe's future global challenges is not only the creation of foreign-policy authority, but also the establishment of a European defense identity with its corresponding capabilities. The goals of EU and NATO exist in the context of an altered security awareness. The division of labor between the expanded EU and expanded NATO will mark the European order of the 21st century. It must remain in the interest of the European Union to maintain the transatlantic partnership.

By beginning to develop a European security and defense identity, the EU already has made a step towards taking on greater responsibility, including easing the burden on the United States. With the expansion of its security and defense policy, the EU surmounts its limitations as a civil power and gives itself a new self-image. Surely if the European Union takes on a new role in foreign policy and wants to appear credible, then the EU must not only rebuild the confidence in its foreign policy that was damaged in the wake of the Iraq War, but it also must also produce a lasting consensus for a stable internal configuration.

In view of the experience in the Balkans, the new risks of terror and the demands on worldwide peace policies, Europe must reconsider the concepts and structures of its security and defense policy. The Balkan crisis showed that, without a capable military leadership with corresponding military tools and decision-making structures, Europe cannot play an effective role in crisis management or any leading role in the building of peace.

It was after the Balkan crisis that the decisions to strengthen European security and defense policy were made. One consequence of the events of September 11 is that the goal of a rapid reaction force of 60,000 troops must be defined more precisely and more ambitiously. But the decisions to build and equip remain insufficient. Essential components of mobility and enlightenment will only be available with considerable delay and with appropriate involvement of member states. Only an agreement on needs and a corresponding concentration of resources for the military can release the necessary development potential.

One joint arms project, the military cargo jet Airbus A 400-M, is a step in the right direction; but at the same time the project again showed the weakness of Europe: drawn-out squabbles between participating countries over the size of the contract and over financing almost led to the downfall of the project.

Successful prevention of terror attacks demands interlocking external and internal security. Segmented security policies in sep-

arate fields of action—as is also the case within the member states—should be replaced with a unified policy. The supplementation of the military component by non-military instruments, for example the establishment and equipping of joint police troops to cope with the Petersberg tasks, has gained urgency. Thus the future European security policy should be viewed as a comprehensive principle.

If the capabilities of the expanded EU are strengthened, divisions in communal and intergovernmental foreign policy will disappear. The spectrum of foreign policy directions, including those related to foreign trade relations, should be linked so that the resources of the European Council and Commission as well as those of the advisory and decision-making authorities of member states can interlock.

Will the transatlantic partners still be close in the 21st century?

The terrorist attacks of September 11 gave the transatlantic alliance a new cohesive material—the common threat of international terrorism—which became the Western world's dominant security problem. However, such a new, shared security threat does not automatically lead to a revitalized common security policy, as the recent differences over Iraq show.

On the contrary, the varying approaches to the danger of terrorism and the attendant human-rights issues have led to a new and mutual feeling of division between the transatlantic partners. This does not necessarily arise from a new American isolationism or anti-European disposition. Europe simply has been released from its earlier privileged position into a more normal reality based on national interests. Cooperation is now sought in an “à la carte,” case-by-case multilateralism.

With puritanical severity, Washington is only interested in one thing: Can Europe contribute effectively to addressing common challenges? In this regard, the Americans often show very little

understanding for European politics. The United States' strict focus on results fails to take into account the protracted, complex decision-making processes of European integration.

From the American partner's point of view, such procedures are too ponderous, inefficient and slow. Every European declaration regarding an important new step toward integration is thus viewed with a high degree of skepticism. When, contrary to expectations, such steps actually take place—from economic and monetary union to common defense policy—Washington's skepticism threatens to turn into distrust.

Conversely, the European side also has a limited understanding of the conditions and possibilities of the American partner. At the beginning of the Balkan crisis in the 1990s, for example, the Europeans were shocked when the Americans initially resisted their request for an American military presence.

For the first time in decades, the Europeans experienced American disinterest. When the domestic political atmosphere in the United States changed in response to Balkan atrocities, leading the Americans to intervene militarily, the latter were not content to take on minor tasks. The Europeans, who then were left with a merely ornamental role, thus received their second shock. The lesson they drew from this—the need to build up their own military capacity—was in turn misunderstood in Washington.

Similar misunderstandings arose from the war against the Taliban in Afghanistan. Although, at the instigation of the Europeans, NATO invoked Article 5 of its charter for the first time in its history, the Americans still did not make use of NATO's military capacity in Afghanistan.

Instead, the United States requested that the alliance take over mere odd jobs like the monitoring of American air space. The United States conducted the military operation in Afghanistan according to its own judgment, with a "coalition of the willing." Again the Europeans were taken aback and felt snubbed by the Americans' national decision.

The Balkan and Afghan examples illustrate a basic point: Europe is freeing itself of American patronage without having learned how to act in the world of international politics, and thus finds itself in an emancipation trap. Without having a strategic concept or an order of priorities, Europe must develop an independent method of proceeding. In its relations with its European partners, Washington has no choice but to go its own way or to seek specific deals with individual European powers. Thus, now as before, the supranational integration of Europe tends to raise question marks on both sides of the Atlantic.

At the same time, the United States is seeking urgently a division of labor when it comes to Iraq, Iran and conflict-ridden Africa. Washington wants functional partnerships in fighting terrorism and on such issues as AIDS, drugs and migration. In such a problem-solving partnership, the Europeans' deficit becomes clear: not the lack of international potential but the lack of strategic orientation—of international political calculation. Equally lacking is a sober, clear definition of their interests. In this way, Europeans need the United States to compensate for their own deficits.

Europe's Achilles heel is its lack of strategic thinking. The EU Security Strategy that Javier Solana presented in June of 2003 is the first step in the right direction, but this initiative has yet to prove its capacity. Still, this strategic plan can serve as a starting point for the development of a new way of thinking about security policy, which eventually should lead to a concrete foreign- and security-policy agenda.

The result of this current strategic deficit is a structural asymmetry: The world power—the United States—would welcome an easing of the strategic burden, which, however, Europe cannot provide. Emancipated Europe needs the strategic leadership of the United States, without which it remains largely directionless.

However, in contrast to previous decades, both partners no longer need each other for internal political stability. The logical result is a moderate and limited connection between the two partners.

The Iraq War has made plain the growing divisions between the new and old world. Coolness and indifference are the new parameters of the transatlantic relationship. Both sides blame the other for a lack of understanding. Europe claims the Americans do not understand that the majority of Europeans believe that diplomatic means were and are key to solving the Iraq question, while the United States insists the Europeans do not understand that their national security is threatened and that they wish to prevent a new attack using all appropriate means.

The effects of these differing positions on transatlantic relations probably have been more ominous for the Europeans, since they were treated with complete indifference when they wished to take on a role in the global-power concert. Meanwhile, the Americans no longer are willing to listen to charges of unilateralism while hearing excuse after excuse as to why Europe still has 15 different opinions, making a common European defense policy impossible.

European plans to establish a 60,000-man army that would occupy itself with Petersberg tasks often is greeted in Washington with sympathetic smiles only. If Europe wants to be taken seriously as an international actor, it must begin the difficult procedure of negotiating increases in defense expenditures. Looking at the current state of affairs, at any rate, a break in the transatlantic security partnership already has taken place.

From the economic perspective, on the other hand, such a break cannot—and must not—take place. The reason is simple: Neither side can afford it. Independent of any arguments over military and economic strength, an essential element of the transatlantic connection remains the vital economic interest both sides have in a healthy relationship.

Even at a time when political decision makers have been colliding with their counterparts on the other side of the ocean, each side's economic interest in the other's prosperity has reached a high point in the last 10 years—despite the fact that the connecting cement of a common Soviet threat has fallen away.

The economic data speak for themselves: More than 50 percent of American companies' revenues derive from the European market. Europe remains the most important partner for American businesses. European firms provide more than a million jobs in California alone. European investments in Texas exceed the entire U.S. investments in Japan. On both sides of the Atlantic, more than 12.5 million people make their living from transatlantic economic connections.

Thus daily political developments and the resulting media headlines can be deceptive, since they hide the fact that an intact relationship remains behind the torn facade. Reciprocal international investments—not trade in specific goods—are the backbone of the transatlantic economic partnership. Even the rising Asian market cannot upset this stable fundament. So long as the European market doesn't shrink, American economic activities will remain focused to an essential degree on Europe.

Moreover, its own national interests encourage the United States to support the deepening and widening of the European Union. The United States also will profit when advances in European integration make it impossible for the slowest ship in the European fleet to block future-oriented strategies of transatlantic economic cooperation.

The EU's enlargement is also in the vital interest of the United States. The absorption of new members from Eastern Europe will increase greatly their inner stability and significantly reduce the possibility of crises and conflicts in the region. The United States is especially interested in the latter because—as the Balkan wars demonstrated—the solution of crises in Europe still requires the direct engagement of the United States.

Therefore, the Americans do not share the fears that the EU could use the integration of Eastern Europe to turn that area into an economic *chasse gardée*, because for them the strategic advantages of EU membership for the Eastern countries is pre-eminent. The United States will continue in the future to use every oppor-

tunity to urge the EU to hasten its accession of Eastern European nations.

Conclusion

A time of transatlantic sobriety has begun. In view of September 11, Europe and America have resolved to define their interests anew. Henceforth the rationale for the European-American partnership must define itself in positive terms and not as a reaction to external challenges. The unusual joint success story of the last 50 years certainly will leave its mental imprint on transatlantic relationships for a long time to come. Nevertheless, old allegiances are not enough to define the political and analytical framework of the next epoch of European-American cooperation.

The problems of reconstruction and postwar order in Afghanistan and Iraq prove that the United States depends upon a close working relationship with the Europeans to solve international problems. Neither the ill feelings resulting from the Iraq War nor the Americans' distinction between an "old" and a "new" Europe can alter that fact. For the EU, busy with the internal, often petty quarrels of European integration, the United States, as its chief partner, plays an important role by constantly reminding it not to forget the great international challenges.

Because of its economic strength alone, today's Europe—whether it is aware of it or not—bears worldwide responsibilities. Together with the United States, it already has become the most important addressee for global hopes for democracy and economic progress. In the future, the United States increasingly will expect Europe to take on political responsibilities corresponding to its status as an economic world power.

Today's EU possesses the full potential to take on this new role as an equal partner with the United States. However, to realize this potential, the Europeans must become politically aware

of the novel international challenges facing the West after the end of the Cold War and September 11. If they do not react, or react insufficiently, there is a danger of a lasting erosion of the transatlantic community, because the Americans will seek partners outside Europe to help share the burden of international responsibilities.

With this in mind, it is therefore the Europeans who first must answer the question of how a suitable reorganization of the Western partnership should look. The more efficiently the EU organizes itself, the easier it will be for the United States to engage itself for the long-term in Europe. To strengthen the European pillars of the alliance, the EU must convert some of its economic power into foreign- and security-policy weight.

The United States itself can do little to speed up the clarification process in Europe. It has come to understand that the inner-European discourse can scarcely be influenced from the outside. Earlier attempts to reach American goals quickly through close bilateral cooperation with individual EU member states have proved just as unsuitable as occasional pressure on the European Commission. The requirement for a higher level of transatlantic collaboration is first and foremost Europe's capacity for partnership.

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Executive Summary:

The Transatlantic Strategy Group on Security

Walther Stütze

Findings

1. The Atlantic Alliance is a precious and priceless asset. Its preservation and modernization are in the fundamental self-interest of both Europe and America.
2. Conceived and created as a product of common sense and political prescience, the Atlantic Alliance has rendered both its members and its adversaries invaluable service. For its members, the alliance created an enduring framework for a future lived in security. Its antagonists, meanwhile, were restrained from engaging in the kind of adventures that would have destroyed what now seems so attractive to them, and in the process transformed them from willing (or unwilling) opponents into partners.
3. The birth and progress of European political unification has derived significant strength and impetus from the protection offered through the Atlantic Alliance, and from the political support extended by Washington.
4. Both Europe and America owe the economic development of the Euro-Atlantic zone into the most prosperous region of the world not only to their commonly held values or to the cultural, scientific, economic and technological traditions they share. Equally

important were the mutual security interests formulated and safeguarded under the collective aegis of the Atlantic Alliance, which proved an important psychological buttress for the investment that brought about the region's affluence.

5. The fall of the Berlin Wall, the end of the partition of Europe, and the unification of Germany, along with the peaceful dissolution of the Soviet empire mark both the success achieved as well as the challenges faced by the Atlantic Alliance. America and Europe owe this success to their jointly derived and mutually respected tradition of seeking consensus about concrete political problems on the basis of agreed upon political principles.

The challenge has manifested itself in the necessity of finding consensus and implementing a strategy under changed circumstances. This challenge the Atlantic Alliance has yet to overcome. The attacks of September 11, the first-ever invocation of the mutual support article (Article V) of the NATO Treaty, the struggle against international terrorism and the war in Iraq have shown that strategy and consensus within the Atlantic Alliance must be made over anew.

6. Americans, Europeans and Russians have come together with the common conviction that the transatlantic crisis can and must be overcome. Their combined efforts in the Transatlantic Strategy Group revealed that there are practicable ways out of this crisis. Reconstituting the Atlantic Alliance will of course require joint European-American initiative and resolve. Drawing attention to this fact and creating public acceptance for it is the substance and purpose of our work and of the recommendations offered here.

Recommendations

1. The crisis in the alliance is real and should be overlooked no longer. Accepting this fact and demonstrating both the willingness and determination to find its root causes and develop conceptual solutions for overcoming the crisis and modernizing the alliance are now our most urgent tasks.

2. The composition and reach of the Atlantic Alliance must be determined anew. The continuation of a nearly automatic expansion of NATO membership is the wrong course to take. Persisting in this endangers the fundamental substance of the alliance and thereby its ability to function.

The creeping transformation of the alliance from a true compact into a debating society for the United States and various contingent coalitions of European states must be halted through a return to binding commitments. Both the new system of threats the alliance confronts as well as the strategies aimed at dealing with them must be cooperatively sought after, agreed upon and prosecuted.

3. For the foreseeable future, America and Europe will continue to have need of a dependable set of common interests. In its own interest, Europe must employ its energies and its own abundant resources to become a full-fledged international actor in foreign and security affairs. The efforts Europe needs to make in the defense sector must be in accord with its own interests and should, therefore, serve to secure the ability to work in concert with the United States.

Substantial progress has been achieved in this regard, but it remains inadequate in terms of both quality and quantity. As a consequence, these efforts should be intensified considerably, especially with respect to the pace in which they are being pursued.

4. Effective partnership between Europe and the United States on matters of foreign and security policy is in the fundamental interest of the United States as well. It has no need of a European copy of America. It is in America's enlightened interest not to upset this difficult undertaking but to shepherd it along constructively and reliably. Stating this explicitly and courteously serves the Atlantic Community.

5. America, Europe and Russia have arrived at a historically new state of affairs: Relations between them are free of the kind of competing claims that precipitate war and of other sources of conflict. War as an instrument of policy has been eliminated from their mutual affairs. The interests that bind them together are stronger than the differences that divide them.

The most urgent problems they face include non-proliferation of weapons of mass destruction, the elimination of international terrorism, the resumption of effective disarmament and arms control, the renewal and stabilization of the peace process in the Middle East, and the reform of the United Nations (especially in the area of humanitarian intervention).

It is in their common interest that they cease seeking separately the means to combat new global threats and instead work together to identify those threats and cooperate in the means to overcome them—and, also, that they cooperatively adjust to the appearance of new strategic actors in international affairs.

6. It is in the mutual interest of Europe, America and Russia to help see to the success of Russian domestic reform, the most significant security-related reform project of our time. The conversion of Russia into a society oriented around the criteria set down in the Charter of Paris for a New Europe (of November 1990) is substantially (though not exclusively) dependent on a far-sighted policy of unfalteringly generous political, economic, and cultural aid and assistance from Europe and America.

The return in increased security would exceed significantly the amount of resources brought to bear. The new fusion of interest between Europe, America and Russia requires explicit expression in both the charter and structures of the Atlantic Alliance.

7. Today, the Euro-Atlantic region finds itself facing a challenge that, in terms of its conceptual complexity, is no less formidable than the transition within the alliance to the Harmel doctrine of “defense and détente,” and in some ways poses even greater difficulties. The alliance will not be able to draw sufficient creative energy from its own governing bureaucracies to develop the new approaches it needs.

We, therefore, recommend authorizing a group of eminent Americans, Europeans, and Russians to put together proposals for a new Atlantic Charter, one oriented around the results presented here.

Europe and America between fundamental change and new beginnings

1. Just one decade after the end of the Cold War and the reunification of Europe, international relations are once again in the midst of revolutionary changes in foreign and security policy—changes that must be managed if serious ruptures are to be avoided. The most significant change globally has occurred within the European-American relationship.

This relationship qualifies as the most important in all of global affairs, owing to the fact that it was through far-sighted policies pursued on both sides of the Atlantic following the Second World War that successfully transformed the economically, scientifically, industrially, and technologically most innovative region in the world—the European-American region—from a wellspring of devastating conflicts into a model of stability.

In every respect, America is now the only power capable of acting on a worldwide scale. George W. Bush cannot be given credit for this, however. It is the result of long-term efforts—including but not limited to military efforts—supported or at least tolerated by the people of the United States.

Clearly, sincere and serious differences of opinion may exist concerning the cost, purpose, and political application of this concentration of power. During the war against Iraq in March 2003, in particular, the world witnessed how tempting such a monopoly of military power can be, even for a democratically elected leadership.

It also became clear how dramatically America's reputation suffered as a consequence. No one can seriously dispute the opinion expressed by Zbigniew Brzezinski on June 27, 2003, when he said: "The global credibility of American military might was never as high as it is now; yet never was its global political credibility more damaged." Equally true is the fact that for the first time in fifty years, Europe faces an American administration that is indifferent about and at times negatively disposed to European integration.

Though this structural change has occurred in the minds of responsible parties in Washington, its consequences can be seen everywhere, above all in the Atlantic Alliance itself. The Trans-Atlantic conflicts over the Iraq war made this quite evident.

The Iraq war shattered three of the building blocks essential to alliance functionality: strategy, consensus, and coalition.

The military intervention there took place without a conceptual agreement between the alliance partners. That which was bound up inseparably with the name Harmel, and which belonged to the priceless components of the alliance—namely, the impulse to think as one (even when everyone did not always act as one)—was disregarded during the Iraq conflict.

Washington altered the sequence of means by which the status quo may be changed, switching from what was once the accepted pattern of employing political diplomacy supported by military

might to the application of military might supported by the hope that diplomacy will subsequently lead to success.

The latter is a fallacy, as has become increasingly evident. Political consensus within the alliance was always considered an inviolable asset, and as such a source of strength. Substantive evidence of this fact may be cited in the form of the NATO Double-Track decision, CSCE and the policies toward divided Germany and Berlin.

It would seem that Iraq, by contrast, did not even merit so much as a single discussion at the NATO council. There have always been coalitions of one or the other subset of alliance members.

But efforts at finding consensus have always taken priority over coalition building. That is now no longer the case. The new operating principle goes under the name: “coalitions of the willing” — coalitions which anyone can join if it serves their own unilateral purposes. This effectively reduces NATO to a military service organization for any number of political coalitions. How should the political vitality of Article 5, the article guaranteeing mutual support and assistance, be restored after its first application so denuded it of any real meaning.

The rupture in the transatlantic relationship is obvious. Infirmary, not vitality now characterizes the alliance. The poison of indifference threatens to suffocate what it has already crippled. It is all the more surprising, therefore, that this creeping decay has not caused any greater anxiety among those responsible.

In fact, the very opposite appears to be the case. Wherever uneasiness at the state of the alliance manifests itself, placators and makers of empty phrases hasten to summon up the truly great and undeniably successful past of the alliance, to which they urge we return. At best, some call for a strategic debate, though without making any concrete suggestions what form it should take or what purpose it might serve.

There is no way back, however. Whoever searches for one will not find it. And whoever declares the past to be the appropriate

pattern for the future will ultimately destroy the alliance. Merely lamenting the situation will certainly not help. And whoever believes that Europe can simply wait out the current Bush administration fails to appreciate the strength of its deeply American roots.

For the foreseeable future, Washington will make no attempt to save the alliance—nothing that could command a consensus—since current circumstances make it all too convenient for Washington to pursue the global policies it sees fit. International terrorism is not only a real and grave threat, it also—and in this the American and European psyches differ from one another—fills a void, a need for an opponent, an enemy, left by the implosion of the Soviet Union.

For the most secure defense ministry in the world, the Pentagon, to be attacked by external enemies injured the American people more than any previous threat it faced. Although this form of terrorism does not direct itself against states but rather against the social order of free societies, the political leadership of the United States has set about defining it as the enemy of America and has made available without limitation all its energies and resources in the fight against terrorism.

The sooner Europe grasps this fact and draws conclusions from it, the sooner it can begin to develop and employ new forms of transatlantic cooperation and influence. Simply accusing the United States of being incapable of acting in partnership means throwing in the towel on the alliance before Europe itself has proven that it, too, is capable of working together in partnership with America.

2. Europe has accomplished great things and has enormous contributions to make. The draft proposal of the European constitution, propounded by the constitutional assembly in the summer of 2003, marks a major step forward—in spite of the truly unique fact in constitutional history that a structure is to be created about which no one is certain what purpose it should serve, and

despite the fact that the legitimacy of the constitutional assembly is itself in question.

The establishment of the office of EU foreign minister will most certainly prove helpful in bringing into focus the international role of an emerging Europe. Moreover, the European constitution sends a clear signal both to the citizens of Europe and to the world at large that Europe has begun to take itself seriously. Furthermore, the EU has documented (through the draft proposal for a European security strategy recently presented in Thessalonica by Javier Solana) that is now prepared to ascertain its own foreign and security interests.

Clearly, the path from these early beginnings to the goal of an autonomous European culture of strategic thinking will be a long one. But it will succeed if two things are steadfastly pursued and given concrete form:

Firstly, the goal of becoming a global player means obtaining the means—in terms of both material and structures—needed to perform that role; and, secondly, Europe must not pursue the mistaken course of across-the-board opposition to America, but must orient its policies around its own interests.

Careful analysis reveals without a doubt that partnership with America serves Europe as much as it does America—and that opposition hurts Europe more than it does America. This has already become evident through policy matters relating to trade, currency, and competition. It will be demonstrated in foreign and security affairs as well, as soon as Europe becomes capable of acting in full partnership.

Why should the White House pay any attention to a Europe that counts among its highest obligations the protection of freedom (even offering its citizens dual citizenship) but cannot summon up the courage to defend those freedoms, when necessary, by means of an autonomous European military capability? What hinders the Europeans from turning over to Europe what the nation-state can no longer provide?

Why does the constitutional agreement not contain the simple, but important sentence: The European Union has its own armed forces. And why hasn't this deplorable state of affairs become the subject of public debate, neither here nor elsewhere?

It is a dramatic contradiction to establish, on the one hand, the command structures for European armed forces while withholding, on the other, the rationale for maintaining those forces. The suggestion that the time is not yet ripe for such a renunciation of national sovereignty in truth only serves to hide a failure of leadership and a lack of appreciation for contemporary world realities—and that at a time when soldiers from Europe are being deployed with ever greater frequency to high-risk centers of conflict around the world.

And what is more, thanks to the wasteful use of defense resources at the national level, the availability of these forces is now more limited than ever.

It is not America's but rather Europe's fault that the candidates for EU membership in Central and Eastern Europe were left with the impression that the European Union acts with the four freedoms in mind but not with the necessity of defending them when the need arises.

It was Europe's neglectfulness that gave these candidate states the impression that the EU will finance their social transformations but security would have to be provided by Washington.

Within mostly academic circles critical of the current U.S. administration, the first stirrings of hope have arisen that Europe will save America from making the fatal mistake of allowing a multilateral network to fall into decline which owes much of its salubrious vitality (from which the United States also benefits) to American efforts.

But those who hope for levelheaded European influence also assume that Europe will first make itself capable of acting in full partnership with America. What, however, did one EU foreign minister give as answer to the question about European participa-

tion in a Middle East settlement requiring military enforcement guarantees?

Europe is not lacking in resources. What Europe lacks are courageous Europeans. Europe lacks political leaders who can see clearly and who are willing to acknowledge that only the Europeans themselves can create a strong Europe.

In the wake of the Kosovo experience, the EU, through the decisions taken in Cologne and Helsinki in June and December of 1999, set itself on a new and sounder course with regard to both substance and institutional form. But the time is ripe for a further essential step to be taken, the substance of which should be integration rather than coordination. It is futile and contrary to European experience to wait until all EU members are ready to take such a step.

Experience shows that major strides forward require the courage of a few in order to prepare the ground for others to join later once success is assured. This was true for the far-sighted Airbus project, for the Schengen system, and for the introduction of the euro. European defense policy must make use of this experience as well. The four-power summit in Brussels at the end of April 2003 was an important signal, though still not ambitious enough.

France, Germany, Belgium and Luxembourg (hopefully along with the indispensable participation of Holland) should now take a crucial step toward deciding upon, announcing, planning, and scheduling the integration of their conventional armed forces.

Integrated armed forces with a single budget for research and development; a joint procurement policy based on commonly held tenets on industrial policy vis-à-vis defense industries; a general staff; a collective parliamentary oversight board, along with an executive governing council responsible for strategic issues, operating at the level of heads-of-state or government (and at the foreign minister level for regular sessions); and, lastly, a commitment to vote within both the alliance and the EU on the basis of previously agreed upon positions—this sort of core EU is now both necessary and possible.

Attempts to discredit this approach as inherently divisive ignore existing realities. Firstly, that which does not yet exist cannot be split apart. The European Union could hardly have been more fragmented, divided, or non-existent than it was during the Iraq crisis. Secondly, therefore, the creation of a new center of gravity can only serve to improve, not worsen, the situation.

Moreover, the already thoroughly despoiled EU taxpayer has a right to expect not to have to continue paying for the general lack of political strategy and will by having his pockets pillaged by the wasteful grasping of national governments.

Before national defense budgets are further increased, they first must be put to demonstrably better use. This can indeed be accomplished to a considerable degree through integration. A core Union such as this would naturally prove attractive to other EU member states—to whom it must remain open, so long as those states are prepared to strengthen the core and not dilute it, and as long as they are ready to seek integration and not merely coordination.

As was the case with the introduction of the Euro and the implementation of the Schengen system, the EU can only achieve a jointly constituted and executed defense policy if a core Union can successfully demonstrate that such is indeed possible. And only then will it be possible to move the Atlantic Alliance in that direction where its future must lie: toward a compact in which Europeans can increasingly speak with one voice in their interactions with America.

3. The Atlantic Alliance must take collective accounting of its actual condition. Self-deception is the worst of drugs—also in politics. With respect to transatlantic relations, Europe is a greater source of concern than America. Opposition alone is not a suitable strategy—and certainly not for a Union that fails to recognize that powerlessness cannot supply options, especially not the option of acting as a competing power.

Only power provides options, as well as influence—which, when exercised in partnership with America, promises to yield its greatest benefits, both in America and globally.

Europe, including German foreign policy, now faces a challenge no less demanding than Konrad Adenauer's integration of postwar Germany into Western Europe or Willy Brandt's Ostpolitik. Europe possesses the historically unique opportunity to unite during a time of peace, free of existential threat.

The unifying power of peace is not something to which Europeans are accustomed. Failure to grasp this opportunity would merely serve to confirm those who believe that only war, conflict, and threat can serve as sources of advancement. France and Germany will continue to bear primary responsibility to see this process through. A genuine integration of their armed forces is now indispensable and will serve to decisively advance the integration of European foreign, security, and defense policies. Moreover, it is the only sensible way to finally put an end to the national waste of defense resources.

The statement by Robert Schumann from 1950 is as relevant today as ever: "Europe cannot be made all at one go, or by means of simple association. It will come into being through concrete actions that first bring about a solidarity of deed."

Giving Europe a single voice at the alliance table is Europe's task. Working energetically toward this goal is the decisive precondition for preventing the alliance from succumbing to further decay, and for bringing about the progressive reforms needed so that it can once again become the wellspring and guardian of jointly derived and commonly held strategies.

Executive Summary:

The Transatlantic Strategy Group on Economics, Finance and Trade

C. Fred Bergsten, Caio Koch-Weser

The Transatlantic Strategy Group on Economics, Finance and Trade concluded that Europe and the United States should launch a bold new economic initiative to help overcome the profound political and security problems that now divide the alliance.

Economic relations among the allies have traditionally been seen as derivative of their overall security and political ties. With the problems that have arisen in the political and security domain, however, acutely over the past year with respect to Iraq and related matters but in terms of the more fundamental relationship as well, we believe that a major new effort on the economic side could lead overall transatlantic ties back toward the more stable and harmonious state that is so urgently required.

Such an initiative would also assure that the alliance is not further jeopardized by problems on the economic side itself. Neither trade nor investment between the world's two largest economies has been significantly affected by the political disputes.

The mutual commercial interests of America and Europe, manifest in a billion dollars of daily trade and well over half a trillion dollars of corporate investment in both directions, have proven to be an anchor of stability throughout their sharpest disagreement over security matters in half a century.

But there is a real threat of trade war due to the several extant cases of threatened retaliation and counter-retaliation over Europe's restrictions on agricultural trade and new chemical regulations or

by America's steel tariffs and tax subsidies for exports. These risks are exacerbated by the breakdown of the recent WTO Ministerial Meeting in Cancún.

A bold new economic initiative will also protect and preserve the extensive commercial and financial ties across the Atlantic.

We therefore propose that the European Union and the United States constitute an informal but far-reaching "G-2 caucus" to function as an informal steering committee to both manage their own economic relationship and to provide leadership for the world economy.

The European Union and the United States are the world's only economic superpowers. Their economies both approximate \$10 trillion. Their per capita incomes, trade levels and most other economic indicators, are remarkably similar. They both depend on external trade (exports plus imports of goods and services) for about 25 percent of their total economies.

No other countries come close to them on any of these key economic variables. Japan has faded, both because of its stagnation of the past decade and the rapid ageing of its population. China is still a poor country with an inconvertible currency, is only halfway toward being a market economy, and is some years away from global pre-eminence. No other countries even come close to global leadership potential at this time.

Hence the United States and the European Union inevitably bear responsibility for the effective functioning of the world economy. They cannot provide such leadership if they are battling each other. Thus they need to construct much more intensive mechanisms for consulting and cooperating on a wide range of global economic topics that will enable them to address both their bilateral problems and common international challenges through the prism of their world leadership positions.

No new institutions, nor even formal announcements of the new caucus, are needed. The G-2 would work primarily through existing international institutions, both bilateral such as the EU-

U.S. summits and multilateral such as the G-7 and World Trade Organization. One key objective would in fact be to greatly strengthen those institutions and the multilateral system by endowing them with leadership from the only members that are powerful enough to assure their effectiveness.

An informal G-2 has already existed for many years in the international trade arena, where cooperation between the European Union and United States has been the essential ingredient for the success of all three postwar rounds of significant global liberalization.

Other countries, especially from the developing world, must of course also participate fully in any multilateral trade advances as was seen so clearly in the breakdown of the WTO Ministerial Meeting at Cancún—importantly including because the United States and the European Union, in their joint proposal to the conference, badly underestimated the political cohesion of the developing countries and thus failed to exercise their global responsibilities effectively.

Nevertheless, the Doha round will still largely turn on whether the two superpowers can get together on agriculture and a few other central topics, albeit in a manner that will be acceptable to other key WTO members as well.

We recommend that the current trade policy leaders of the EU and the United States, who are both members of this group, give priority attention to institutionalizing the “trade G-2” over the next year.

There are two crucial lessons for further transatlantic cooperation from the trade example. First, the United States will realize that it must share leadership in areas where the objective facts confront it with a partner of roughly equal power.

Second, Europe can be that partner but only when it organizes itself to speak effectively with a single voice. Recent steps by the European Commission and the Council of Economic and Financial Ministers of the European Union in adopting common posi-

tions on international financial issues, and several of the proposals put forward by the European Convention, represent constructive moves in the right direction.

There are several issue-areas that meet these tests and in which the G-2 could thus begin operating promptly. One is competition policy, where extensive consultation already exists but major disagreements, as over General Electric's proposed takeover of Honeywell in 2001 and potentially over the possible forthcoming EU insistence on breaking up Microsoft, still occur.

We recommend that the competition policy authorities of the United States and EU make a major effort to strengthen their current links with a functioning G-2 relationship as soon as possible.

We place very high priority on the prospects of developing a functioning G-2 in the area of regulatory convergence in the financial markets. The excellent paper for our project by Robert Pozen and Mario Draghi spells out the disagreements over six items under this heading that could be resolved by a G-2 approach: international accounting standards, extra-territorial application of the Sarbanes-Oxley legislation, transatlantic trading screens, access to EU pension management, uniform EU takeover defenses and the EU's Financial Conglomerates Directives.

Europe wants U.S. agreement to reform its practices on the first three of these while the United States wants changes in Europe on the last three. The United States and the EU account for the overwhelming majority of international transactions in the capital markets but significant regulatory differences remain. Resolution of the six issues cited would represent a large stride toward regulatory convergence in the transatlantic, and hence world, capital markets. We place great emphasis on developing a G-2 approach in this area.

There are numerous other economic issues that are not yet ripe for G-2 management but could move in that direction fairly rapidly. Key examples include macroeconomic and currency policy, where a sharp and disorderly adjustment of the growing inter-

national imbalances, e.g., by a sharp rise of the euro well above its starting level, would trigger new tensions.

At the same time, G-2 cooperation with the Asian currency area is clearly called for as the EU and the United States share the goal of broadening the burden of international adjustment to China, Japan and other countries in that region and the initial steps in that direction at Dubai are encouraging.

More fundamentally, the United States and the EU are not only the two economic superpowers but they are the stewards of the world's two key currencies. The euro is already establishing itself as a major international currency and will increasingly share monetary leadership with the dollar. Fluctuations in the euro-dollar exchange rate have major implications for other countries around the world.

This will require the formation of a G-2 in the monetary arena as soon as possible. The Federal Reserve and the European Central Bank, which are both independent of their respective governments, will need to work out their own G-2 linkages.

There are several other economic issues that are extremely important for transatlantic relations and could become part of G-2 management over time but are not yet ready for that stage of cooperation. We have focused on three in our work to date: energy, the environment and migration. Excellent papers were prepared for us on each and are included in this compendium.

Energy policy is particularly important because of the key role that Russia would need to play in any effective G-2 arrangement. Russia is now the world's largest producer of both oil and natural gas, and this issue-area offers a valuable opportunity both to include it in an important element of global governance and to demonstrate the flexibility of the core G-2 in engaging relevant countries outside its normal orbit.

Even more basically, energy policy of course reflects both fundamental agreement between Europe and the United States on countering the OPEC cartel and fundamental disagreement on

how to do so. Europe places its major reliance on high energy prices and conservation while the United States supports low energy prices and maximum production.

The issue is of huge importance to the world economy and thus a G-2 arrangement to coordinate the transatlantic response to it, perhaps through working out a new producer-consumer agreement to stabilize prices at a lower level (app. \$18 to 20 per barrel) by using the current strategic reserves of the importing countries, could make a major contribution to the prosperity and stability of both the G-2 themselves and the world as a whole.

The environment is closely related and also reflects substantial philosophical and policy differences across the Atlantic. These differences have come to a head with U.S. rejection of the Kyoto Protocol on global warming, which has been adopted by all EU member countries (but not yet by Russia).

G-2 cooperation here could go far to overcome a major source of political tension within the alliance. Possible arenas for cooperation include emissions trading, elimination of environmentally harmful subsidies in agriculture and elsewhere, joint research and development initiatives and new institutional arrangements (including a World Environmental Organization).

Migration policy is probably even further removed from any prospect of immediate action, and we are not even sure that G-2 policy cooperation is called for. We are clear, however, that the issue has tremendous economic, humanitarian, developmental and security implications for all Atlantic nations and that almost all of them are groping for more effective policies to respond to it.

Hence we believe that, at a minimum, close G-2 consultation and exchange of ideas is called for to enable the individual countries to form better responses to the common problem.

These might include common guidelines for whom to admit and reject, reforms of domestic labor markets to respond to the key problems faced by immigrants (unemployment in Europe, low

incomes in the United States) and accommodations to the “3 R’s” that crucially affect the sending countries (recruitment, remittance and returns).

Over both the short and the longer run, we therefore believe that a G-2 strategy could pay major dividends for the individual Atlantic nations and for overall relations between them. The demonstrative effect of renewed and vigorous cooperation on trade, competition policy, and macroeconomic and monetary issues could restore a positive tone and image to the transatlantic relationship.

It might even encourage the officials responsible for security and political affairs to begin patching up their quarrels in a constructive manner. It would clearly provide ammunition and evidence of success for parliamentarians, businessmen, the media and others who seek examples of constructive reconciliation.

The G-2 strategy could lead the transatlantic alliance back to, or at least toward, the cohesion and resilience which is so crucial to peace and prosperity for the nearly 800 million people that inhabit our part of the world.

Security

The New Patterns in Transatlantic Relations

Transatlantic Tristesse— More than Just History Repeating Itself?¹

Nicole Renvert, Marcus von Essen

Rarely has the transatlantic alliance been both so uncertain and so important. In a changing security-political and international economic environment, U.S. and European foreign policy have shifted and diverged. A fundamental question looms: How can processes of change be reconciled with the current global political order (Carr 2000)?

As the transatlantic partners disagree on key issues, the alliance will change, but it will be held together by the need to sustain an international order of transatlantic and global benefit amid a transatlantic interdependence of asymmetrical power. The challenge is to adjust multilateralism and unilateralism to accommodate a long-term transatlantic approach.

Traveling without maps

The Iraq war reflected a growing divergence in the evaluation of global problems (Everts and Grant 2002). The United States put the transatlantic partnership to the test: Given Europe's failure to develop an assertive role, the United States required its allies to endorse its approach or become bystanders, and it assumed the

1 An earlier version of this article appeared in the *International Spectator* 4, 2003.

right to forcibly keep adversaries from developing weapons of mass destruction (White House 2002), drawing its own line between legitimate pre-emptive strikes and offensive military action (Daalder 2002). U.S. national security policy replaced a system of legal restraints on the use of force with a global system based on U.S. pre-eminence (Kaysen, Steinbrunner and Malin 2002).

After the attacks of September 2001, “unknown” threats became the focus of U.S. security policy (Ikenberry 2002). To map these unknown threats, one began with states congenial to terrorists. The use of force was a response to these threats and the security-political issues they raise.

Yet there are unanswered questions regarding the ambiguous nexus of “terrorism—weapons of mass destruction—rogue states” (Mearsheimer and Walt 2003). For example, there was little dispute about the need for Iraq to disarm. Disagreement concerned the level of threat posed by Saddam. War was chosen, but a long-term regional strategy and a clear post-conflict concept were missing.

EU member states faced off in the Security Council. The French, backed by Germany, Russia and China, favored reinforced inspections, whereas the U.S.-British-Spanish draft resolution said Iraq had lost its chance to disarm on a peaceful basis. The intransparent quest for a U.N. mandate by the United States and its allies cannot be judged separately from the diplomatic maneuvering of the anti-war coalition.

By the turn of the year, France had suggested to the United States to “agree to disagree” and proposed that it should go to war on the basis of Resolution 1441 instead of seeking another resolution explicitly authorizing the use of force—a step France would oppose. Preference was given to Tony Blair’s need for a second solution at home and public confrontation with a dissenting France. In the quest for second resolution, France never dismissed the use of force as an option but advocated a further delay of 30 days (Grant 2002 and Hoffmann 2003).

The attempt by the United States and Britain to link Hussein with Al-Qaida and to inflate the threat of Iraq's WMD stockpiles hurt their cause and their credibility (Hersh 2003). And because proponents of inspection had to rely on the threat of U.S. force to make their policy alternative a real option, their proposal was discredited, but not invalid.

Each choice made by a great power must be measured by the precedent it sets (Hoffmann 2003). Due process in evaluating and assessing Iraqi compliance should have been a precondition for action. The future holds the question of whether illicit state behavior will be resolved on an ad hoc basis. The U.N. Security Council is not designed to constrain U.S. policy, nor can existing institutions become a vehicle for member states' foreign policy.

While quarrels over NATO contingency planning cast France, Germany and Belgium as "ungrateful obstructers," there was no sense in trying to anticipate the course of action within an international organization whose treaty reasserts in its preamble and first article the supremacy of the U.N. Charta (Tuschhoff 2003).

Power and law interrelate in the international order. But just as power is more than military force, international law has become more than a simple function of the former. Law is the encoded historical state experience, recognizing the fallacies of order sustained by power alone.

It may well be that the political status quo of 1945 encoded in the U.N. Charta no longer corresponds to today's reality. Yet the Security Council also has evolved with the changing nature of international threats, especially regarding terrorism and its state sponsors.

Among the most significant examples are the Council's successful enforcement of the "extradite or try" principle on Libya in the Lockerbie case, measures on terrorism financing and the resolutions that—against the background of Article 51—provided a legal basis for military action against Afghanistan.

Addressing the causes of terrorism will be a long struggle. The quarrel over Iraq concealed transatlantic cooperation in the Balkans and Afghanistan, blurring long-term goals and the cooperation required for military intervention and peacekeeping. Failed states, humanitarian crises and violations of non-proliferation agreements pose fundamental challenges to the international legal system.

The transatlantic partners need a common approach to these challenges. The power to decide how, why and when to react cannot be monopolized if the objective is to create a globally accepted and supported order.

Unknown threats led to a declaration of “war against terror.” Asking whether this “state of emergency” will be governed by U.S. standards raises the question of European responsibility. The outcome depends on the balance between the shared versus unilateral approach.

Europe’s role in world affairs

The European split over Iraq revealed an inability to unite on core matters and demonstrated the profundity of changes within and outside Europe. Both relate to the ambivalence of the transatlantic partnership: the EU’s development as actor in world affairs versus its foreign policy blending with U.S. interests. As transatlantic politics test European political cohesion in the context of a changing and enlarging EU, Iraq was added to the list of unresolved issues.

Tension has informed transatlantic relations during the course of history (Link 1996). But the aim of “Europeanization” always has been to counterbalance American hegemony within the transatlantic alliance.

Europe’s institutional reform regarding allocation of authority and the representation of interests between EU institutions and member states will influence transatlantic policy, but EU enlarge-

ment does not point in one direction (see Fraser and Primatarova 2003), despite the fact that the accessing states share European preferences on the Kyoto protocol, multilateral arms control, the International Criminal Court and U.N. involvement in post-war Iraq (Grabbe 2003).

Iraq may remain a special case. The Franco-German couple was wrong to present its stance as European: Public opinion was less divided than the EU (Anand and Lipkin 2003). But sidelining the EU Presidency by supporting the U.S. position did little to preserve transatlantic ties. These alliances offer a less accommodative environment for the reciprocal politics that distinguished Western collective security arrangements (Deudney and Ikenberry 1999). Multilateralists should practice what they preach on a European level and not demand conformity with their own foreign policy.

As Central and Eastern European States join the EU zone, European integration is the missing link between their willingness to chart their own course and the limits they face in influencing a global environment. Integrated in a European set of preferences and economic policies, their capacity to act will be enhanced and their vulnerability decreased. Gaps between Atlanticist and Continental European approaches to U.S. foreign policy will decrease as the range of divergent international policy issues narrows (Wallace 2001).

Europe slowly is accommodating its members' multiple foreign policy trajectories, national cultures and prevailing political interests. But an EU capable of global action has yet to reflect on its use of power. The missing ingredient is Europe's definition of its future political-strategic role and its interest in the global political order, not vis-à-vis the United States, but for the promotion of European policies. Helping set terms between partnership and leadership unites the transatlantic preferences of EU member states. Neither loyal acquiescence nor vocal opposition is a winning strategy.

A European foreign policy approach must go beyond acceptance of the status quo, and must be made ahead of crises, not afterward. The draft European Security Strategy presented at the Thessalonica Summit suggests a shared European approach to world affairs that is more than the sum of its member states' stances towards U.S. foreign policy (Solana 2003). It integrates military means into its foreign policy toolbox and aims to minimize unilateralism. However, the elements of transatlantic divergence in foreign policy are here to stay.

U.S. foreign policy

Three factors mark today's global political landscape: unrivalled U.S. power, Europe as a new global actor and the spread of international treaties and laws (Everts 2001). Washington changed its terms of engagement from "multilateralism if possible" to a rejection of international instruments that others saw as achievements. This difference was accentuated after September 11th. Considering itself at war ever since, the United States adopted the principle of power politics.

Power and values were never mutually exclusive in U.S. foreign policy. A liberal international system is necessary to the United States' unchallenged position as guardian of global order. In U.S. foreign policy, ideas provide a rationale for engagement in world affairs, a self-image of the United States as "indispensable" in making the world a better place. Promoting the common good, however, implies respect for the concerns of the larger international community.

In the United States, leadership by persuasion has been replaced by a leadership that subordinates the international community to U.S. interests. Reliance on power to foster change pits the United States against the consensual methods that gave the United States its strength and international stability (Chase 2003).

The Wilsonian triad of peace, markets and democracy remains hollow without a partnership balancing predominance and consensus. U.S. foreign policy, it seems, is informed by a vision that considers the United States as both the most powerful and most vulnerable state (see Kagan 2002 and Dunn 2003).

The outcome is a policy of force without diplomacy instead of diplomacy backed by force. A dismissive stance towards multilateral engagement is detrimental to an effective U.S. policy towards global challenges (Patrick 2001). Creating an international liberal order through democratic revolutions triggered by military intervention is likely to remain a selective affair. The means of “militant Wilsonianism” will not live up to their ends (Buruma 2003).

The diverting of resources for security amid looming fiscal deficits will have long-term consequences for the American social fabric (Renvert 2002). Though most U.S. citizens claim to feel more secure after the war on Iraq and believe the fight against terror can be won, how many more restrictions on civil liberties will they tolerate (Braml 2003)?

Europe’s policy of “multilateralizing” the United States is aimed both at strengthening Europe’s profile and at making the world comfortable with U.S. power and purposes. U.S. power should be a widely accepted instrument in global affairs, but not the principle of world order. It was the blend of security-political, strategic, economic and humanitarian motives backed by the unconditional assertion of power that made the Iraq case so divisive. Today, Iraq offers an opportunity to jointly create a framework for durable order in the Middle East.

The post-war order—a transatlantic creation?

The terms for reconstruction of the Iraqi state, society and economy as well as the choice of a means to ensure regional stability and security provide the next challenge for transatlantic relations

(Hanelt, Luciani and Neugart 2003). Afghanistan shows that “winning the peace” will not be easy. Despite a transatlantic agreement, a protection force endorsed by the United Nations and international support for a transitional government, effective governance there does not extend far beyond Kabul (Nasir and Bearak 2003).

Recent experiences in Kosovo and East Timor demonstrate that an occupying force is likely to be rejected by the local population if basic needs are not addressed. At the time of writing, difficulties encountered in restoring stability in Iraq seem more challenging than anticipated.

Transatlantic relations are a variable in determining the outcome of Iraq’s reintegration into the international order. The EU and the United Nations are part of the geostrategic and legal realities conditioning Iraq’s future.

The balance struck between an Iraq featuring the principles of Western political order and one that carries a distinctive U.S. design will provide a glimpse of the state of global politics and the shape of transatlantic relations in a post-war environment.

Security Council Resolution 1483 from May 22, 2003, confirms transatlantic pragmatism and the war opponents’ quest to avoid discord, but the degree to which the EU leaders’ call for a U.N. role in reconstruction is reflected in the resolution is open to interpretation.

By inviting the parties to reconsider its terms after one year, it allowed war opponents to claim that parts of their demands have been met. The outcome reveals the risk of failing to develop a common policy. The resolution designates the occupying powers as the Iraqi “Authority.” Early plans for a National Assembly have been postponed and the United States has already declared its intention to maintain the civil and military administration of Iraq for an indefinite period.

The inclusion of international constituents is reduced to monitoring and observation. A Development Fund managed by the

Authority will direct economic policy, and though its advisory board will include international representatives, the right to administer Iraq's oil revenues and financial assets has been delegated from the United Nations to the Authority.

It thus gained control of an effective instrument to structure Iraq's integration into the world economy. The Authority and the United Nations will coordinate humanitarian and reconstruction assistance, but the U.N. Special Representative remains confined to a supportive role. The resolution calls upon U.N. member states to bring war criminals to justice, but does not say how and by whom.

Since U.S. opposition to the International Criminal Court intensified as the immunity granted to U.S. service personnel required a new Security Council vote, the transatlantic clash over international humanitarian and criminal law is likely to surface in Iraq.

Finally, since no weapons of mass destruction have yet been discovered, the refusal to have U.N. inspectors return to Iraq is the outstanding weakness of the resolution.

NATO's decision to allow Poland to draw upon the military facilities it needs for an active role in Iraq indicates that alliances deemed barely relevant prior to the war do matter now. The fact that the United States is likely to pay for the Polish deployment also highlights that cooperative security structures are expensive (see *Le Monde* 2003).

Regional cooperation, however, has a precedent. The EU-Mediterranean Partnership and NATO Mediterranean Dialogue promote cooperation on proliferation issues, political consultation, regional stability, democratization and the protection of human rights. Assistance from International Financial Institutions could be pooled within an Organization for Economic Development and Cooperation in the Middle East. This would offer a venue to organize the restructuring of Iraq's sovereign debt and to link this effort to the creation of a Regional Bank for Reconstruction and Development.

Transatlantic relations and the world economy

The Middle East is part of the challenge of addressing relationships between security and economics in today's fractured world order. The international security threats that arise from failed states and economic degradation require long-term strategies for which transatlantic agreement is imperative. Geopolitical turmoil, economic uncertainty, structural changes and cyclical variables make a compelling case for transatlantic economic cooperation.

The European and the U.S. economies entered the 21st century more deeply integrated and intertwined than ever. Transatlantic trade is the world's largest. Foreign investment has created economic interdependence so complex that it is increasingly hard to differentiate the European from the American in the transatlantic economy (Quinlan 2003; Hufbauer and Schott 2003).

Deepened cooperation could prove that economic objectives can be achieved despite political-security differences. The need to strengthen the political foundations of the transatlantic and world economy has grown, with the need for mechanisms to eradicate poverty and ensure stable medium-term growth (Institut Français, 2003).

Economic collaboration or conflict is not about opposing the world economic order, but about defining it. Beyond the current stalemate in the Doha Round looms the potential for a transatlantic clash of approaches to political economy. Challenges of the "new commerce" are about transnational frameworks that touch on economic regulation, confidence in science, the relationship between governments and markets and the governing of societies.

No multilateral agreement is possible without a transatlantic basis. Transatlantic competition to spread respective standards on a global scale is likely to have repercussions for external trading partners.

Likewise, transatlantic disputes over trade in agriculture and the interpretation of the TRIPS agreement reveal different tracks

of promoting inflexible preferences at the expense of interest of the highest sensitivity for developing countries. Though Doha was dubbed a development round, little progress has been made in spelling out the terms of the treatments necessary to accommodate different levels of development within one multilateral system.

As the financial system has become the backbone of the world economy, financial instability has risen to the top of the international economic policy agenda. Deeper financial integration has brought volatility as it turned financial markets into a global transmission belt for business cycles and supply-side shocks with severe macroeconomic costs for the real economy.

The framework of monetary stability did not produce the expected benefits (Crockett 2003). Access to credit has declined for some poor countries, while other developing countries are net exporters of capital.

Given widespread disagreement on diagnosis and therapy, there is little space for economic triumphalism across the Atlantic. Europe's sluggish growth, due to tight fiscal and monetary policies as well as Germany's and other member states' structural rigidities, usually are listed as reasons for U.S. economic outperformance of the old continent.

Yet the United States is not less vulnerable to shocks. The need for reform is evident. Public and current account deficits demand adjustment. The U.S. savings rate is far too low to finance the investment needed to sustain economic expansion, making its fiscal outlook worrisome, while the economic engine, consumer purchasing power, has reached its limits.

U.S. global ambitions depend on its ability to borrow from the rest of the world. Though this ability is sustained by the U.S. economy's role for the world economy and its investment abroad, markets are unpredictable. If current U.S. capital demands are met by capital inflows and purchases of dollar-denominated assets by private investors and Central Bank's dollar holdings, the situation is not necessarily static (Tyson 2003).

The dollar's status as a reserve currency that sustains the U.S. Treasury bond market and has compensated for decreased inflows of private capital is vulnerable (Plender 2003).

A redressing of these imbalances will take place in a financial context that differs from the last episode of twin deficits. It includes the euro, the dollar's first potential competitor for global stature. If the "unipolar moment" in the international monetary system ends, the transatlantic partners will have to be prepared for the financial repercussions and assure the stability of the core of the world economy's financial architecture (Bergsten 2002).

The future of transatlantic relations

The United States and Europe do not constitute a power-political and socioeconomic antagonism. It is the design of critical choices with global implications and their respective political framework, not superpower rivalry, that generates transatlantic disputes over a wide range of policy areas.

On both sides of the Atlantic, ideas and power interrelate with the political personality they represent, and, in a reciprocal manner inform the institutions and instruments applied to project them. Weaknesses in the European and the U.S. formula of foreign policy demonstrate that the transatlantic balance to be struck between military power, diplomacy, international rules and economic influence in shaping international affairs is yet to be found.

The foundations of the transatlantic partnership are no longer embedded in an international order seen through the lenses of bipolarity or multi-polarity. Disputes concerning the quality of international political authority and the global order that trigger a transatlantic rebalancing of power do not constitute a return to 20th-century Realpolitik.

The transatlantic economy is a central and irreversible reality. A transatlantic approach to economic challenges would shape pat-

terns of global affairs beyond the realms of economy. Current fiscal and monetary policies are moving in opposite directions across the Atlantic, and further rounds of trade liberalization might be hampered by disagreement on the content of a transatlantic and global economic framework that matches markets with institutions.

The dominant arguments in transatlantic relations focus on U.S. power and European responses to it. Its articulation and embeddedness within the international order need a new balance. But, as displayed in Iraq's post-war order, a return to long-term thinking on the content of world order also is needed, to refine the strategies and objectives for which the various instruments of the transatlantic toolbox should be put to use.

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Transatlantic Relations in a New World Order

Nicole Schley

In much the same way that the fall of the Berlin Wall expressed in graphic fashion the end of both the 20th century and of the geopolitical bipolarity that characterized the later half of that century, the collapse of the World Trade Center will become the symbol for the start of the 21st century and of the New World Order it ushered in. September 11th has changed the world.

Are we now living in a unipolar world, or do the rules of bipolarity still apply—between the free world and the empire of darkness? This paper will examine the coordinates of this New World Order. Who are its protagonists? Who are the bit players? And what part will transatlantic relations play in this New World Order?

The current crisis in transatlantic relations was not triggered by the rise of a new world order. It merely intensified the symptoms of crisis that were already present in that relationship. The lines of conflict between the United States and Europe do not run exactly between these two generally, but rather between the U.S. and so-called “old” Europe.

France and Germany clearly had hoped to turn the whole of Europe into a counter-weight against U.S. power. But they were quickly forced to realize that part of the entity called “Europe”—the so-called “New Europe,” to be precise—preferred instead to join sides with the hegemon. The support for the U.S. stance on Iraq culminated in the “Letter of the Eight,” signed by the heads

of government of Denmark, Great Britain, Hungary, Italy, Poland, Portugal and Spain and by the Czech President Vaclav Havel. Their position was subsequently supported by 10 East European leaders in the “Vilnius Letter.” The debate over military action against Iraq set this process in motion—and the Iraq war itself served to further deepen divisions between the Atlantic partners.

Nevertheless, Europe and America remain inextricably bound together, since the flaws and weaknesses of one partner invariably will continue to effect the other. Western societies see themselves confronted by an enemy, terrorism, which demonstrated on September 11 the kind of act it was both willing and capable of committing.

This enemy is wily and difficult to get at directly, and it will take a joint effort to get at the roots of the problem and prevent further acts of destruction. Part of this will certainly involve depriving it of backing by its various state supporters. There is great disagreement within the Atlantic partnership on exactly how to bring this about—in part because of the differing degrees to which each of the partners was affected by the terrorist attacks of September 11.

From the American point of view, those attacks constituted a declaration of war, making it possible to classify the Iraq war part of the broader “War on Terrorism”—while most Europeans voted against the war, placing themselves in the role of defenders of international law. The United States identified the Middle East as the breeding ground of terrorism and set for itself the goal of re-ordering the entire region.

Out of this set of circumstances arise the coordinates of a new world order: The United States sees itself as the power with primary responsibility for shaping global order, and some have even begun to speak of “George W. Bush’s New World Order” (though such talk may be a bit premature).

The United States is just one of the “cornerstones” of the new world order. The United Nations also has a role to play, as it

struggles to establish and maintain its own credibility. Then there is the European Union—in search of new bearings. Not to be forgotten are Russia and China, who also are looking for a part to play in this concert of powers. Then, too, there are the developing countries, the “failed states,” who continue to play the role of loser.

On what basis should the New World Order be built? Will the United States alone determine the design of this new order? And will military might take precedence over international authority?

The United States and its security doctrine for the 21st century

U.S. foreign policy has undergone drastic changes since September 11. The United States implemented for the first time a doctrine of preventive war and took a position, as sole world power, against both the United Nations and standing international law. During the initial period after assuming office, George W. Bush’s strategic interests were directed toward other world powers, such as Russia and China. It was not his intention to concern himself with “failed states” and the underdeveloped countries of the world.

His intentions soon changed in favor of the views held by his more conservative advisors, who had long urged that the matter of Iraq be dealt with once and for all. On September 17, 2002, the Bush administration presented a new national security strategy.

In essence, the administration concluded that the primary duty of the government, the defense of the American people, had changed dramatically. Today, “shadowy networks of individuals ... using modern technologies” are able to penetrate and cause serious damage to free societies (White House 2002).

The dictum of a “strategic rivalry” with other world powers, Russia and China, would be replaced for the time being by solidarity among “the world’s great powers,” who now find them-

selves on the same side due to the threats posed by terrorist violence and the chaos it promotes.

The attention of the bulk of the world community, however, is focused on the veiled suggestion by the President and his governing team that they are prepared to take action against emerging threats even before these pose an imminent threat. Beneath the rhetorical sheen of strategy papers, traditional world policies still persist: American dominance and global pre-eminence is boldly trumpeted to the world, without regard to consequences and lacking altogether in humility or restraint.

The most criticized element in the new security strategy is America's claim to a right of "preventive self-defense." While pre-emptive strikes may be viewed as a reaction to the wide-ranging changes in world affairs, their compatibility with international law is still legally controversial. Counteraction against terrorism is not provided for in international law and the U.S. doctrine of pre-emptive defense has eroded the limits placed on the use of force encoded in the U.N. Charter.

The U.N. Charter forbids all applications of force, excepting those authorized by the Security Council or undertaken for purposes of self-defense against aggression. Within the context of the Iraq conflict, the Americans claimed that Resolution 1441, passed by the U.N. Security Council in November of 2002, contained just such an authorization for war.

China, Russia, and France disagreed with this interpretation, but the fact of the matter is, the text of the resolution—a masterpiece of the art of jurisprudence worked out and drawn up by leading experts in international law—is a compromise of formulation that lends credibility to both interpretations. From a purely legal point of view, a second resolution would have been the better and more orderly way to go.

Some have gone so far as to say that, viewed from an international law perspective, the Iraq war was "an illegal war of aggression." (Hofmann 2002)

The transformation or re-definition of American foreign policy is obvious and comes as a reaction to developments in world affairs that became evident through the events of September 11.

Globalization appears to be more than a merely economic phenomenon. It has also revealed the absurdity of the notion of an ostensibly “secure” United States. And it has opened the flood-gates for the worldwide spread of terrorism.

The crux of this shift in American strategy does not lie in the security doctrine itself, however, but rather in the strict interpretation of international law of by those states who would seek to uphold the value of international law.

The U.N. Charter says, in Article 51, that a state can only exercise force for the purpose of self- or collective defense. It does not recognize the concept of preventive wars aimed at eliminating potential threats. In the face of cross-national terrorism, one might argue that international law must be appropriately adapted so that future multilateral wars of aggression might be legalized (assuming certain criteria are met).

Using this argument, a multilateral pre-emptive war against Iraq might well have been justified—in light of the regime’s previous aggression and Saddam Hussein’s prior use of weapons of mass destruction, etc.

But such action lacks a broad-based coalition and thus control of American actions. Thus, the Bush Doctrine—while recognizing and assimilating the signs of the times—is burdened from the outset with an unappealing after-taste and will only serve to provoke criticism from both partners and opponents alike of the single-handed and unilateral actions it envisions.

At the same time, the world community has the implicit duty to modify, more quickly than usual, the provisions of international law in order to bring them more in tune with contemporary realities. The transatlantic partners could set this process in motion through a joint initiative of their own.

The EU in search of a new role

Today, 379 million people live in the EU and some 292 million in the United States.

But EU member states spend only about one half to two-thirds of what the United States spends each year for defense and armaments—with expenditures determined at the national level and directed toward national armies, with all the accompanying negatives that involves, such as the loss of synergy effects and inner-European duplication. Compared with Europe's relative economic strength, this reveals an obvious discrepancy. Especially in light of the Union's expansion to the East in May of 2004, the EU must take up the question of its role in world affairs—one that goes beyond its previous role as an economically strong ally and patron of development projects in the Third World.

At present, the EU is still saddled with the image of junior partner. In matters relating to security policy, the EU is not considered a full-fledged actor in world affairs, although it is able to check American power in economic matters.

To be sure, the EU has long played a role in security matters as well—in Afghanistan and in the Balkans, for example, where it has effectively mastered difficult and tedious missions. But the size of the European contingent serving abroad remains comparatively modest and any effort it undertakes remains dependent on national armies and on the fundamental limits placed on those armies by the laws of the respective states engaged.

Additionally, irrespective of the range of its capabilities, the levels of military technological development in the United States and in Europe are so far apart that interoperability of existing military capabilities is impossible.

The upshot of this is clear: Either the United States will continue to make all the relevant decisions on matters of security policy on its own, and coordinate its plans with those in the Euro-

pean Union willing and able to participate, or the EU must get to work with all appropriate seriousness.

In the words of German Foreign Minister Joschka Fischer, to date there has not been too much America, but rather too little Europe. This deficit can only be addressed through suitable mechanisms of coordination and cooperation at the European level and by putting an end to the current multi-voiced EU foreign policy.

Working to counter this deficit, as well as the shock of September 11, was the purpose behind the European Representative for Foreign and Security Affairs, Javier Solana's, efforts to sketch out a vision for the further development of the EU into a global actor and, together with the foreign ministers of the EU members states, to fill this vision with substance. According to Solana's concept, the main pillars of this European security strategy should include the following:

- The EU must see to it that its neighbors in Eastern and South-eastern Europe become stable and democratically governed states.
- An urgent task consists in promoting a just world order and reducing the gap between rich and poor, since long smoldering conflicts have as a consequence increased popular frustration and promote the breeding grounds of terrorism.
- Europe should be in a position to prevent or limit local armed conflicts through the application of either civil (i.e., political and economic) or, when necessary, military means. In contrast to the American security strategy, Europe should place special emphasis on a policy of preventative engagement (Solana 2003).

These general principles express Europe's stance on the new world order. The European Parliament has since called for a strategy that also contains a definition of the EU's relationship to the United States, to the United Nations and to NATO, as well as to Russia and Turkey (von Wogau 2003).

In any event, a European security strategy will carry with it an opportunity for the European Union to establish and position itself as a full-fledged actor in global affairs. It can accomplish this, on the one hand, by approximating the position held by the United States in combating both terrorism and the increasing availability of weapons of mass destruction. It can accomplish this as well by placing unambiguous emphasis on the role of international organizations—on the United Nations, for example, and its struggle against the proliferation of nuclear, chemical, and biological weapons.

The EU member states must gradually come to understand that they need not surrender control over foreign policy matters in a manner similar to the economic and currency union, but must merely combine their energies and work toward a common position, so that the project, “Common European Foreign and Security Policy,” can properly commence. This Common Policy is the cornerstone of Europe’s effort to become an equal partner in the transatlantic collaboration.

The United Nations

The United Nations serves as a forum in which it seeks to bring together as many of the agents of world policy as possible in order to bring about the coexistence of diverse societies and so avoid war. When the strategies intended to avoid war fail, it is the United Nations that establishes the legal criteria for military action.

In the case of the Iraq war, however, this function slipped out of its control. A “coalition of the willing” by-passed both the United Nations and international law during the Iraq war. The world cannot now simply return to its day-to-day concerns. It must instead deal with questions relating to the future of international organizations in general, with the United Nations in particular, and with international law in light of the new world order.

U.S. foreign policy takes a hard line not only against the United Nations; it also systematically opposes various international agreements, such as the Kyoto Accords and the International Court of Justice. In Iraq, however, U.S. credibility is now at stake. U.S. actions have suffered a loss of legitimacy due to its inability to bring about peace and stability in post-invasion Iraq.

This presents an opportunity for the United Nations to reposition itself and improve its overall standing. The fact that the United States has not completely written off the United Nations is made evident by recent U.S. efforts to obtain an Iraq resolution in the U.N. Security Council.

The Americans obviously want to have the legitimacy of their actions in Iraq confirmed by the United Nations. An institution like the United Nations, which came into being as a consequence of the shock of the Second World War, will not be so easily dissolved or replaced—not even by a superpower.

The Europeans also continue to believe in the importance of the United Nations as a global institution and have intensified their relationship with the United Nations in recent years. The EU has actively supported the pre-eminent role of the United Nations in preserving world peace and international security, supported regional integration processes carried out under U.N. auspices, and has insured the smooth functioning of the United Nations' ongoing work through regular payment of its U.N. dues.

Assuming a continued interest in the preservation of the United Nations as an institution, the only means left for bringing about change is through reform. Current attempts at institutional reform have run aground on a Security Council structure that still reflects the political constellation that existed at the end of the Second World War. Discussions of possible reform measures, however, are somewhat more prevalent now than in the past.

In any event, the United Nations must make use of the current crisis situation. Given the situation that has arisen following the

Iraq war, the body now has an opportunity to strengthen its role in the international system. The United Nations must make bilateral wars like that in Iraq impossible. This presupposes not only the reconstitution of the U.N. Security Council but also an adjustment of the U.N. Charter, in order to bring it into conformity with existing global realities.

Transatlantic relations in the New World Order: Is there a chance for a new beginning?

It is clear that the United States expects it will have to deal with other significant and potentially dangerous actors in the new world order: “Russia is in the midst of a promising process of transition and endeavors toward a democratic future and partnership in the war against terrorism. ... Leading figures in China have discovered that economic freedom is the sole source of national prosperity.” (White House 2002)

And while greeting such developments, the United States will, according to the security strategy, do whatever is necessary “to actively oppose aggression on the part of great powers.” But what role will the longstanding transatlantic partnership (or should one perhaps say “cooperative”?) have to play in this endeavor?

From a security standpoint, the foremost task facing the transatlantic alliance lies in putting an end to serious instances of disorder:

- The conflict in the Middle East cannot be settled by either Western Europe or the United States alone. The Europeans need not accept, however, repeatedly having their proposals wiped from the table in Washington. Joint solutions could be the key to success.
- The worldwide gap between rich and poor, made ever wider by advancing globalization, might be narrowed through common efforts taken by both partners.

- Global strategy rests on a balance of power, and on the legitimacy of political action. This clearly argues in favor of strengthening international organizations and agreements. Here, too, the Atlantic partnership might also become more actively engaged.
- Europe can serve as a counterweight to U.S. hegemony by continuing to speak out in support of global policies based on the U.N. Charter until such time as the Bush administration joins in this pursuit.

Ideally, the world should be a multipolar place. We are, in any case, not accustomed to a world with only a single superpower. Since the start of the Cold War, we have been used to having two rival superpowers. Now we find ourselves in a new world, one in which even the United States, as sole remaining world power, has yet to find its footing.

The other pillars of the New World Order should let their voices be heard and bring their weight to bear so that a more just world order can come about. The National Security Strategy of the United States and the EU probably will not put off a global disaster for long—perhaps for a generation or two.

The time has come to set out on new paths toward a global federation of all peoples and states. American hegemony, but also the transatlantic partnership, can, at best, be viewed as transitional stages on the road to a more lasting solution. It may be that a more enduring solution lies in a U.N. world government, with a global parliament, along with the requisite military capabilities for securing and implementing worldwide disarmament.

This may be too idealistic, a new Utopia of sorts, but bringing a little more idealism to bear in shaping of a new world order can do no harm. After all, the United States and the European Union both are products of an idealistic notion, not to say, dream. But where are the idealistic strategies for the 21st century?

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An Elective Partnership: Salvaging Transatlantic Relations¹

James B. Steinberg

For those who had been predicting that strategic divergence between the United States and Europe would follow the end of the Cold War, the proof has been plain to see in the transatlantic tensions in the lead-up to, during and following the war in Iraq. The conclusion drawn by these NATO skeptics was that the transatlantic relationship was a relic of the past, irrelevant at best to the future security needs of the United States, and at worst a shackle on needed freedom of action.

The skeptics have it half right. The security environment has changed profoundly, and important elements of the old transatlantic bargain have disappeared. The collapse of the Soviet Union and the end of Europe's East-West divide removed a key link.

The acceleration of the European project has focused Europe's energy inward, while the emergence of the United States as a superpower with unprecedented strength has increased its global engagement. New waves of immigration have weakened traditional ties of kinship and culture, while creating new constituencies with little historical connection to the transatlantic partner.

1 This paper is based on an essay that appeared in the Summer 2003 issue of *Survival*, "An Elective Partnership: Salvaging Transatlantic Relations." It was prepared with the generous support of the Bertelsmann Foundation within the framework of the project *Future of Transatlantic Relations* by the Bertelsmann Foundation and the Center for Applied Policy Research and their larger transatlantic initiative on security and on economics, finance and trade.

Europe is entering an era of relative peace, while the United States is preoccupied with its vulnerability to violence.

However, both the United States and Europe face new global threats and opportunities that, in almost every case, can be dealt with far more successfully if we act together.

Transnational threats, from terrorism and international crime to environmental damage and disease, pose an increasing danger to our well-being. Porous borders and global flows of goods, money, people and ideas facilitate the spread of economic opportunity—but also foster the proliferation of technology for weapons of mass destruction. Weak states threaten our security as much as powerful ones. Ocean and land barriers offer little protection.

Developing a new, sustainable transatlantic relationship in this era of “global politics” will require a series of deliberate decisions on both sides of the Atlantic—a partnership of choice, not necessity.

For the United States, this means avoiding the temptation, offered by our unprecedented strength, to go it alone in pursuit of narrowly defined national interests. For Europe, the new partnership will require a willingness to accept that the United States plays a uniquely valuable role as a leader in a world where power still matters, and that a commitment to a rule-based international order does not obviate the need to act decisively against those who do not share that vision.

This is not the first time in our histories that the transatlantic bargain has been put under strain. From the Suez crisis in the 1950s, the balance of payments disputes and France’s withdrawal from NATO’s unified military command in the 1960s; the conflict over burden sharing and Vietnam in the 1970s to the INF debates, SDI and anxieties about decoupling in the 1980s and trade friction in the 1990s, the Alliance has been declared critically ill, and calls have gone forth for the establishment of a new transatlantic bargain (Steinberg 1993).

But there is reason to believe that the new challenges facing the United States and Europe are qualitatively different from those that have vexed us in the past.

Under a reformed, “elective” partnership, in the security realm, their joint challenge is to identify core elements of a common vision of threats and opportunities, and strengthen the means of cooperation to address common goals. In the broader political and economic sphere, the United States and Europe must together lead the effort to build the structures of international governance that are necessary to address the transnational challenges of the twenty-first century. The remainder of this essay assesses these two challenges.

Rebuilding security cooperation for the 21st century

Common goals and common interests

On both an objective and a subjective level, there are strong reasons to believe that the security challenges facing the United States and Europe are more shared than divergent, because most stem from global trends that affect us all. This commonality of threats is clearly perceived by publics on both sides of the Atlantic.

A poll published shortly before the Iraq crisis heated up in summer 2002 showed that Europeans and Americans “have common views of threats and the distribution of power in the world.” Both placed international terrorism and Iraq developing weapons of mass destruction at the top of their list of perceived threats, with the threat of Islamic fundamentalism not far behind (Chicago Council and GMF 2002).

The most dramatic case is terrorism. The United States is a more attractive target for terrorism through a lethal combination of being sole superpower, champion of Western values and a country with a dominant presence in the Arab and Islamic world. Europe is not immune however, as the attacks on French materiel

and personnel from the Persian Gulf to Pakistan have shown. Moreover, the global network of terrorist organizations spans Western societies and uses Western networks, from the Internet to global transportation, for their own purposes.

Closely related is our common interest in halting the spread of weapons of mass destruction. This is most clear in the case of the possible acquisition of WMD by terrorists. It also applies to proliferation among states, both because these states might intentionally or unintentionally provide WMD capability to terrorists, and because the spread of WMD threatens to turn regional conflicts into wars that could have global consequences.

There are other important, shared security interests as well—the transformation of Russia into a stable, cooperative member of the international community, the promotion of a stable, democratic and law-abiding Ukraine, political and economic transformation in the Caucasus and Central Asia, the completion of the integration of the Balkans, and aiding the successful emergence of a secular, democratic and prosperous Turkey, as a model for other countries in the Islamic world and as a bulwark against the spread of anti-Western Islamic militancy.

There are, however, differences between American and European security interests, actual and perceived. Geography has not entirely lost its relevance. U.S. security interests in East Asia mean that the United States will have a greater stake than Europe in managing the complex transition in East Asia involving the growing strength of China and the likely unification of the Koreas.

North Korea is an interesting intersection of the global and regional dimensions of security. Although the United States is more deeply engaged in managing the overall security situation on the peninsula, Europeans have taken a keen interest in addressing the North Korean nuclear problem, which Europeans see as an element of trying to maintain the global norms of non-proliferation under the Nuclear Non-Proliferation Treaty. Some Europeans (especially France) have taken a tougher position on North Korea's non-com-

pliance with the Non-Proliferation Treaty than has the United States. And when the United States appeared to reject the idea of dialogue with North Korea, the EU, in an unprecedented step, sent a mission of its own to Pyongyang in the spring of 2001.

Similarly, while the United States and Europe are both committed to supporting a secular, democratic Turkey, there have been tensions between the United States and Europe over the speed of Turkey's acceptance as a candidate for membership in the European Union.

Another important source of tensions is the Middle East, where U.S. perspectives have been shaped above all by the security partnership with Israel; at the same time, historical ties buttressed by new links through immigration have given several European states a keen interest and distinctive perspective on the region in general and on the Arab-Israeli peace process in particular.

The Chicago Council-GMF poll shows that 72 percent of Europeans favor a Palestinian state, while only 40 percent of Americans hold that view and their attitudes are far warmer toward Israel.

Yet even in the Middle East, the allies share important interests. These include a powerful interest in assuring stable, affordable supplies of energy from the region, and a common stake in the economic and political reforms that are needed to reduce the region's role as an importer of WMD and an exporter of terror. While European concerns about Arab emigration, particularly from the Maghreb, are more immediate than similar American concerns, both have an interest in providing economic opportunities to ease the pressure of burgeoning populations.

At least in principle, then, it seems clear that the range of common security interests is broad enough to warrant a serious effort at transatlantic cooperation.

But to achieve cooperation in practice, the two sides must have effective means of working together. Yet there are several barriers that stand in the way of making security cooperation

work at an operational level—the absence of agreed, effective mechanisms for reaching common strategies, differing assessments of the efficacy of various tools and strategies to meet common threats and a gap in overall capabilities, which can inhibit cooperation even when goals and strategies are agreed on.

The mechanism: A new NATO or a new approach?

The debate over the mechanism of cooperation has centered around whether NATO, suitably adapted, should continue to be the favored forum or whether new approaches are necessary. There is no unambiguously right conclusion to this debate. But the weight of the argument would appear to favor retaining a core role for NATO, suitably rebalanced to meet the new missions and the new political realities of European integration.

The agreements reached at the Prague Summit indicate recognition on both sides of the Atlantic of the importance of transatlantic security cooperation, based on the participation of each sovereign government, not two blocs (the EU and the United States). This perspective is reinforced by the largely overlapping processes of NATO and EU enlargement.

Of the seven new NATO members, five are also part of the next wave of EU enlargement, and the other two remain likely candidates for EU membership. Of the 10 new EU members, three are already members of NATO and five more are joining as part of the new wave. Seen another way, after the next rounds of enlargement, 19 of 25 EU members will be in NATO, and 19 of 26 NATO members will be in the EU (with at least two more, Romania and Bulgaria, likely to join).

Moreover, most new EU members are more “transatlantic” in orientation than many of the older members.

So long as the security dimension of the EU remains intergovernmental and largely based on consensus rather than majority

voting, there is no deep tension between the NATO format and the EU's own processes, and the established military dimensions of cooperation would be difficult to replicate without NATO.

Conversely, a diminished reliance on NATO, particularly in dealing with global security challenges, would push the United States more and more toward the strategy of "coalitions of the willing," diminishing Europe's influence and enhancing the chances that the United States and Europe would take divergent approaches, to the detriment of both.

Unilateralism, multilateralism and international institutions

Some, like Robert Kagan, have argued that even if there is agreement in principle on the need for cooperation and the mechanism to pursue it, differences in worldview are now so wide that cooperation will remain difficult in practice (Kagan 2002). Contrary to Kagan's argument, however, Chicago Council-GMF poll strongly suggests that "[b]oth sides strongly support a multilateral approach to international problems and the strengthening of multilateral institutions."

Even after the debacle at the United Nations in March 2003, an equal percentage of Americans, Britons and French said that the United Nations was "still important," and most Americans wanted a U.N. Security Council resolution and more international support before going to war (Pew Research Center 2003).

Conversely, majorities on both sides show a strong readiness to use military force for a broad range of purposes, and support NATO and its expansion. Large majorities on both sides favored the use of force against terrorist training camps and facilities, and to uphold international law.

At the same time, substantial majorities on both sides of the Atlantic say that economic strength is more important than military strength in determining a country's overall power and influ-

ence in the world. An overwhelming number of both American and Europeans say that the United Nations needs to be strengthened. The poll suggests that Europeans and Americans are from both Venus and Mars.

The capabilities gap

A third potential barrier is the growing divergence in military capabilities between the United States and Europe. Proponents of this thesis argue consequently that even if the United States and Europe agree on the need to use force, they will be unable to work together.

Some go on to argue that the very fact of Europe's relative military weakness will lead it to favor diplomacy over force, thus exacerbating policy differences with the United States. From the U.S. perspective, those who worry about the gap contend that European weaknesses will make Europe a less valuable partner, leaving the United States free to ignore European views, and to develop closer relationships with more strategically relevant partners, such as Russia and the Central Asian states.

These concerns, while real, seem seriously overstated. Most military operations do not require "high-end" forces at all—recent interventions of British forces in Sierra Leone and French forces in the Ivory Coast and the Congo are but three recent examples. Even in high-end contingencies, not all central military roles require the most technologically sophisticated forces—consider the role of the Northern Alliance in the Afghanistan conflict.

In more challenging military circumstances, at least some elements of the European forces are capable of operating effectively with the United States, as has been the case with Special Operations Forces in Afghanistan and naval forces in the Persian Gulf and off the coast of Africa. Finally, key deficiencies in European forces—lack of mobility, scarcity of precision-guided munitions—

can be rectified without dramatic increases in European defense budgets.

Greater U.S. willingness to transfer technology to allies could also help in reducing the magnitude of the capabilities gap. This issue by itself need not be a serious barrier to U.S.-European security cooperation.

The preceding discussion goes a long way toward demonstrating that the United States and Europe have considerable potential to pursue common security interests well into the next century. But it will not be enough to rely on an invisible hand. Several key steps must be taken to make this potential a reality:

First, it is critical to avoid the trap of “division of labor” in the security realm—an arrangement where “the United States does the cooking and Europe the washing-up” could be devastating for the prospects of future cooperation and will almost inevitably lead to diverging perceptions of how to manage crises in the future.

If the United States abjures responsibility for managing the results of using force, then the United States will almost inevitably underestimate the costs and consequences of the military option. Conversely, if Europe fails to share in the military and political burdens associated with the use of force, European voices will be given little consideration by U.S. policymakers, and Europeans will tend to downplay the efficacy of force as an option.

Second, Europe needs to develop at least some “high-end” military capabilities and fill shortfalls, as offered at the Prague Summit to allow European forces to operate effectively with the United States.²

2 The Prague Capabilities commitment consisted of “firm and specific political commitments to improve [European] capabilities in the areas of chemical, biological, radiological, and nuclear defense; intelligence, surveillance, and target acquisition; air-to-ground surveillance; command, control and communications; combat effectiveness, including precision guided munitions and suppres-

Third, both the United States and Europe need to enhance their ability to contribute to peacekeeping and post-conflict stabilization and reconstruction. This includes training and equipping conventional military forces for these roles and, perhaps more importantly, the development of specialized capabilities (including paramilitary capabilities such as the Italian carabinieri and France's gendarmerie) to meet the unique security demands these missions entail.

Fourth is the importance of preserving consensus at the heart of alliance decision-making. In practice, NATO has always been able to develop the means to allow the most powerful states to play a proportionately influential role—for example, the role of the “quint” during the Kosovo War—and to prevent dissenters from paralyzing NATO action without damaging political solidarity.

One way to increase efficiency without destroying consensus would be to strengthen the role of the Secretary General in managing the internal and administrative affairs of the alliance, while reserving policy for the members.

Fifth is the need to make further progress on linking NATO and EU military capabilities in order to foster the EU's ability to provide effective military forces, without unnecessarily duplicating NATO capabilities or creating transatlantic ruptures. With the apparent resolution of the Greece—Turkey blockage on the so-called “Berlin plus” arrangements that allow the EU to use NATO assets when NATO as a whole is not involved, it is possible to move forward.

A key test will be to develop the proposed NATO Response Force (endorsed at Prague) as a complement to the EU Headline Goal. This also means strengthening the political linkages between the EU institutions of ESDP and NATO.

sion of enemy air defenses; strategic air and sea lift; air-to-air refueling; and deployable combat support and combat service support units.” Prague Summit Declaration, Para. 4(d), www.nato.int/docu/pr/2002/p02-127e.htm.

Sixth is the need for enhanced transatlantic defense industrial cooperation. More can be done, particularly in the area of technology transfer, which, through efforts such as the Clinton administration's Defense Trade Security Initiative, can be done without compromising security.

Given the changing nature of our security threats, defense-industrial cooperation should not be limited to traditional military acquisition but to the development of new technologies and application of old ones for the protection of the homeland (Hamilton 2001).

Building the infrastructure of global governance

Although the focus of the transatlantic debate over the past months has been on the security relationship, the consequences of globalization make transatlantic cooperation imperative in the non-security realm as well where the United States and Europe have even more profound interests. Both are among the principal beneficiaries of the dramatic increase in the speed and volume of movement of people, goods, services and ideas.

Inward and outward capital flows, trade and immigration (particularly in the United States) have become an increasingly important component of our economic growth, and a major factor in productivity increases. The rapid exchange of ideas is not only fuelling innovation, but also helping to propagate our values around the world.

But the benefits of globalization are not fully shared, either within our own societies, or around the world—where the disparities are far more dramatic and domestic instability, crime and political alienation are among the consequences.

Abroad, some developing countries, notably China and more recently India, have begun to tap into globalization to spur growth, but those outside the global web have fallen further and

further behind. Within and outside the US, even in successfully globalizing developing countries, internal divides seriously threaten social stability.

The tensions that grow out of these disparities in sharing the benefits of globalization have serious, shared consequences for the United States and Europe.

At home, a backlash against globalization can lead to policies, such as protectionism and anti-immigrant movements that threaten our ability to sustain the growth that globalization fosters.

Abroad, the failure of many to reap the benefits of globalization undermines efforts to gain broad international support to extend and sustain an open trade and investment system.

It fosters instability in countries left behind, contributing to conflict, the spread of infectious disease and environmental harm, and criminal activity. It breeds deep resentments against the “haves” and their system, which can foster terrorism and the desire to acquire dangerous weaponry to offset the power of the West.

Strengthening the global economic infrastructure

For this reason, the United States and Europe share a common strategic as well as humanitarian interest in addressing this global challenge. Both need to move beyond their limited cooperation in this area and help developing countries tap into the global systems of intellectual and material interchange.

This means effective, coordinated strategies of development assistance to help build strong governance, vibrant civil societies and healthy, educated populations in countries that lack them today. It also means a new commitment to meet the goals of the Doha Development trade round, which would provide important benefits to the world’s poorer countries, while sustaining the global trading system which is so important to our common prosperity.

More broadly, the globalization of commerce, and in particular, the growing importance of transnational services has challenged the capacity of the international system to provide an adequate predictable regulatory framework to facilitate these vital flows. This lack of agreed frameworks has had a particularly pernicious impact on U.S.-European relations.

On issues ranging from competition policy to privacy regulation, to rules for emerging sectors such as biotechnology, incompatible and sometimes conflicting approaches have had serious economic consequences for both partners, and have generated deep political friction. There need to be institutionalized, enduring collaborative efforts to resolve these differences at a high level.

Sustaining the global ecosystem

In recent years, few subjects have caused as much contention in the transatlantic relationship as disputes over environmental policy. The controversy over the Kyoto Protocol is but one of many transatlantic environmental disputes, ranging from controversies over biodiversity, to the environmental consequences of genetically modified organisms, to the broader question of the role of the “precautionary principle” and the argued need for a multilateral environmental organization to complement the World Trade Organization.

Yet despite deep differences between governments, popular sentiment again seems much closer than assumed by conventional wisdom.

In the Chicago Council-GMF poll, nearly identical percentages of Americans (49 percent) and Europeans (46 percent) describe global warming as “extremely important” or critical. Although a clear majority of Europeans oppose the use of biotechnology in agriculture and food production, American anxieties are much

higher than commonly supposed. Only a small plurality of Americans support agricultural biotechnology, and a clear majority support the right of Europe to impose a labeling requirement.

While no amount of consultation will bridge fundamental differences over policy, given the objective realities of environmental risk and the fundamental commonalities in European and American attitudes to environmental issues, more effective mechanisms are needed to coordinate policy approaches. The first step is to try to achieve greater scientific consensus on the underlying issues so that such a consensus can be a powerful tool for policy coordination.

Combating terrorism and international crime

While NATO can and should play an important role in coordinating the military and some aspects of the diplomatic strategy to engage the threat posed by some non-state actors, the policy tools, and thus the range of actors involved suggest that mechanisms for transatlantic cooperation must extend beyond NATO.

The EU's own progress in deepening cooperation on so-called "third-pillar issues," related to justice and home affairs, offers an important opportunity to strengthen U.S.-EU cooperation as well. On issues such as arrest warrants and evidentiary legal assistance, the prospect that Europe will adopt a common standard (Council Framework Decision from June 13, 2002) makes it more likely that the United States and EU can cooperate. Similarly, U.S.-EU cooperation on money laundering has gradually led to widely accepted global standards to deal with terrorist and criminal finance.

There remain many barriers. In the case of terrorism, the availability of the death penalty in the United States, and European unease at some of the investigatory tools used by the United States in the wake of the September 11 attacks have threatened to

derail cooperation on highly visible cases. Information sharing is hobbled by European claims of lack of reciprocity, and U.S. fears that valuable investigatory information will not be adequately protected.

The new spirit of cooperation needs to be supplemented by NATO-like procedures for sharing and protecting classified information, and the EU-wide harmonization efforts must be extended to transatlantic U.S.-EU agreements on mutual legal assistance to supplement bilateral agreements with individual countries.

Strengthening the mechanisms of cooperation

All the challenges discussed in this essay affect the world more broadly, and thus cannot be settled by the United States and Europe alone. But without our leadership, nothing can go forward. To translate the potential of the transatlantic relationship into a more positive reality, the EU itself must take further steps to institutionalize its own capacity to act in these areas and the U.S. and Europe will need to establish more formal, effective mechanisms for consultation and even decision-making.

From climate change to infectious disease, our shared stake, and the inability of either partner to solve these problems alone, point clearly to the value of working together. Harmonizing our approaches to these issues will be difficult, but failure to do so will be costly.

Conclusion: It's not too late

Has the bitter conflict over Iraq caused such deep acrimony so as to overwhelm the strong case for cooperation? If European leaders conclude that Europe must become a counter-weight to the United States, rather than a partner, it will certainly be difficult to

engage in the kind of open search for common ground that an elective partnership requires. Also, there is a risk that post-Iraq public opinion in both Europe and the United States will make it difficult even for leaders who want to forge a new relationship to make the necessary accommodations.

But whether Iraq is a turning point is not foreordained. Most European leaders opposed the efforts of President Jacques Chirac to define the conflict as one centering on U.S. unilateralism, rather than Saddam Hussein's defiance of the international community. If the Bush administration now actively works to heal the breach (for example, by involving NATO in the post-war stabilization effort and cooperating with the EU on reconstruction), rather than focusing on punishing and isolating those who opposed the United States, a new opportunity can be created.

On the European side, especially in France and Germany, there is an equal need to recognize Europe's interest in a successful outcome in Iraq, rather than standing aloof because they opposed the war in the first place.

As for the respective publics, there is also reason for cautious optimism, particularly if, rather than catering to the raw public sentiment of the moment, U.S. and European officials show leadership.

Just before differences over Iraq captured the public mood, citizens on both sides of the Atlantic believed that we still matter to each other. In the Chicago Council-GMF poll, 58 percent of Americans said that Europe was more important to the U.S. than Asia, up from 42 percent in 1998. Europeans in turn showed continued warm feelings toward the U.S. with 64 percent supporting a strong U.S. leadership role.

The Iraq war clearly has had a sharply chilling effect on the regard for one another. According to a Pew Center survey taken on the eve of the war, favorable attitudes toward the United States in Britain dropped from 75 percent in mid-2002 to 48 percent, in France from 63 percent to 31 percent, in Germany from

61 percent to 28 percent and in Italy from 70 percent to 34 percent (Pew Center 2003).

Whether the previous sense of solidarity can be restored in the future will depend on the policies that governments on both sides adopt in the crucial months to come. A vibrant transatlantic partnership remains a real possibility, but only if both sides make the necessary political commitment. It is elective, not inevitable; but we will all be the better off if we seize the opportunity.

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After Transatlanticism, What?¹

Ivo H. Daalder

Relations among the transatlantic allies are in serious trouble, very serious trouble. It has been a long time since a U.S. Secretary of State spoke of the Alliance “breaking up,” as Colin Powell did in early February amidst the flap over France’s, Germany’s, and Belgium’s refusal to allow NATO to take preventive steps to defend Turkey in case of a war against Iraq (Preston and Weisman 2003).

As close and long an observer of U.S.-European relations as Henry Kissinger has even concluded that differences over Iraq have “produced the gravest crisis in the Atlantic Alliance since its creation five decades ago.” (Kissinger 2003: 21)

Is today’s crisis in transatlantic relations different from the many that occurred in the past? Some, like Robert Kagan, argue that the changing structure of U.S.-European relations—and especially the great and growing imbalance of power—make this crisis different (Kagan 2003: pp. 3–4).

Others have a more optimistic view. For all their differences, notes Philip Gordon, “basic American and European values and interests have not diverged—and the European democracies are certainly closer allies of the United States than the inhabitants of any other region are.” (Gordon 2003: p. 74) The differences that

1 This paper is based on an essay that appeared in the Summer 2003 issue of *Survival*, vol. 45, no. 2, pp. 147–166, “The End of Atlanticism.” The paper was prepared with the generous support of the Bertelsmann Foundation.

do exist, Gordon argues, are the result largely of a sharp policy shift in Washington under President George W. Bush.

Rather than conflicting, both contentions are in fact on the mark. There has been a profound change in the structure of U.S.-European relations, though the differentiation of power is only one, and not the most important, factor accounting for this change. One crucial consequence of this transformation is the end of transatlanticism—American and European foreign policy no longer center around the transatlantic alliance to the same dominant extent as in the past. Other concerns—both global and local—and different means for addressing them have now come to the fore.

As a result, it is no longer simply a question of adapting transatlantic institutions to new realities—to give NATO a new mission or purpose. The changing structure of relations between the United States and Europe means that a new basis for the relationship must be found, lest the continued drift ends in separation and, ultimately, divorce.

American policy toward Europe and the Atlantic Alliance represents the tipping point determining the future of a drifting relationship between the United States and Europe. Wise policy can help forge a new, more enduring strategic partnership, through which the two sides of the Atlantic cooperate in meeting the many major challenges and opportunities of our evolving world together.

But a policy that takes Europe for granted—that routinely ignores or even belittles European concerns—may drive Europe away. For under circumstances like these, Europeans may come to resent being dragged into problems that are not of their own creation. There may come a point, perhaps sooner than many think, when Europe refuses to continue sharing the risks of international engagement without having an equal share in decisions that create those risks.

The end of transatlanticism

For over half a century, American and European foreign policy has centered around the transatlantic axis. For America, Europe and the allies stood center stage—Europe was both the locus and the focus in America’s confrontation with the Soviet Union. For Europe, America was its guardian and protector.

In the 1990s, the structurally determined need to mediate U.S. and European foreign policy through the transatlantic prism effectively came to an end. America’s and Europe’s immediate concerns have increasingly diverged—one focusing globally, the other locally. And the differences between them have been further accentuated by diverging perspectives of what drives the new age of global politics that replaced the familiar transatlantic world of the cold war.

Shifting priorities

For most of the past century, the fundamental purpose of American foreign policy was to ensure that no single power would dominate the Eurasian landmass. Three times during the last century, the United States sent massive numbers of military forces overseas to defeat those who sought dominion over this geostrategically crucial area—in World War I, World War II and during the Cold War.

Once the Soviet empire was no more, the last serious challenge for territorial dominion over the Eurasian landmass had been removed. The primary purpose of American foreign policy had thus been achieved.

It took some years to realize how much Europe’s strategic relevance to the United States had been reduced. The 1990s (a period we now best remember as the post-cold war era) were given over to consolidating the victory of the Long War. Together with its

European partners, Washington set out to create a peaceful, undivided, and democratic Europe (Daalder 2001: pp. 70–96; Daalder and Goldgeier 2001: pp. 71–91). NATO evolved from a collective defense organization into Europe's main security institution.

A new relationship with Russia emerged after ten, intensive years of effort. In 2001, Russia under President Vladimir Putin made a decisive turn toward the West, engaging the United States as a partner in the war on terrorism, and negotiating a fundamentally cooperative relationship with NATO a year later.

Finally, while pockets of instability remain in the Balkans, the Caucasus, and beyond, Europe's main institutions have proven more than capable of handling these problems. As a result of these efforts, Europe is today more peaceful, more democratic, and more united than at any time in history.

The terrorist attacks of September 11, 2001, reinforced America's strategic shift away from Europe. Washington is now focused on trying to defeat the terrible nexus of terrorists, tyrants, and technologies of mass destruction.

Seen from Washington, Europe can be a partner—even a crucial one—in U.S. efforts to defeat this new threat, but only to the extent that it supports the fundamental course that Washington has embarked upon. As a strategic concern, Europe has moved from being the object of American policy to playing a supporting role.

Europe's shift in strategic priorities has been much less dramatic, at least for now. The principal focus of European foreign policy today is what it has been for more than fifty years—to eliminate the possibility of a return to internecine conflict through an ever greater commitment to sharing sovereignty within a European Union.

The EU is the focal point for European policy and activity over a vast range of areas. For the immediate future, the EU has embarked on a fantastically ambitious phase, encompassing both

deeper cooperation among existing members and enlargement of the overall union to incorporate many of the neighboring countries in the east. A constitutional convention will decide the parameters of Europe's union in future years, including the foreign and security policy field.

The enlargement project will be challenging. More than 100 million people will be added to the European Union, increasing the EU's overall population by nearly a quarter. The costs and consequences of enlargement are likely to be enormous. For at least the remainder of this decade, Europe is likely to remain focused on completing this demanding project.

So while America's focus has shifted away from Europe, Europe has shifted ever more closely toward the old continent.

American power and globalization

The shifting foreign policy priorities and potential differences that arise from them are accentuated by the diverging ways in which Americans and Europeans perceive the current international environment.

We live in an age of global politics that is characterized by two unprecedented phenomena. One is the sheer predominance of the United States. The other is globalization, which has unleashed economic, political, and social forces that are beyond the control of any one country, including the United States.

Americans and Europeans differ about which of these two aspects of our new age is the most important. Americans, and especially the Bush administration and its supporters, believe that U.S. primacy is the defining feature of the world we live in.

Europeans, in contrast, tend to see globalization—including the constraints it places on any one nation's power—as the characteristic feature of the current era. The sheer speed and volume of cross border contacts and the fact that globalization is occur-

ring across multiple dimensions simultaneously mean that neither its positive nor its negative consequences can be managed by individual countries on their own. As a consequence, no one country—not even the most powerful—can secure its goals without the aid of others.

The differing perspectives of what defines the age of global politics are reflected in very different foreign policy preferences (see Daalder and Lindsay 2003). The Bush administration and its supporters favor what has been called a “hegemonist” foreign policy, which is based on the belief that the preponderance of power enables the United States to achieve its goals without relying on others. The terrorist attacks on September 11, 2001, only underscored the vital importance of maintaining the freedom to act as Washington sees fit.

The premium that hegemonists place on freedom of action leads them to view international institutions, regimes, and treaties with considerable skepticism—and as constraints on the United States. The purpose of allied consultations is to convince others of the rightness of the U.S. cause. Finally, hegemonists believe that the fundamental purpose of American foreign policy is to maintain and extend American power for the indefinite future.

In contrast, Europeans favor what has been termed a “globalist” foreign policy, one that relies on international cooperation as a means to deal with the multiple challenges and opportunities globalization creates. None of these can be harnessed or blocked by individual states alone.

In addition, while the United States is by far the most powerful state in the world today, one important consequence of globalization is the diffusion of power away from states. NGOs, ranging from businesses to transnational citizens groups, from crime cartels to terrorist groups, are often more nimble than states and frequently succeed in frustrating their policies. The changing policy agenda and rise of these non-state actors mean that even the most powerful state is losing its ability to control what goes on in the world.

Consequences for transatlantic relations

The main consequence of these changes in U.S. and European policy priorities is to make the transatlantic relationship less pivotal to the foreign policy of both actors. For America, Europe is a useful source of support for American actions—a place to seek complementary capabilities to build ad hoc coalitions of the willing and somewhat able. But to Washington, Europe is less central to its main interests and preoccupations than it was during the decades of the cold war.

For European countries, America's protective role has become superfluous with the disappearance of the Soviet threat, and its pacifying presence is no longer warranted given the advance of European integration. The task of integrating all of Europe into the zone of peace now falls squarely on Europe's shoulders, with the United States playing at most a supporting role.

These shifts are becoming apparent in all sorts of ways—from the mundane to the profound. Diplomatic contact across the Atlantic is dropping precipitously in terms of quantity and quality, while within Europe it continues to rise. The unwillingness of the United States to engage in a kind of personal give-and-take diplomacy underscores the declining importance of Europe to Washington policymakers, and raises questions in Europe about whether it is more interested in stating firm American convictions than forging common positions.

Just as personal contact is apparently becoming less important across the Atlantic, so NATO, the embodiment of transatlanticism, is beginning to lose its central role. But as priorities and interests have shifted on both sides of the Atlantic, NATO's confidence-building role is being increasingly marginalized. This became especially apparent after September 11.

Within 24 hours of the horrendous attack on the World Trade Center and Pentagon, the 19 NATO members did something they had never done before—they invoked Article V of the North

Atlantic Treaty declaring the attack on the United States an attack against all. But aside from the symbolically important deployment of NATO AWACS surveillance planes to the United States to assist in providing air cover over the country, the Alliance was assigned no role in devising or carrying out a military response to the terrorist attacks.

Iraq, initially, was no different. When Secretary of Defense Donald Rumsfeld traveled to an informal NATO ministerial meeting in Warsaw in September 2002 and was asked what role NATO might have in a possible war against Iraq, he answered: "It hasn't crossed my mind; we've not proposed it." (Graham and Kaiser 2002: p. A14)

Two months later, President Bush, while declaring in a speech at NATO's Prague summit that "never has our need for collective defense been more urgent," emphasized that if the peaceful disarmament of Iraq proved impossible "the United States will lead a coalition of the willing to disarm Iraq." (Bush 2002: p. A19)

It is clear that the central role NATO once played in U.S. foreign and defense policy has dissipated in recent years. Part of the reason, for sure, is the growing capabilities gap separating U.S. and European military forces, as President Bush emphasized in Prague.

Yet, the capabilities gap provides only part of the explanation. Washington is also extremely wary of having its power tied down by coalition or alliance considerations. Now that it has the power to go it largely alone in the military field, few in the current administration believe there is much to gain from constraining the use of that power by subordinating the planning and execution of a military campaign to the dictates of alliance considerations.

As Donald Rumsfeld explains: "I said last year [2001] that the mission defines the coalition, and I think that was not only a correct statement, but it has been an enormously helpful concept in this war on terror." (Kitfield 2002: pp. 2978–79)

From this perspective, the United States, not coincidentally, can do what it wants without regard to the views of others—be

they Alliance partners or not. And what of NATO's role? Rather than providing a common front, the Alliance's military utility lies increasingly in providing the Pentagon a "useful joint-training- and exercise organization from which the United States can cherry-pick 'coalitions of the willing' to participate in US-led operations." (Kitfield 2002: p. 2978)

As U.S. interest in the Atlantic Alliance wanes, Europeans are left with one of two alternatives. One is to try to refashion the fraying bonds by emphasizing the importance of transatlantic unity and the continued centrality of NATO in US-European relations. Oftentimes, this translates into expressing support for U.S. policy, even in otherwise objectionable cases, in order to demonstrate continued fealty to the transatlantic ties.

Moreover, being good allies is, as Tony Blair has emphasized, also the only way in which a weaker ally can effectively influence a powerful country like the United States² (Blair 2003: p. 1765).

Another way to fill the void America's lessened interests has created is to try to forge a stronger and closer European Union. "If we do not speak with a single voice, our voice won't exist and nobody will hear us," warned Romano Prodi, president of the European Commission (Prodi, quoted in Daly 2003: p. A12).

This impulse often fuels opposition to U.S. policy in an effort to rally a common European position on a particular issue. These efforts are most often successful when the goal is creating new rules, norms, or multilateral institutions to deal with global challenges—as European efforts with regard to global warming, anti-personnel landmines, and creating an international criminal tribunal have underscored. But on major security issues—as in the case of Iraq—both tendencies will be reinforced simultaneously.

2 In a speech setting out Britain's foreign policy principles, Blair listed as the first principle: "remain the closest ally of the US, and as allies influence them to continue broadening their agenda."

What future for transatlantic relations?

Where does this leave the transatlantic relationship? In a major speech on the impact of Iraq on U.S.-European relations, Secretary Powell noted that the transatlantic “marriage is intact, remains strong, will weather any differences that come along.” (Powell 2003) What, then, will be the future of the transatlantic marriage?

Divorce is the most radical option but it would fly in the face of major forces keeping the partners together. For all that has changed in transatlantic relations over the past decade, the core of the relationship remains largely intact. This core consists of a commitment to a set of values—peace, democracy, liberty, and free enterprise—that is shared by Americans and Europeans alike.

The mutual commitment to uphold and defend these values provides the fundamental basis of the U.S.-European relationship—it is what created the sense of community for more than half a century. And no matter what differences exist or may emerge across the Atlantic (or, indeed, within Europe itself), the commitment to these values will ensure that their resolution will be peaceful rather than by force of arms. That, given the continent’s bloody history, is no mean achievement.

But if divorce is unlikely, a renewal of the partnership is no easier. The structural shifts detailed above militate against it. Renewing the partnership on a new, more durable basis will require difficult, and costly adjustments in both Europe and the United States (see Daalder 2001, pp. 88–95).

Europe will have to enhance its capacity for joint action—especially in the military field. Real partnership requires real military capabilities. Europeans will also have to demonstrate a willingness to carry more of the burdens, not just in Europe but increasingly beyond Europe as well. This will require Europeans to extend their strategic vision beyond the geographic confines of Europe to include much of the rest of world—also in terms of overall security and political requirements.

Finally, a renewed partnership will require the United States to demonstrate a willingness to accord Europe a greater—if not, an equal—voice in their relationship. Not only must Washington be willing at times to defer to Europe's lead (even if this is in a direction the United States does not fully support), but it must also show that it is committed to international cooperative means—including treaties, regimes, and norms—to enhancing the security, prosperity, and well-being of all.

All of this represents a tall order, even for those fully committed to a renewed partnership. It is not at all evident that a sufficient number of people are so committed today.

Without a formal divorce or a renewed partnership, U.S.-European relations are likely to drift—with transatlantic relations and institutions falling more and more into disuse. But drift is not likely to be sustainable for long. It will either, willy-nilly, end in divorce, or produce a crisis so severe that leaders on both sides of the Atlantic take steps to update and renew the partnership. Which of these outcomes will come to pass will depend to a significant extent on the policy and preferences of the dominant player in the relationship.

The tipping point

George W. Bush, and the policies his administration pursues, represents the tipping point in U.S.-European relations. Nothing preordains the end of this relationship, but Bush's policies—and even more so his personal style—aggravate the deep fissures that have emerged in transatlantic relations as a result of the structural shifts discussed earlier.

President Bush has appeared more interested in demonstrating the righteousness of his positions than finding ways to accommodate other perspectives into U.S. policies. Far from softening this approach, the terrorist attacks against the World Trade Center and Pentagon only reinforced these tendencies.

For all the shared sense of shock engendered by the television images beamed across the globe, Europeans and Americans reacted very differently to the September 11 attacks. Whereas little changed in Europe's policy, perspectives, and priorities, the impact of the attacks on the United States was truly profound. For the American people, the terrorists shattered their sense of physical invulnerability. For the administration, the attacks came to define its policy, foreign and domestic, in every conceivable dimension. And for President Bush, the devastating events provided the fundamental purpose of his presidency.

Because America and Europe experienced September 11 differently, policy convergence between them for dealing with the threat represented by these attacks has been tactical rather than strategic. There is significant cooperation on counter-terrorism between U.S. and European law enforcement agencies, intelligence communities, and financial regulators. And there is a joint commitment to weed out terrorist cells before they strike again.

But there is no agreement on the broader strategic context of these efforts. For much of Europe, this fight against terrorism at home must be complemented by a major new effort to tackle the root causes of terrorism—the seething conflicts, poverty and despair, and the constraints on liberty that supplies the terrorist army with its dedicated soldiers.

As Tony Blair put it just weeks after the attacks, “So I believe this a fight for freedom. And I want to make it a fight for justice too. Justice not only to punish the guilty. But justice to bring those same values of democracy and freedom around the world ... The starving, the wretched, the dispossessed, the ignorant, those living in want and squalor from the deserts of Northern Africa, to the slums of Gaza, to the mountain ranges of Afghanistan: They too are our cause.” (Blair 2001)

Diplomacy, peacekeeping and nation-building efforts, economic aid, and democracy promoting assistance must play a critical role in the anti-terrorist campaign.

For the Bush administration, the strategic context of what it calls the global war on terrorism is the nexus between terrorism, rogue states, and weapons of mass destruction (The White House 2002). Regime change—by force if necessary—represents the strategic thrust of this global war. Once rogue states have been liberated, terrorists will have no place to hide and weapons of mass destruction can be eliminated.

What makes these differences in perspective and approach starker still is President Bush's personal style—the certainty with which he holds his views, the manner in which he defends them, and above all the religious overtones of his rhetoric. September 11, in many ways, was an epiphany for George Bush—it defined the true purpose of his presidency.

More than a year later, a senior administration official confirmed that Bush “really believes he was placed here to do this as part of a divine plan.” (Hirsh 2002/03: p.10) The “this” is what Bush refers to as the fight between good and evil—a fight in which America, representing the good, will triumph over the “evildoers.”

Because there is only a single correct policy—because, as Bush put it shortly after September 11, “either you are with us, or you are with the terrorists”(Bush 2001)—the value of other states, including those allied with the United States, is judged by their fealty to and support for American policy.

While some European countries have been flattered by their elevation in Bush's rank ordering—and many, especially the newer allies, have sought to ingratiate themselves to Washington by astutely playing to the American president's predilections³ (Aznar 2003)—most Europeans have experienced the Bush administration's certitude on policy matters with great unease.

3 Thus, in early February no less than 18 European countries either signed a newspaper opinion article or open letter expressing their support for the United States over the issue of Iraq.

But it is the White House's religiosity that is most striking—and disturbing—to many Europeans. The difference in perspective reflects in part a societal one. Although American and European societies share similar perspectives on the importance of democracy, human rights, liberty, transparency, and other socio-political values, they diverge notably on religious and traditional values.

The United States is a far more religious country than Europe, and traditional values find far greater adherence there than in European countries—be they east or west, old or new Europe (*The Economist* 2003: pp. 18–20). There is, of course, nothing new about policy differences between the United States and Europe. These have existed for as long as the Alliance has. The expression of these differences in perspective and approach are also by now familiar. It encompasses the oft-discussed unilateralist-multilateralist divide and emphasizes the U.S. focus on hard power and Europe's on soft power.

Americans and Europeans possess different capabilities, see different threats and challenges, and prefer different means to dealing with them. That has long been the case.

What has changed, though, is that there is little tolerance in Washington for those who might see the world in ways different from how the White House does. Today, terrorism, rogues, and weapons of mass destruction is Washington's all-consuming interest. But other issues remain important—and to some countries at some moments perhaps more important than the war on terrorism.

A European farewell?

The single-mindedness of Bush's foreign policy may be both its greatest strength and its greatest weakness. There is little doubting where America stands these days, no confusion about its goal or purpose.

More problematical, especially for America's closest allies, is the narrowness of Washington's foreign policy agenda and the inflexibility that characterizes its foreign policy approach. Anyone with a different policy perspective or prescription is either ignored or dismissed as clearly wrongheaded. Finally, there is little apparent concern about how America's actions may impact the interests of others—that is a matter for them to worry about.

So far, the immediate consequences of American single-mindedness have been manageable. Differences between the United States and its major European allies have continued to grow, but have not yet reached a breaking point. Not yet. At both the public and elite level, there is a growing anxiety among many Europeans that their inability to affect American foreign policy behavior renders the costs of alignment with the United States increasingly great—perhaps greater even than the benefits.

Iraq may become the turning point for many Europeans, particularly if the consequences of war are as grave as many in Europe now fear. The use of weapons of mass destruction, the further destabilization of a critical region, and additional terrorist attacks are possible consequences that many in Europe would blame less on the perpetrators than on a Bush administration bent on provoking them.

Should this perception come to dominate European politics, there is a possibility—perhaps even a likelihood—that major European countries will conclude that an overt distancing from U.S. policy is not only desirable, but necessary.

There is nothing inevitable about this possibility. There is an equally great likelihood that the deterioration of US-European relations will lead to a realization on both sides of the Atlantic that a major readjustment is necessary in order to renew and update the partnership in ways appropriate to the era we now live in.

Europe would invest in the resources necessary to complement its soft power resources with real, hard power capabilities. The United States would once again come to realize that allies and

alliances are institutions to harbor and strengthen rather than abandon or take for granted. A partnership of relative equals could emerge from this readjustment to deal with common challenges ranging from terrorism and weapons of mass destruction to energy security, climate change, and infectious diseases—provided both sides decided this is what they wanted (Steinberg 2003).

What is no longer possible is for the relationship to continue to drift. There is too much resentment, and too many are becoming alienated from the relationship, for the drifting apart to continue indefinitely.

Relations between Europe and the United States have reached a turning point. Either it comes to an end or it will be renewed. Which one of these possibilities will come true will depend on the parties—and especially on the United States, which as the senior partner has the greatest ability either to get the relationship back on track or to push it off the road completely.

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Transatlantic Security Challenges

America on the Edge of an Uncertain Future¹

John J. Hamre

At the time of this writing, America is facing two crises that may require military force—a war against Iraq and conflict with North Korea. Our European allies believe they face a third crisis—America itself. The first two years of President Bush’s presidency has created deep unease among America’s European allies. European commentators pointedly ask whether America still is committed to the institutions of international collaboration it created in the months following World War II, or has America become an insensitive unilateralist, interested only in maximizing its already excessive dominance over the world?

Commentators advocating a new era of American imperialism, previously on the fringe of America’s intellectual life, now seem to be frequent visitors to the West Wing of the White House. Where is America going and what does it mean for its European partners?

1 The original paper was prepared for presentation in January 2003. Because of the intervening developments, the Bertelsmann Foundation has edited the original paper for inclusion in this publication.

Epochs of American security policy

To date there have been five great epochs of American security policy. The first epoch predated the formal founding of the country and continued until approximately 1820.

This epoch was the period of fundamental national development. In geostrategic terms, America was a distant sparing ground on the fringes of European politics. America won independence in large measure because France decided to bloody Britain's nose in the rebellious colonies. This security epoch continued through the War of 1812 (the American name), which was itself an ancillary theater for the continuing geopolitical struggles of Europe.

The epoch ended when America gained sufficient strength so that the Europeans decided it was not worth sapping imperial resources on a fight that would at best produce a neutral outcome.

America now entered the second great period of its security history, the period of relative isolation that stretched from 1820 to 1898. American energies were directed inward, to the vast heartland of America that needed to be secured and developed. It was not, however, a time of isolation. International commerce flourished. The tragic civil war created the first industrial Army, a phenomenon watched closely by European military leaders.

America was insulated by the Royal Navy from the power politics that shaped international relations in that day, and it suited our interests to be insulated. America became an industrial giant, with an economy far stronger than its military might. In short, this was an era of insulation, but not isolation.

A distinctive culture of optimism and exceptionalism was already emerging in American political circles, and it led forcefully to the third epoch, America's imperial era. During the Spanish-American war in 1898, America defeated a hapless Spain and inherited her colonies in the process.

We were rather naïve latecomers to the empire game, pale in comparison to the vast British and French empires. Nonetheless, America gained an international reach and a global perspective. This outlook carried us into World War I, and even to the point of sending expeditionary combat forces into Russia. The tragedies of World War I and the failures of idealistic but immature American diplomacy ended this era.

The fourth epoch stretched from the early 1920s to 1941. It was formally a period of American isolationism. America politically sat back while the two great forces that dominated the century—national socialism and international communism—took root.

While this era was a time of isolationism, it was also a time for military preparation. In 1934, the U.S. Navy built the largest dry-dock in the world, designed to build a new class of battleships. The Army was given the assignment to manage the Civilian Conservation Corps. While the CCC is known for building roads through America's national parks, it was a prototypical base for recruiting and managing the Army that was quickly raised in 1942.

So, while American diplomacy stood outside the major political movements that shaped the tragedies of Europe, America prepared militarily for the worst. As a reverse to the second epoch, this was an era of isolation, but not insulation.

The punctuation mark that demarks the fifth epoch occurred with the Japanese attack at Pearl Harbor. America raised a large standing army and sent it abroad on a global campaign. This produced a vast base of industrial strength and the physical attributes of military might, as well as the perceptions of international interests that carried through the Cold War.

The demobilization period from 1946 to 1949 marks relatively minor sub-phase in this larger epoch. This era finds America willing to actively lead an international cohort of like-minded nations, and to maintain a larger military establishment and position it in distant lands on a hair-trigger readiness posture.

During and immediately following the war, American leaders had to design a strategy to deal with two central challenges—containing a surging international communism on the one hand and manage the implosion of the European empires that collapsed during World War II.

Beyond the obvious challenge of rebuilding society in Europe and in Japan-occupied Asia, western leaders had to find a formula for integrating those emerging post-colonial states into the international system of states on terms amendable to western political values and not let them fall to Soviet-dominated radical forces. America helped to transform the wartime alliance into the United Nations, and constituted it as the primary framework for this dual strategy. The United Nations enshrined basic principles that were largely amendable to western liberal international traditions.

While the United Nations was the centerpiece of the initial security planning by the American government, it was soon augmented by NATO, other regional alliance organizations, as well as a large number of international institutions. America entered into legally binding obligations established through treaties, and in the process became the leader of an era of liberal internationalism.

There were two dominant attributes to this period—the defining quality of an existential threat posed by the Soviet Union, and the central priority America gave to creating international institutions and standing alliances to bolster its side in the contest against the Soviet Union.

While punctuation marks in history are necessarily imprecise and subject to dispute, this era ended in 1989 with the breach of the Berlin Wall. The first attribute of this fifth epoch—the Soviet Union and its communist empire—collapsed and disappeared. The second attribute—the international institutions and alliances that informed western security strategy in the cold war—remain.

With the disappearance of the great threat posed by the Soviet Union and the Warsaw Pact, America and its allies started to see each other in different light. The irritation with the United Nations

in the U.S. Congress grew annually. American politicians increasingly saw the United Nations and other international institutions as venues for anti-American carping and feckless posturing.

The mutual alienation between the international community at the United Nations and America grew sharply during the Clinton administration. The administration battled the Congress early in Clinton's term over the President's willingness to commit American forces to marginal (in the eyes of his critics) military operations. Congress and the President battled each other over legislative provisions precluding American forces from wearing "blue helmets," a reference to U.N. military operations.

Nothing more dramatically symbolized the intellectual and political struggles of this transition period than the Kyoto global warming treaty. Republicans (and a significant number of Democrats) were livid that President Clinton signed a treaty that he knew he could not get ratified by the United States Senate.

Indeed, it was widely felt that the Clinton administration had no intention of submitting the treaty for ratification, but intended instead to implement the provisions of the treaty as best he could through Executive Order. Critics charged that the Clinton administration did this very thing with the ABM demarcation treaty, sign it but keep it from being submitted to the Congress where it would likely have been defeated.

President Bush, September 11 and a new national security strategy

The Bush administration came to office fired with a conviction that the Clinton administration had unnecessarily jeopardized America's national interests by participating in poorly conceived international commitments that needlessly tied America's hands and made us subordinate to a culture of global internationalism that was now out of control.

This more than anything informed the early decisions of the Bush administration to reject the Kyoto treaty, to reject the International Criminal Court, to abandon the ABM treaty and the protocol to the Biological Weapons Convention. The Bush administration seemed intent, not only on ridding America of dangerous Clintonism, but of signaling to the larger international community that America was no longer the passive recipient of feckless criticism by an international community that was desperately short on military capabilities, but abundant with unnecessary advise and counsel.

Tensions between America and the outside world grew monthly in the first year of the Bush administration. The international community, and especially our European allies, decried America's unilateralism. The fact that European allies and congressional Democrats used virtually the same arguments and vocabulary, reinforced in the Bush administration their view that they were right to press ahead and reclaim America's leadership role without apologizing for being the world's only superpower.

The terrorist attack on September 11 fundamentally reshaped the landscape in many dimensions. For purposes of this argument, the terrorist attack on September 11 produced two major changes. First, the terrorist attack reversed two decades of disdain for the federal government and restored an American commitment to activist government.

During the second half of the 1980s and through the 1990s, national political figures celebrated smaller government. Indeed, President Clinton boasted during one "state of the union" address that "the era of big government is over." Democrats embraced an agenda to "reinvent government," which in essence was an effort to streamline bureaucratic process by adopting new computer technology and more modern business practices.

September 11 changed all that. President Bush promised a government that would defeat terrorists and protect the homeland. America looked to the government for security, and govern-

ment leaders promised new levels of activism. Congress and the White House set aside a decade long shared agenda to eliminate government deficit spending and rapidly passed major supplemental appropriations with out any concern for the budget impact.

Congressional committees criticized the administration for not asking for more funding for intelligence activities. Defense and domestic security spending rose sharply. The annual increase in the defense budget alone was greater than the total defense spending of Germany, for example. Even though the deficits were skyrocketing above previous levels, the government was united on spending for security.

Second, the terrorist incident created the political conditions for a more muscular national security strategy. The thinking behind this strategy predated the terrorist attack, and I believe would have been advanced by the administration in any event. But the political climate created by the wide-spread support for President Bush in the aftermath of the September 11 terrorist incident essentially cleared away any serious domestic criticism for this new strategy.

In January 2002, President Bush stunned the world by singling out Iraq, Iran and North Korea as an “axis of evil.” In May President Bush first outlined the policy of “pre-emption.” administration spokesmen even went so far as to label it a “Bush Doctrine.” President Bush stated that America has the right and obligation to use military force to prevent the emergence of threats rather than wait for them to develop.

Unlike earlier statements of pre-emptive self defense which are triggered by tactically threatening developments (e.g., Russia shipping missiles and, as it turned out, nuclear warheads to Cuba), this policy of pre-emption would legitimize military action against nations that pose a likely eventual threat, even though they have not yet taken the steps that meet the traditional test of being a threat to stability and security.

These concepts were enshrined in a new national security strategy that was published in September 2002. The President's cover letter to the strategy summarizes the key thrust of the administration's thinking:

"The gravest danger our Nation faces lies at the crossroads of radicalism and technology. ... And as a matter of common sense and self-defense, America will act against such emerging threats before they are fully formed. We cannot defend America and our friends by hoping for the best.

So we must be prepared to defeat our enemies' plans, using the best intelligence and proceeding with deliberation. History will judge harshly those who saw this coming danger but failed to act. In the new world we have entered, the only path to peace and security is the path of action."

The national security strategy argues that the proliferation of weapons of mass destruction and their technology, and the rise of suicide terrorism creates an unprecedented threat to America and to all western nations. The administration takes another important step by stating "we make no distinction between terrorists and those who knowingly harbor or provide aid to them."

The strategy points out that terrorists operate either where there is no effective government or with the complicity of governments, and therefore the inexorable application of this strategy is to confront either "failing states" or "rogue nations" that tolerate or encourage terrorism.

Pursuing the "path of action"

During the spring and summer of 2002, the administration increasingly used the concepts embedded in the national security strategy to guide its campaign against Iraq. The President demanded and got from Congress a virtual blank check authorization to go to war against Iraq at any time that he judged necessary.

The relentless drive toward unilateral American military action against Iraq took a surprising turn in August of last year. President Bush returned to Washington after the August recess with a surprisingly conciliatory tone. He would collaborate with Congress and he would go to the United Nations to re-launch intrusive inspections, and to seek a mandate to justify military action against Iraq if Iraq failed to comply with U.N. Security Council resolutions.

The President's decision to turn to the United Nations was hotly debated within his own administration. One faction argued that Iraq was patently in violation of earlier resolutions and America had all the authority it needed to wage war. They also argued that a process of inspections permitted Saddam Hussein new opportunities to confound the international community and tie America's hands through dithering and diplomacy.

Besides, they argued, the international community was not going to support the United States anyway and could only be counted on to criticize. So might just as well proceed. The other faction saw that a unilateral action by the United States against Iraq also left the United States with the singular task of rebuilding Iraq after the war.

The rapid defeat of the Taliban in Afghanistan has dragged the administration unwillingly into the dreaded "nation building" they so disparaged during the presidential election. But like it or not, overthrowing Saddam unilaterally gave America the sole burden of rebuilding Iraq. This need for multilateral support for post-conflict operations, and the clear demand of potential allies to have a legitimizing U.N. resolution led the President to go to the United Nations for a mandate to act against Iraq.

The President's surprising change in directions in August, and his decision to go to the United Nations for authorization to act against Iraq, had effectively left unresolved a crucial question central to this new national security strategy. The Bush administration believes that the central security challenge of this era—failing

states and rogue nations providing support to suicide terrorists—cannot be addressed in the traditional way. It requires pre-emptive actions to change the conditions inside sovereign states that threaten the security of the United States and arguably all nations.

The U.N. charter enshrines the Westphalian concept that sovereigns have the right to organize the internal affairs of their nation-state any way they want. The international community has a right to interfere with those internal affairs only when the sovereign undertakes steps that create tangible and immediate threats to other member nations.

While the United Nations has a large number of programs that deal with the severe societal problems in nation states, it pursues those programs only in a manner that is acceptable to the sovereign government of those states.

The unarticulated central premise of the President's national security strategy is that this deference to non-interference is no longer acceptable in an era of weapons of mass destruction. The President argues that these conditions necessitate a forceful activism to change the conditions that would threaten the security of member states before the threat appears in traditional forms that justify military response.

The first test of this concept took place when the United States removed the Taliban government in Afghanistan. While there is no objective evidence that the Taliban directly contributed to the September 11 attack, it clearly harbored those who did.

While the move against the Taliban government was not pre-emptive in terms of September 11, it was clearly pre-emptive of future terrorist incidents. As such, President Bush's decision to overthrow the Taliban government marked the first signpost on a road to a fundamentally new security epoch for America.

The campaign to overthrow Saddam Hussein seemed to be the first objective application of the new national security strategy. Ironically, however, the President's decision to go to the UN effectively confused this central issue.

When the President went to the U.N. Security Council seeking a mandate to pressure Iraq and potentially invade it, he shifted the basis of his public arguments. Through the spring and summer, the President spoke sweepingly of the need for a “regime change” in Baghdad. Other voices in the administration spoke of creating a model democracy in the Arab world, a step that would spread like a contagion among Arab societies and realign the region in positive ways for American interests.

Yet when the President went to New York in September, he based the primary thrust of his argument on the need for the United Nations to face up to the challenge Iraq posed to U.N. credibility. He argued that Iraq was flaunting the mandate of the Security Council and the credibility of the United Nations hung in the balance.

Since that time, the administration has avoided the term “regime change” and has almost exclusively based its campaign against Iraq almost solely on the narrow focus of disarming Iraq of its weapons of mass destruction. At one point the President even stated that if the U.N. inspection program accomplishes that goal, that would constitute a regime change of sorts that would be acceptable to him.

Men create ideas, but institutions sustain them

Are we on the edge of a new epoch in America’s security policies? It is said that men create ideas, but institutions sustain them. President Bush inherited the ideas of his grandfather, passed on by the institutions that were created at the outset of the fifth epoch. Those institutions have received withering scorn in Washington during the past two decades.

Indeed, many of the ideas embraced by the young Turks that came into office to serve under President Bush have rejected the internationalism of the fifth epoch. For example, pressure to

abandon the ABM treaty has been mounting for years. The fresh touch added during the past two years was a ringing denouncement of arms control treaties in general, not just the ABM treaty. The Bush administration told the Russians that it didn't much care whether there was a strategic arms treaty any more or not, and that arms control treaties were undesirable in principle, since they enshrined concepts (e.g., mutually assured destruction) that change with time.

Russia worked frantically to preserve the vestiges of an arms control agreement, though there is not much American commitment to the document that was signed. We see a similar pattern in the Kyoto global warming treaty, the International Criminal Court, the protocol to the Biological Weapons Convention, and the Comprehensive Test Ban Treaty.

At this stage—December 2002—it appears that the Bush administration is ambivalent. On the one hand it seeks to launch a new era in security with a call for pre-emption in the internal affairs of failing states and rogue nations. It unceremoniously jettisons treaty instruments that have widespread appeal everywhere except in the United States. It challenges the United Nations to defend its reputation or stand aside as the United States pursues military action against Iraq.

It should be noted that President Bush has not made the case for unilateral pre-emption that is acceptable to the American public. Polling in August indicated that by a two-to-one ratio, Americans support President Bush's campaign against Iraq so long as it is authorized by the United Nations. The support ratio reverses when pursued unilaterally.

At the same time, the American public supports the president generally and finds that he is leading in the right direction. The President has not prepared the American public for the expense and the difficulties that will come from post-conflict nation building in Iraq if the burden is to be borne by America alone.

Implication for transatlantic relations

America's partnership with Europe has been the linchpin of America's overall national security strategy for the past fifty years. While the partnership was never easy, and was often marked with tension and difficulties, the overarching threat posed by the Soviet Union forced a consensus.

With the collapse of the Soviet Union a dozen years back, America and Europe no longer needed to submerge their policy differences in order to maintain unity against an external threat. Relations between America and Europe are today more strained than at any time in recent memory. We are now at the point where America and Europe need to decide what lies ahead.

Europe is by culture and custom deeply committed to multi-lateral institutions and instruments as the bedrock of state relations. America shared that perception, though with diminished enthusiasm in the past two decades. The events of September 11, however, have caused American leaders to realize that those international institutions as currently structured and operated cannot protect us against the most serious threats we now face.

If we are to preserve the framework of liberal internationalism as embodied in these institutions, America is likely to assume a more confrontational posture in order to force the institutions to deal with these problems. And America's allies, if they wish to keep America tied to these international structures and instruments will have to be constructive in moving those institutions to address these problems previously considered outside the prerogative of international forums.

We live in an era where the pathologies in distant societies can transform themselves into violence against innocents in our homeland. The September 11 terrorists were motivated by a deadly cocktail of forces—anger, humiliation, a quest for power, religious zealotry, the hopelessness of Arab society with its lack of opportunity and employment, the absence of venues for political

expression. It is a large list. But the central point is that the pathologies that produced these terrorists have consequences in America and Europe.

Yet the institutions of liberal internationalism—the United Nations and the complex of entities around it—have failed to deal with these pathologies. America can be expected to demand a more aggressive agenda to deal with these problems. Europe should rightly demand that America complement its instinct and preference for military force with a substantially more vigorous program to address root causes.

It is the interplay of these two instincts—the American instinct to use force and the European instinct to eschew force and to focus instead on underlying causes—where the new epoch might find its character and energy.

America tends to look down on its European partners as weak and insignificant military actors on the international stage. Our European partners tend to disparage America's cowboy instincts and weak commitment to eliminating the conditions that permit hatred and violence to fester. Is a synthesis possible? That remains the question of the new era of transatlantic relations.

Six Proposals for a More Effective EU Foreign Policy¹

Charles Grant

The crisis over Iraq caused huge rifts, not only across the Atlantic, but also among Europeans. Much has been written on the causes of the crisis. Commentators have allotted blame to both individuals and long-term structural factors. However, the time has come to look forwards, and to think about ways of healing the wounds.

The focus of this paper is on the need to overcome not only the division between “New” and “Old” Europe, but also the rift which runs across the Atlantic (see Grant 2003). The two tasks cannot be separated. For so long as Europe is divided on the crucial question of how to cope with U.S. power, a healthy transatlantic relationship is impossible. Equally, so long as there are serious transatlantic tensions, Europe will not be able to develop effective foreign policies.

This paper puts forward six recommendations. The first three are for the Europeans, on how they could strengthen their foreign policy. The second three are for the Europeans and Americans together, on how they can improve transatlantic relations.

¹ The paper is based in part on the author’s publication “Transatlantic Rift: How to Bring the Two Sides Together,” London: Centre for European Reform 2003.

Advice to the Europeans

Stabilize the arc of instability that runs around your eastern and southern flanks

One of the EU's greatest successes has been the steady stabilization of the eastern half of the continent. Countries that were Communist only 14 years ago have become genuine democracies that are on the brink of joining the EU. That is a tribute to the success of the EU's soft power.

However, to be fair to the United States, it has driven expansion of NATO which has reinforced the EU's enlargement. In any case, the U.S. no longer needs to worry very much about European security.

Now that enlargement is a done deal, one of the EU's biggest foreign policy challenges is to stabilize the "arc of instability" that runs around its eastern, south-eastern and southern flanks. Belarus, Ukraine, Moldova, Albania, Montenegro, Serbia, Kosovo, Bosnia, Macedonia, Egypt, Libya, Tunisia, Algeria and Morocco are all countries which may become sources of political instability, refugees, organized crime and terrorism.

The EU should take responsibility for its new hinterland. It has not only the means but also a strong interest in steering these countries' development. The United States, however, lacks a profound strategic interest in most of them.

Hitherto, the EU has never defined the scope of its Common Foreign and Security Policy (CFSP) in terms of issues or geographical areas.

Marta Dassu and Roberto Menotti argue that the EU should assume direct responsibility for its neighbors, while pursuing its broader global interests through international organizations such as the United Nations and NATO. "In short, a 'European Europe' in our neighbourhood, and an 'Atlantic Europe' in the world." (Dassu and Menotti 2003)

Much of this makes sense. The EU should focus on what Dassu and Menotti call its “natural area of influence.” A sense of responsibility for that area could spur the Europeans to enhance their military capabilities. And their proposal could help to reconcile Franco-German believers in EU autonomy with Atlanticist partisans of NATO.

But to talk, as they do, of a hint of “Monroe doctrine for Europe” sends the wrong message: Some Americans will hear “Yankees keep out,” which would not help to rebuild transatlantic links. That said, the U.S. need have no particular fear of the EU taking the lead in dealing with its near-abroad. In practical terms, how should the EU seek to influence its rimland?

Of course, the EU can extract some leverage from the various kinds of “association” or “partnership and cooperation” agreements that it has signed with its neighbours, and from technical assistance programmes such as Phare, Tacis and Meda. But the EU needs to build closer links with these countries, so that it can encourage them to develop in peaceful and prosperous ways.

In March 2003, the Commission suggested that the EU should agree a specific “action plan” with each of its neighbours. These plans would set out targets for the neighbour to aspire to, political and economic benchmarks for it to meet, and the rewards for countries which do well (COM 2003, 104 final). The concept is a good one—but what should be the contents of the action plans?

The neighbours should make commitments to align their legislation with that of the EU, and to protect foreign investment. The EU should provide initiatives and money for fighting corruption, building independent judiciaries and enhancing administrative capacity.

The neighbours could aspire to join some EU programmes, for example in areas like research, the environment, culture and education (Israel already takes part in the research programmes). Justice and Home Affairs offers considerable scope for enhanced co-operation with the new neighbours. Their police forces and

border guards need training, their border posts need strengthening and their intelligence services may be able to help in the fight against terrorism.

The EU member states have a clear interest in spending money on such tasks. In fact the EU is already helping Ukraine to strengthen its border controls.

The EU could do a lot to improve its own image and curb unnecessary inconvenience by making it easier for citizens of these countries to obtain entry visas. The Schengen countries should agree on a common set of rules and procedures for the issuing of visas. There need to be more consulates outside capital cities which are able to issue visas—and why should not some of these consulates become “EU” rather than national consulates?

Some neighbours could work with the European Security and Defense Policy (ESDP), for example in providing peacekeepers for EU-led missions. As for foreign policy, one idea is to create a “council of European foreign ministers,” in which the member states could discuss matters of common concern with the neighbours. That said, the EU should of course consult its neighbours, and listen to what they say rather than tell them what to think.

The EU’s neighbourhood policy will not succeed unless it is prepared to use sticks as well as carrots. It should make a better job of using its policies on trade and aid to support its political objectives. The action plans should make more explicit the link between, on the one hand, the granting of trade privileges and financial assistance, and on the other, clear commitments from recipient countries to promote political and economic reform.

The agreements which define the EU’s ties to its neighbours already contain articles on the respect of human rights, political pluralism and standards of good governance. Armed with these clauses, the EU should be able to steer their political systems in a democratic direction.

In practice, however, ultra-cautious member states are often reluctant to invoke the relevant clauses, perhaps because they

worry about damage to their commercial interests. For example, France has at various times prevented the EU from getting tough with Algeria and Tunisia, despite those countries' poor human rights records.

The EU should summon the courage to link a neighbour's non-compliance with human rights clauses to concrete actions.

Hitherto the EU has imposed sanctions only on the most egregious offenders, such as Belarus (and, in another part of the world, Zimbabwe). It needs to become more confident about linking the economic and diplomatic sides of its foreign policy. The merger of the jobs now held by Solana and Patten should make it easier to establish that linkage. An EU that can make a bigger impact on the unstable areas around it will win more respect in Washington.

Work hard to overcome the division between New and Old Europe

The Europeans should develop common foreign policies not out of idealism, but because of a cool analysis of their respective national interests. Where they have similar interests, as they do not only in their near abroad, but also in many other parts of the world, they will benefit from pooling their resources and pursuing those interests collectively.

Iraq has always been a cancer within the embryonic CFSP, the one area where the EU countries could never agree. Now that the war has cut out that cancer, the member states should be able to work together on the many issues on which they have similar views. These include the Middle East Peace Process, Iran, the International Criminal Court and a whole swathe of arms control agreements. On all these issues, the Europeans have a common view which is different from that of the U.S. administration, or at least parts of it.

Because the Europeans have similar objectives in so many parts of the world, the commonly heard statement that “Iraq shows the EU will never have a common foreign policy” is foolish.

However, it would be equally foolish to predict with certainty that a strong CFSP will emerge. For although Iraq is virtually the only part of the world on which the Europeans have differed significantly, the truth is that much of the rift concerned the U.S. rather than Iraq.

While the French and German governments were genuine in their belief that war in Iraq was unnecessary, they also thought that the time had come to stand up to U.S. power. If NATO and the United Nations caved in to U.S. pressure on Iraq, they believed, the world would be left with an increasingly self-confident, arrogant and unbridled hegemon.

Similarly, the British government sincerely believed that the war in Iraq was necessary, in order to remove a regime that was—at least potentially—a dangerous threat to world peace.

But Blair also thought—like Aznar and Berlusconi—that because the United States had declared Iraq to be an issue of vital national security, America’s allies should support it. These leaders feared that, if the Bush administration was left to deal with Iraq on its own, it would become much more unilateralist and hostile to international institutions.

There are two rival philosophies in the EU about how to deal with U.S. power. The British want a strong EU so that it can be a useful partner in helping the United States sort out the world’s problems. The French want a strong EU that is capable of standing up to the US.

The Europeans must find ways of reducing the width of the fissure, or at least building bridges across it, lest it further undermine European and thus transatlantic unity. It goes without saying that all European governments should refrain from the kind of provocative actions that make things worse (signing letters, insulting governments, holding divisive summits).

If the Europeans want the wound between New and Old Europe to heal, they will have to make every effort to apply balm, rather than keep scraping off the scab.

Beyond that, the Big Three European countries should take a lead in trying to work out a common approach to dealing with the United States. They need to consult more often on an informal basis, *à trois*, on big strategic questions.

The EU institutions could be represented—perhaps through the new EU president or the new “foreign minister”—to remind the Big Three of others viewpoints, and to keep the small countries informed. And at some of these meetings it may be appropriate for Italy, Poland and Spain to take part.

Increased consultations between Blair, Chirac and Schröder would help to defuse potential crises. If they spotted a future issue on which they were likely to differ, they could discuss how to limit the damage, for example by telling ministers and spin doctors not to make inflammatory comments. In practice, if the larger countries are able to reach a common position on strategic questions, the other member states are likely to follow.

Britain and France should reconcile their views on America

The key to more fruitful meetings of the Big Three, to a common European approach to the United States, to overcoming the rift between New and Old Europe, and thus to more harmonious transatlantic relations, is a better understanding between London and Paris.

But at the time of writing the atmospherics between London and Paris remain poor. The dominant line in the British government was that Britain should not compromise with France on how to deal with the United States. Only close transatlantic cooperation can tackle the many global dangers that threaten us, the argument goes. The French idea of resisting the United States

would prevent such cooperation, and the French will simply have to learn that their approach is wrong and the British are right.

The atmosphere in Paris is scarcely more emollient. Officials predict that Blair will learn that Bush is “crazy” and that the British will understand that they can no longer follow the United States through thick and thin. Until such time, the British cannot be regarded as “true” Europeans—and France will pursue initiatives which exclude them.

Both Blair and Chirac would be stronger if they could learn to work with each other. And more importantly, Europe would be stronger. A Franco-British rapprochement should not be so hard to bring about. As already explained, Britain and France agree on most of the key foreign policy challenges in the world today.

The problem is that Britain and France do not agree on what to do if America strongly opposes the European line. The British tend to shift their stance towards that of the United States, in the hope of gaining influence in Washington, while the French tend to criticize the United States in public.

If Blair and Chirac could achieve some reconciliation of their views on how to deal with the United States, Germany and the other European countries will then be happy to follow them. And then a real and effective Common Foreign and Security Policy would become possible. In a nutshell, France needs to become less instinctively anti-American, and Britain less unconditionally pro-American.

France should:

- Oppose the United States on the big things rather than the small things.

If the Americans want to start a war of which France disapproves, it should of course say no and oppose the war. But France has tended to oppose the United States on relatively minor security issues, such as when it blocked NATO aid for Turkey in January and February 2003. France’s prickly behav-

ious over many years has annoyed its allies and deepened the well of anti-French sentiment in the United States.

- Use a different kind of language.

If Jacques Chirac talked more about partnership, cooperation and working together to solve common problems, he would disarm many of his critics in Washington. In particular, he should avoid talking about the need for a “multipolar” world. Multipolar is a word which divides Europeans, while multilateral is a word which brings them together.

- Avoid actions which divide Europe.

Chirac should abandon whatever plans he may have for the establishment of a “core” Europe. If Chirac tried to lead a mini-Europe, built around the six founding members, he would by definition be unable to lead Europe as a whole. And so long as core Europe had an anti-American flavour, most EU countries would shun and oppose it.

- Learn to make friends in Eastern Europe.

France cannot aspire to lead Europe unless it improves relations with the East Europeans. Like many French politicians, Chirac sometimes appears to be in a state of denial about EU enlargement. France’s leaders need to accept the reality that eight East European states—with many votes in the Council of Ministers—will soon be members. They will not want to be allies of a France that is hostile to the US.

Britain should:

- Be less uncritical and unconditional in its support of the United States.

Tony Blair has been reluctant to criticize the United States in public, on the grounds that he has more influence if he is publicly supportive. That is surely correct. But many people on the continent, and not only in “Old Europe,” doubt that Blair and Britain are fully committed to the EU and its objectives. Blair needs to do more to demonstrate his European creden-

tials. He will have to take some moderate risks in his relationship with George Bush.

- Tell a different story about British foreign policy.

On most key foreign policy issues, Britain agrees with its European partners. But Blair and his ministers seldom make speeches that highlight this truth. They need to tell the story that the UK is with its European partners on the Balkans, Israel-Palestine, the International Criminal Court, the Kyoto protocol and so on. On some of these issues, they will need to stress that the UK/European line is different to that of the United States.

- Avoid actions which divide Europe.

The letter of eight, which Britain signed, aggravated the rift between New Europe and Old Europe. And at the time of the Iraq war some ministers' attacks on the French were over-the-top and unhelpful.

- Demonstrate that Britain is enthusiastically committed to the ESDP.

That commitment has at times appeared hesitant. Blair needs to convince his European partners that he is faithful to the ideals of the St Malo summit. British support for the ESDP needs to be more unequivocal, constant and public. That is the best way of dissuading other governments from divisive initiatives such as April's four-nation defence summit.

The French and the British should jointly back the idea of a stronger Europe, that is usually supportive of U.S. policies; but a Europe which, when it needs to, can act autonomously, and which, every now and then, on matters of vital importance, is capable of opposing the US. If the British and the French can accept that compromise, the other Europeans probably would too.

Advice to Europeans and Americans together

Work towards a common approach to Iran

For many years, Europeans and Americans have followed very different strategies on Iran—but neither has been successful. America’s policy of sanctions and diplomatic isolation has failed to bring about significant improvements to the situation in Iran, but the EU’s commitment to trade and dialogue has done no better.

This transatlantic divergence did not matter a great deal—so long as Iran was nobody’s top priority. But in the spring of 2003—with Iraq “done” and Syria bending to U.S. pressure—the neo-cons pushed Iran to the top of Washington’s foreign policy agenda.

Iran could cause yet another major ruction in transatlantic relations. It could also cause the biggest crisis in American-Russian relations since Putin came to power.

There is an urgent need for Europeans and Americans to get together to discuss Iran, and try to forge a common strategy. Americans and Europeans can surely agree on common objectives: Iran should better respect human rights, cease to support terror groups and resist the temptation to destabilize Iraq and Afghanistan. And Iran should sign the Nuclear Non-Proliferation Treaty’s “additional protocol,” which would subject it to more intrusive inspections from the International Atomic Energy Authority.

As part of a new bargain, Washington should stop trying to force the Europeans to cut off ties and trade with Iran. In return the Europeans should make clear that their “conditional engagement” really is conditional: if Iran actively pursues nuclear weapons, supports terrorists and undermines the security of its neighbours, they would cut or diminish political and commercial ties.

Russia has strong commercial ties with Iran, and supports its civil nuclear power programme. The United States and the EU

should therefore involve the Russians in talks on Iran, and especially its nuclear ambitions. On nuclear and other issues, the EU, the United States and Russia should try to forge a new set of policies with an appropriate mix of sticks and carrots—such as more trade and aid if the country meets certain benchmarks, but sanctions if it does the wrong things.

Iran will need an awful lot of carrots to be dissuaded from its nuclear ambitions. The best hope may be to broaden the discussion to cover the security of the whole region. The United States, the EU and Russia should acknowledge the Iranians' legitimate security interests, and urge its neighbors to join some sort of regional security structure. But they also have to make clear that a nuclear weapons program is unacceptable.

Reach a compact on weapons of mass destruction

Many European governments have long experience of dealing with terrorism, and do not underestimate its dangers. But they have tended to be nonchalant about the risks of unguarded nuclear materials in the Commonwealth of Independent States, as well as the dangers of rogue states acquiring chemical and biological weapons, or ballistic missiles. Most Europeans do not worry about WMD being used against their countries.

However, Europeans do need to wake up to threats which may one day impact on their—in Bob Kagan's term—"Kantian paradise." Increasing numbers of countries have or are trying to acquire nuclear, radiological, biological or chemical weapons, as well as ballistic and cruise missiles.

At present, the Europeans do not think alike on such "new security threats." The British and French security establishments take WMD seriously, and are prepared to contemplate the use of force to tackle the problem—though they may differ over the kind of legal framework that is required to authorize military action.

Most other EU countries have taken a different view. These divisions among the Europeans have the potential to undermine the CFSP. They also risk damaging cooperation between the United States and the EU.

The EU governments need to search for a common approach. Some of the more pacifistic EU states must shift their thinking towards recognizing the gravity of the threat, and being prepared—in the last resort—to take firm action to deal with it. Encouragingly, in the spring of 2003, the EU governments asked Solana and his officials to start working on an “EU Security Strategy.” This will examine the nature of the new security threats, and the tools available to deal with them.

Such an endeavor is thoroughly worthwhile. The fact that different EU countries had differing perceptions of the threat in Iraq contributed to Europe’s divisions. Even if the EU had agreed on a common threat assessment, the governments might well have taken different views on what to do about it.

Nevertheless, if the Europeans can converge their thinking on the nature of threats and on how to cope with them, they will be less likely to fall out in the future.

The exercise of drawing up an EU security strategy should help the Europeans to make the connection between their objectives and the instruments available to them: they have seldom managed to harness effectively their trade, aid and other instruments in pursuit of foreign policy objectives.

If the Europeans are able to agree on their own security strategy, it would probably be rather different to the American one of September 2002. But even an EU security doctrine that differed from the Americans’ would help to show that Europe took WMD seriously. And it would make it easier for Europeans and Americans to discuss their differing views on the rights and wrongs of pre-emptive or preventative military interventions.

By June, this EU exercise seemed to be having a positive result. Meeting in Luxembourg on June 16, all the EU foreign minis-

ters—including Germany’s Joschka Fischer—signed up to a new statement on ways of dealing with WMD.

“When these measures (including political dialogue and diplomatic pressure) have failed, coercive measures under Chapter VII of the U.N. Charter and international law (sanctions, selective or global, interceptions of shipments, and, as appropriate, the use of force) could be envisioned.” They added that “the role of the U.N. Security Council, as the final arbiter of the consequences of non-compliance ... needs to be effectively strengthened.” (Council of Ministers 2003)

The Bush administration has been right to criticize Europe for not taking the threat of the proliferation of WMD seriously. Yet European governments are right to argue that, despite the evident weaknesses of arms control treaties and regimes, some of them are genuinely useful. They can provide benchmarks against which compliance can be measured.

However, they serve little value without stringent inspection regimes. Of course, some governments will cheat. But all sorts of surveillance and intelligence techniques mean that cheaters will sometimes be caught. So long as most countries subscribe to arms control regimes, and are seen to be complying, many governments will think twice about flouting the rules, since they risk being caught.

The danger of scrapping of arms control treaties is that manufacturers and proliferators of WMD are then left free of the risk of inspections—and the outside world is left more ignorant about what is going on in the country concerned.

Nevertheless arms control treaties and inspection regimes are only effective if the countries involved have the political will to enforce them. Sadly, the Bush administration has blocked the effort to create an inspection regime for the Biological Weapons Convention (BWC).

America’s opposition to arms control treaties sometimes appears to be ideological, as when the State Department’s arms con-

trol chief John Bolton opposes any constraint on America's freedom of maneuver; and sometimes the opposition seems to be the result of corporate lobbying, as when pharmaceutical companies opposed the BWC inspection regime.

Encouragingly, the administration does favor strengthening some of the crucial supplier cartels, which aim to prevent the export of sensitive materials. The provisions of the Missile Technology Control Regime have already been beefed up. There is talk of bringing in tougher rules on dual-use trades, and of adding to the lists of goods prescribed by the Nuclear Suppliers Group and the Australia Group (which restricts the spread of chemical and biological weapons-related material and know-how). The Bush administration is working on a similar regime for mobile rocket launchers.

However, these supplier regimes work on a voluntary basis and carry no teeth. For example, the Nuclear Suppliers Group has a rule against trades with countries that do not accept IAEA safeguards, yet Russia has broken it by making nuclear trades with India.

There is surely scope for a grand transatlantic bargain on proliferation. The United States should sign up to some of the binding regimes, such as the BWC enforcement mechanism, the Comprehensive Test Ban Treaty and the U.N. Convention on Small Arms. In return the Europeans should agree to champion more effective and tougher action against the threat of proliferation.

For example, they could offer more cash for dealing with the problem of Russia's nuclear weapons facilities; they could support tougher sanctions against countries that proliferate; and, when there is a convincing case for pre-emptive action, they could join the United States in military missions to destroy WMD which threaten the peace.

Europeans and Americans should also be able to agree on some general rules for "interdiction," the interception of WMD or their components when they pass from one country to another.

The world needs a regime that makes it illegal to send WMD from one country to another, and which allows the boarding of ships or aircraft suspected of carrying them.

President Bush floated some of these ideas at the Evian summit. He did not find an enthusiastic response, because he failed to specify that the interdiction regime would need the authority of the United Nations. If the United States is prepared to accept that the U.N. Security Council should authorize the boarding of ships and aircraft, many countries will support this idea.

Discuss the principles of intervention

Any discussion of pre-emptive or preventative action against WMD begs a question: by what authority? Europeans tend to be more preoccupied than Americans with the need for international law or organizations to legitimize military interventions.

The main reason why many middle-of-the-road Europeans opposed the war in Iraq was the lack of any U.N. Security Council resolution that gave explicit authorization. The British government argued that earlier resolutions provided sufficient legal cover. But many Americans, particularly at the hawkish end of the political spectrum, were not greatly bothered by the question of U.N. authorization.

Each side of the Atlantic comes to the issue of intervention from a different perspective. When Europeans think about using force in another country, they tend to assume the justification is humanitarian. Americans have tended to assume that the purpose of interventions is to deal with WMD. Ever since September 11, both sides have agreed on a third justification for intervention: to overthrow a regime harboring terrorists. Thus most Europeans and Americans accepted the war in Afghanistan.

However, the Iraq war showed that differing views on intervention have the potential to destabilize the transatlantic relation-

ship. Ever since September 11, Americans have become less fussy about international law, when faced with the threat of WMD. Richard Haass, one of the moderates in the Bush administration, explained its thinking in January 2003:

“Traditionally, international lawyers have distinguished between pre-emption against an imminent threat, which they consider legitimate, and ‘preventive action’ against a developing capability, which they regard as problematic. This conventional distinction has begun to break down, however. The deception practiced by rogue regimes has made it harder to discern either the capability or imminence of attack.

It is also often difficult to interpret the intentions of certain states, forcing us to judge them against a backdrop of past aggressive behavior. Most fundamentally, the rise of catastrophic weapons means that the cost of underestimating these dangers is potentially enormous.

In the face of such new threats and uncertainties, we must be more prepared than previously to contemplate what, a century and a half ago, Secretary of State Daniel Webster labeled ‘anticipatory self-defense.’” (Haass 2003)

Some Europeans regard that kind of reasoning as a sophisticated way of saying that the U.S. will go to war whenever it feels like it.

In May 2003, the Centre for European Reform and the Brookings Institution brought together a group of European and American analysts to draw up a declaration on the future of transatlantic relations. In the debates over the drafting, intervention proved to be by far the most contentious issue. Most of those involved could compromise on the formula that “U.N. authorization, though not a prerequisite, would be highly desirable.”

But some of the Americans would not accept any implication that the United Nations should authorize military action, and refused to sign. And some French analysts feared that such wording implied that U.S. hawks would be able to ignore the United

Nations. These French analysts admitted that, in practice, there would be occasions when one had to intervene without U.N. authorization, as in Kosovo in 1999—but thought it wrong to put that on paper. So they would not sign.

Given how explosive this issue can be, European and American leaders should find the time to discuss the principles of intervention in a private and informal setting. They should discuss whether the rules of international law which govern the legitimacy of military action need re-examination, in the light of the current challenges of terrorism, WMD and massive violations of human rights.

They might not agree, but it would be useful if they understood each other better. In the long run, Europeans and Americans could aspire to agree on some guidelines to govern interventions.

The legitimacy of interventions need not necessarily come from the UN. But it needs to come from somewhere—if only a set of guidelines endorsed by a gathering of international leaders. Some American nationalists will continue to argue that the U.S. should intervene whenever it wants to, if the national interest requires it, without the need for endorsement from anybody or anything.

It is perfectly possible for the United States to behave in that way. But if it does, it will find that it ends up with very few friends or allies.

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Security in Times of Terror¹

Josef Janning

After September 11, non-conventional warfare has a new face: counter-value strikes against soft targets in the West, carried out by fundamentalist-motivated terrorists, unconstrained by legal or humanitarian norms or respect for life. Transnational terrorism has become a global threat.

Confronting the causes, structures and strategies of terrorism constitutes the decisive security challenge of our day, and must bring to light the new terrorism's unique and novel nature. Security policies aimed at responding to the terrorist threat need to be guided by the need to overcome the limits of purely national considerations and the traditional separation of external and internal security.

The current terrorist threat manifests itself most clearly in the form of the radical Islamic organization al-Qaida, which with its network-like structure serves as a sort of overarching organizational authority of terrorist activity. Anti-terror measures should not be directed exclusively at this organization, however. Neither should the actions of radical Muslims cause the debate over terrorism to lead to a polarization between Western and Islamic societies.

1 This contribution presents some of the main results of the task force "The Future of Security," an expert forum established by the Bertelsmann Foundation after September 11, 2001.

The inclusion of the religious dimension in the discussion of terrorism calls for a clear differentiation: Islam cannot be considered the source of terrorist acts. Radical groups have instead hijacked religious values with specific sectarian interests to serve as a weapon against their putative enemies. By tying their actions to demands for the preservation of their social order, terrorists are able to increase the likelihood that they will be positively received in the societies they claim to defend.

Nonetheless, against this background it is important that in dealing with terrorist threat, one must avoid falling into the trap posed by the notion of a clash of civilizations.

On the causes, goals and structures of the new terrorism

Planning global terrorist action requires a high level of strategic rationality. Successful operations demand that terrorists are able to dispassionately manage the cycle of escalation. Characteristic is the use of new, often innovative tactics appropriate to the specific situation at hand—a trademark which also makes it more difficult to predict what terrorists may do next.

The rise of terrorist groups and their readiness to commit acts of terror presupposes the existence of sources of conflict. Those afflicted by dictatorships and economic failings leading to social hardship often blame their troubles on western societies, particularly the USA, creating fertile ground for those who consider violent dissent legitimate.

Terrorist groups that are able to effectively link their abstract goals with concrete demands increase their chances of finding a greater level of social resonance or even acceptance. Arab terrorists make use of longstanding structural and developmental deficiencies in this region, and weaknesses of existing government and social structures open up new fields of opportunity for radical groups.

Taliban-controlled Afghanistan offered a striking example of how an authoritarian state can use a radical organization to hold on to power. Pakistan's weak state institutions may allow terrorist groups to grow. The new terrorist threat expresses itself in various ways:

- **Motives:** Today's terrorists are not linked to revolutionary traditions of liberation. They see themselves as defending their system of social and cultural values against the rising tide of globalization.
- **Global Effects:** Terrorist action now has a potentially greater global effect and represents a distinctly more comprehensive threat than, for example, the socio-revolutionary underground organizations of the 1970s (e.g., RAF, Red Brigades) or nationalist and ethno-nationalist terrorism (e.g., IRA, ETA).
- **Perpetrators:** Terrorist groups draw on abundant resources, including state and private donors. They also possess a keen ability to discern the weaknesses of their putative enemies and use old and new means against them.

Massive use of violent force and a high victim count have replaced the symbolic murder of selected establishment representatives. The September 11 terrorists proved they could disrupt the target and kill masses of people, sending a message both to their supporters and victims. The network-like structures adopted by terror groups make them hard to eradicate.

Furthermore, due to the complexity of their ethnic composition, acquisition of information about these groups is a laborious process. One peculiar aspect of terrorist groups is a concept of time foreign to the modern world and in particular to modern democracies. Terrorists do not count on quick success but plan in long-term periods. That gives them an advantage over elected officials who want to prove they can win the fight against terrorism.

In view of the clear threat terrorism poses, one must take into account a whole spectrum of potential threats aimed at openly

accessible and interconnected institutions and has to think the unthinkable. The global integration of political, economic and social processes, with its vulnerable mutual dependencies, endangers not only western societies: Symbols of the west can be targeted anywhere, as the attacks e.g., in Tunisia and Indonesia demonstrated.

Through their understanding of the dramatically increased vulnerability of the industrialized world, the terrorists made the western world recognize their capabilities and ever-present threat, which led to global socio-economic repercussions as visible after September 11. The role of spectacle—amplified by media coverage for the global public—is yet another special part of the terrorists' battle strategy, aimed to sap the adversary's moral vitality.

Shortcomings at the national and European levels

In recent years and in direct reaction to September 11, Europe has enacted anti-terrorism measures, mostly non-military, on national and EU levels. However, military means now assume greater importance. It is apparent though, that administrative coordination between the Federal Republic of Germany and the EU has not yet reached an optimal form to the extent necessary to counter terrorist networks and the risks associated with them.

The civil dimension

In Germany, as in other European countries, security is handled by military, law enforcement and intelligence services, each with separate tasks, structures, resources and personnel. Germany's federal system and the separation between law enforcement and intelligence services were developed in the context of German his-

tory and aimed at preventing the concentration of power in one institution.

There are clear weaknesses in current investigative structures. German anti-terror law relates largely to domestic left-wing terrorism of the late 20th century. It has been recognized that the threats we are facing today are entirely different from the ones of the past. As a consequence of September 11, two anti-terror laws were passed in Germany. In the fall of 2001, an additional 1.5 billion Euros were allocated to terrorism prevention. Moreover, certain privileges previously granted to religious organizations were eliminated and the criminal code changed to permit prosecution of terrorist activities committed abroad.

The second bundle of laws strengthens the authority of the Office for the Protection of the Constitution (BfV) the Federal Office of Criminal Investigation (BKA) and the German Frontier Defense Force (BGS). It also tightened laws directed at aliens and asylum seekers, as well as laws affecting associations and incorporations.

German civil defense structures would be utterly overwhelmed by an attack of the scale of September 11. Structures, organizational systems, and legal frameworks have not been sufficiently developed and coordinated to insure that they would function smoothly in the event of an emergency.

Moreover, the existing distribution of responsibilities between federal and state authorities could impede a proper response to a large terrorist attack. This also applies to the collection and analysis of information. Current collaborative shortcomings on both a national and a European level mean that the entire spectrum of information held by the various agencies cannot be utilized to the fullest.

The EU leaders agreed immediately after September 11 to create a European arrest warrant and to legally freeze assets of terrorist groups. The member states also agreed on a definition of punishable terrorist offenses, though prosecution and prevention remains the responsibility of member states.

Still, different threat assessments, experiences and capabilities in combating terrorism as well as institutional hurdles impede the realization of a coherent strategy. This is a problem that will persist as the European Union enlarges. States with an information-gathering advantage seldom cooperate with other states, due to conflicting national interests and incompatible legal and intelligence services. Domestic authorities have been slow to provide Europol with information, creating potential security lapses. The volume of information and the lack of specialists with knowledge of Arabic represent a tremendous challenge.

As some member states oppose an overly strong European role, steps taken by the EU have mainly been supplementary to national steps. The creation of a European arrest warrant and common investigative groups proved to be difficult and the transfer of operational jurisdiction to Europol raises constitutional problems in several member states.

Such difficulties raise questions about the unanimity principle governing decision-making at the European level, because the majority of anti-terror measures are connected solely to the third pillar (Judicial Cooperation in Criminal Matters) of the EU's treaty framework. Moreover, parallel measures associated with the second (Common Foreign and Security Policy) and first (European Community) pillars are missing. There is also insufficient support for further integration of justice and home affairs among the candidates for EU membership.

Military dimension

Germany's lack of a crisis management structure and the distribution of state responsibility that grew out of the Cold War—with civil defense responsibilities lodged at the federal level and emergency management in the hands of German *Länder* authorities—hinders the development of anti-terrorism measures. With the

first invocation of Article 5 of the NATO treaty on October 2, 2001, and after the launch of operation Enduring Freedom, military action became part of the overall strategy directed against the terrorist threat.

Still, military and non-military measures do not operate in concert. As part of its role in Operation Enduring Freedom, the Bundeswehr has contributed numerous defense and support services. The transformation of the European security architecture and the new security policy challenges require that modifications be made to the overall mission currently assigned to the German armed forces. It is already clear that the task of ensuring Germany's security can only be accomplished within an international framework.

Military action in the context of the new security threats requires a change in attitude. Conventional deterrence is hardly effective against terrorism. Moreover, as the division between external and internal security has been dissolved, internationally orchestrated action is needed.

Unfortunately however, EU cooperation with NATO—which would integrate international military capabilities—remains difficult. A double capabilities gap blocks comprehensive military contingencies:

- EU members' different defensive and crisis management capacities harbor the danger of a split between those willing and able to act and those willing but unable to act.
- The capabilities gap between the United States and Europe is growing. Without continued European efforts to develop appropriate capabilities, Europe and America will continue to drift apart, while Europe's dependence on the United States will continue to increase.

Integration policy

Inadequate and failed efforts at integration in Germany and in Europe—in particular of the Muslim population—intensifies polarization between religious and cultural groups. This creates “gray zones” in Europe within which terrorist groups operate and recruit unnoticed.

In this context, the problem of the diaspora plays a significant role, whether for Moroccans in Spain, Tunisians in Italy, Algerians in France, Turks and Kurds in Germany. If divergences in lifestyle cannot be bridged, this may have lasting effects on the psychosocial disposition of some individuals, providing an opportunity for political and religious ideas and actors to exercise their influence.

Policy recommendations for Germany and Europe

In view of the seriousness of the new security threats, effective strategies of response are essential. These strategies must bridge national differences and link internal and external security, while respecting national and European democratic and constitutional structures. A further prerequisite for the containment of the terrorist threat lies in understanding the interacting motivations along with the multilayered and interlocking structures of terrorist groups.

Strengthening the Federal Office of Criminal Investigation

To allow for improved terror prevention, the BKA should obtain the authority to initiate investigations on its own initiative. Furthermore, its coordinating function with regard to the Offices of Criminal Investigation at Länder-level (LKAs), the Frontier

Defense Force (BGS), and the Customs should be enhanced. Such restructuring would not only utilize possible synergies within Germany, it would also facilitate international cooperation efforts.

Cooperation between security institutions

The “turf protection” among the Federal Office of Criminal Investigation (BKA), the Office for the Protection of the Constitution (BfV), and the Federal Intelligence Service (BND) needs to be overcome in order to effect greater cooperation, in both planning and implementation. A first step should be the increased exchange of liaison officers between the services.

Additionally, a joint database should combine critical information on homeland security with all information instantly accessible in case of an emergency. In this context, the fragmentation of German domestic security services—every Land has its own Office for the Prosecution of the Constitution as well as Office of Criminal Investigation—should be reconsidered.

Bundeswehr

The Grundgesetz (Basic Law) establishes a rather restrictive framework of action for the Bundeswehr, both domestically and internationally. While force projection abroad can take place under alliance terms and in self-defense, domestic use of the armed forces is currently restricted to events of a state of emergency.

In order to protect critical infrastructure, ensure the security of the German airspace, and to function as an integral part of a homeland defense scheme, the armed forces should operate within Germany under a new, confined constitutional mandate, adapting to threats through integration into the European context.

The Bundeswehr's role would range from territorial defense to worldwide crisis response. This must be conveyed to the public to provide for acceptance.

The central role of the Frontier Defense Force

The German Frontier Defense Force (BGS), unique in Europe, combines aspects of military and law enforcement, domestic and external missions. Because of the way it blends both domestically oriented and externally directed missions, it is well suited to serve as an element intertwining both aspects of the national security apparatus. The BGS should be integrated into a system of international cooperation and collaboration and thereby given a central role in the development of a European Frontier Protection Force.

Emergency management and civil defense

Based on an evaluation of the risks that terrorist activities pose for critical civil and industrial infrastructures, civil defense and emergency management should be re-organized and safety measures implemented. Such planning should include private and voluntary support of the official services as well as the economic sectors.

Though a European action-plan for emergency management already exists, the member states have not made sufficient use of all available opportunities for coordinating emergency management at the European level. Emergency management should be tied into a coherent European framework, with more attention paid to the consequences of terrorist attacks (nuclear, biological, or chemical).

Strengthening of inter-institutional cooperation should not be limited to security institutions only but also to other multilateral

bodies such as intergovernmental and non-governmental organizations active in this field to foster transparency and closer cooperation. Personnel decisions to strengthen these institutions or to conduct adequate training programs is another necessary step towards implementation of a coherent security policy.

Containing terrorist support structures in Germany and Europe

Under the protection of ethnic and other groups closed to outsiders, terrorists can create structures within which they obtain support, recruit the like-minded, and prepare attacks. Bonds of language, religious belief, and social tradition in force within such groups, together with a general distrust of outsiders, promote an intense sense of solidarity, making it more difficult to acquire information about these groups.

Early and direct prevention must occur on a long-term basis by, for example, uncovering indoctrination occurring in mosques. Linguists, scholars of Islam and banking experts can help detect network structures.

Policies of migration and integration

Integration efforts can also contribute to a weakening of terrorist support structures, because it is apparent that deficiencies in integration are partly responsible for the genesis of potential perpetrators of terrorist acts.

Efforts should continue, for example, to include Islamic instruction as part of the religious curriculum offered in German public schools. Furthermore, national approaches to immigration should be further harmonized within a more coherently fashioned and synchronized EU framework.

Strengthening EU homeland security

Domestic security within Germany cannot be achieved separate from the rest of Europe. A clear definition of the tasks and priorities related to the fight against terrorism would help coordinate Europol, Eurojust, and the Task Force of Chiefs-of-Police. These groups should provide the Council with joint initiatives for improving judicial and police cooperation.

Of central importance is a guarantee of comprehensive access by Europol and Eurojust to data held by national authorities, within the limits imposed by data privacy laws. Counter-terrorism measures should be stated goals in the three pillars of the EU treaty framework. The Task Force of Chiefs of Police should evaluate opportunities for joint anti-terror operations.

Lastly, an expansion of joint anti-terror training programs (for law enforcement officials and district attorneys) could help identify best practice.

Re-balancing security and privacy

The expansion of national and European security policy competencies requires a public airing of questions relating to freedom, security and justice, to create adequate public acceptance of new measures, since the threat is directed at western society's openness and social order. The collection and transfer of data should be guided by legal conditions.

The EU consultation procedure, where the Council refers legislative proposals to Parliament, should be expanded to include the review of non-legally-binding program documents originating for the Council. Furthermore, consideration should be given to the question of where to grant the European Parliament additional rights of co-decision.

Stabilizing EU neighbors

The European Union is increasingly developing the capacity to assume a global security role. One of its primary foreign and security policy tasks lies in the assistance and stabilization of those regions on the periphery of an enlarging EU.

The enlargement of the EU will create new frontiers that run adjacent to states and regions characterized by crisis and instability. With respect to regional policies, current mechanisms for dialogue and cooperation with the Balkans, the Caucasus, North Africa, and the Mediterranean basin should be enhanced—for example by taking up socio-economic matters and the situation of ethnic and religious minorities.

EU enlargement

The enlargement of the European Union promotes European stability. Prospective EU member states are already working to support the EU's anti-terror measures. With a view to EU enlargement and to its relations with third-party states, current positions and practices should be further developed and new ones agreed to.

Turkey's prospective EU membership will promote rapprochement between faiths and strengthen a secular order in an Islamic society. If the example of Turkey can prove that different political, social and economic interests can be brought together in a mutually beneficial way, the effect will not go unnoticed in other Islamic states.

Adapting CFSP/ESDP

Within the CFSP/ESDP framework, the EU has a broad spectrum of security mechanisms at its disposal. The development of a European Security Strategy was a first step that should be followed by the establishment of an adequate planning and analysis infrastructure.

Additionally, anti-terror measures within the CFSP framework need further strengthening. Furthermore, an expanded mechanism of enhanced cooperation within the CFSP would help reduce impediments to decision-making in European foreign and security policies. The Petersberg-Tasks were not originally conceived for the purpose of combating terrorism, but they do offer an adaptable structure.

Middle East policy

An end to the Israeli-Palestinian conflict will not bring about the demise of radical Islamic terrorism. But it would reduce the legitimacy of and the support for terrorist groups. The EU must work with the United States, Russia, the United Nations, as well as with regional actors such as Egypt and Jordan, to find acceptable solutions to both sides in the conflict.

In addition to bilateral cooperation within the Euro-Mediterranean Partnership, the concept of a Euro-Mediterranean OSCE should also be further developed. Security policy must involve reexamination of the role of supposed allies, like Saudi Arabia, in supporting radical Islamic groups. In addition, states with weak central authority should be assisted in implementing reforms.

Critical dialogue

Any examination of causes and motivations of terrorism must have the support of the states and regions concerned. Dialogue with the Arab and Islamic world—European-Mediterranean dialogue is essential here—must take on a range of problems, including the lack of democracy, press freedom, equal rights for woman, education and children's affairs, and protection of minorities.

A sensitive political dialogue in which support is conditioned on adherence to the rights listed above is important to establish the credibility of German and European policies vis-à-vis third party states. There should be also an exchange between representatives of the academic middle-class and other non-governmental actors.

Avoiding double standards is crucial to any critical dialogue—in the interpretation of human rights, for example. By the same token, western models should not be forced on unwilling recipients.

Transatlantic relations

In view of the variety of today's challenges, it is of tremendous importance to improve the transatlantic relations. Current misunderstandings and disagreements, e.g., regarding threat perception, will have to be overcome. Additionally, the EU must come to an internally agreed definition of its global interests. Thus, the European-American strategic dialogue should be revitalized to develop a comprehensive strategy to counter transnational terrorism. Based on this, the transatlantic partners will be able to implement mutually reinforcing measures to organize international security.

Conclusion

The traditional distinction made between internal and external security cannot be maintained. Responding to emerging threat scenarios, law enforcement, intelligence services and the military have moved together and may even overlap. Cooperation is necessary between security institutions at national and European levels, along with an improved division of labor and differentiation aimed at reciprocal optimization of (and recognition of separation between) security institutions.

A transnational network must allow for differing national realities. Also needed is an examination of national particularities related to international cooperation.

At the European level, a blending of internal and external efforts means an increase in the mutual reinforcement of the different policies laid down in the EU treaty framework. The EU has a range of tools— e.g., regarding the internal market and foreign trade—that can complement the anti-terror objectives of the area of Justice and Home Affairs or CFSP/ESDP.

International security depends on a clear understanding of a mutually binding formulation of international law, the reform of the U.N. Security Council, along with issues of arms control and disarmament. Security debates and security structures should unite individual states with the EU, the OSCE, and the United Nations. The challenges of terrorism recognize no borders and require internationally agreed-upon and properly legitimized responses.

Primacy or Order? American Power and the Global System after Iraq

Steven E. Miller

To gauge the prospects for the transatlantic relationship, it is necessary first to understand the essential sources of potential discord in the divergent European and American perspectives. And above all it is the dominant views in Washington that must be recognized and understood if the prospects for Euroatlantic harmony and cooperation are to be realistically appraised.

What perceptions, preferences, and priorities of the Bush administration are potential or likely sources of transatlantic misunderstanding and disagreement?

The answer to this question comes in seven parts.

Overwhelming priority to a war of indefinite duration

America is at war. Or at least the Bush administration is. Since the attacks of September 11, 2001, the war against terrorism has been the overwhelming and decisive consideration in shaping America's external policies. For President Bush, 9/11 represented both the decisive test of his presidency and a historic challenge to his generation of political leadership.

But 9/11 was furthermore a paradigm-shattering event, one that caused the President and many in his administration to look at the world in an entirely different way or, in some instances, to conclude that long-held views were now urgently relevant. More

than 18 months later, looking back on the evolution of events since 9/11, Deputy Secretary of Defense Paul Wolfowitz ranked them among the top ten—if not number one—of the most important foreign policy things for the United States over the past 100 years (Department of Defense 2003).

Consider the implications of suggesting that 9/11 might be the most influential development in 100 years of American foreign policy. This puts 9/11 on a par with or above the two World Wars, Vietnam, the collapse of the Soviet Union, the formation of NATO, and other enormously consequential events.

Much of the world reacted with horror to the attacks of 9/11 and understood and supported retaliation against the perpetrators. But for the United States, 9/11 was a portal through which the United States passed into a different, more menacing world that required the United States to play a different, more assertive role.

The consequences have been enormous, including the creation of new diplomatic alignments, far-flung military deployments, uses of force in the Philippines and Yemen, wars against Afghanistan and Iraq, and an unrelenting campaign (much of it covert) against Al Qaeda.

All of these actions, including the preventive war against Saddam Hussein's regime in Iraq, are viewed as elements of a comprehensive long-term global war against terrorism. The Bush administration is determined to do whatever it takes to succeed in that war. In a new world, with a new sense of vulnerability, and a new and overweening mission, Washington has new priorities, new criteria for action, new ways of operating, and new preferences with respect to international order.

By no means is the war in Iraq regarded as the end of the story. In a speech on July 1, 2003, President Bush stated, "As long as terrorists and their allies plot to harm America, America is at war." (White House 2003)

America is at war but the overwhelming majority of its friends and allies are not. Almost no other government views the world

more or less exclusively through the prism of 9/11. Most other governments (and peoples) do not share the same sense of threat and vulnerability. Very few other governments believe that the post-9/11 circumstances are so dire that the normal rules and conventions of international order must be set aside.

As Javier Solana has commented, “Europeans generally do not believe that the terrorist threat is as dangerous as it is made out to be by Washington.” (Pfaff 2003) So here is the most elemental trans-Atlantic divergence in perceptions of the world in which we live. The Bush administration feels that the reality of its war is so obvious and the imperatives associated with this war are so clear that it simply cannot comprehend how others can doubt America’s purposes and fail to heed those imperatives.

This mutual incomprehension has been a massive source of transatlantic discord over the months since 9/11—especially in connection with the Iraq crisis—and is likely to be a source of trouble in the future.

The preventive use of force is necessary and legitimate

Force is essential to a nation at war. This is obvious and unquestionable. And a party that has been attacked has every right to defend itself. This is an incontrovertible point. As the Bush administration sees it, the United States was attacked and is at war. Accordingly, force is a necessary and legitimate component of the U.S. response to 9/11.

But the war against terrorism is a different sort of war requiring different approaches. The Bush administration’s strategy is heavily influenced by the lessons drawn from the terrorist attacks—again, the effect of the prism of 9/11 is very strong.

The key lesson is that the United States (and indeed the civilized world) is hugely vulnerable to small groups or rogue states who are able to turn modern technology to their violent purposes

especially, of course, weapons of mass destruction. Once WMD proliferation has taken place, the United States is vulnerable to such terrible threats. In Washington, this is deemed unacceptable.

But there is another step in the logic of the Bush administration's strategy. Hostile parties with weapons of mass destruction—especially terrorists but also rogue states—are able to strike suddenly, covertly, and without warning. The result could be, in some future catastrophe, 9/11 on a larger scale.

And the only truly reliable answer to this threat is the elimination of weapons of mass destruction in the hands of hostile parties or the elimination of the hostile parties themselves. And to effectively protect the United States, this must be done before there have been threats or attacks against American soil or American interests. What follows inexorably is the Bush administration's doctrine of pre-emptive (meaning preventive) war: "To forestall or prevent such hostile acts by our adversaries, the United States will, if necessary, act pre-emptively." (White House 2002)

In short, the Bush administration proclaims the intention—and in Iraq it implemented the strategy—to use force when necessary to eliminate potential WMD threats to the United States. Because this is viewed in Washington as anticipatory self-defense, it is judged to be a legitimate and appropriate use of force within the national discretion of the U.S. government. Preventive war, in the current logic, is a national prerogative to be employed when Washington judges that this is necessary. In the Bush administration's eyes, this is a powerful logic and an unavoidable conclusion from 9/11.

As the fierce debate at the United Nations over war with Iraq demonstrated, many—including many in Europe—simply do not see it that way. To those not in the grips of the prism of 9/11, the American approach appeared to be an open-ended legitimization of the use of force, one that deviated from the general norms that had been advanced by the industrial democracies in the decades since World War II.

Much of the dispute over Iraq was, in truth, related to a more basic disagreement over the circumstances and conditions in which the use of force is regarded as lawful and legitimate. The Bush position produced wide unease because of the precedent it was setting, the damage it was perceived to be doing to existing law and institutions, and because of the complications for global order should the Bush doctrine become the norm.

In short, at the heart of the Bush administration's national security strategy is an assumption about the right to exercise national discretion in the use of force that is highly contested and collides with the beliefs and preferences of many in the transatlantic area. Fortunately, the number of cases in which preventive war is likely are few in number and so this may not be a perennial issue.

But any future cases have the potential to be just as contentious as was Iraq. The potential for discord is obvious. And because the Bush administration regards itself as at war against dangerous and implacable enemies and because it feels that this war was provoked by the attacks of 9/11, it is frustrated, irritated, even outraged that its policies on the use of force are questioned.

American power is effective and virtuous

It is commonly asserted that the United States, though indisputably in possession of immense and unprecedented power, is nevertheless constrained by the fact that it cannot do everything itself and by the need for international support. Acting alone and relying heavily on military power will, in this view, be too difficult and burdensome to sustain.

Where critics on both sides of the Atlantic emphasize the limits of American power, the irrelevance of "hard" power to many of the world's great problems, the intractability of many of the world's hardest problems even in the face of enormous American power, there is a countervailing school of thought (commonly

found among President Bush's supporters and among some of his senior advisors) who believe that the United States can remake the world if only it is tough enough, persistent enough, and willful enough (Nye 2002).

Columnist Andrew Sullivan perfectly illustrates the point: "The only thing that can stop American power now is American resistance, revolt, or restraint." (Sullivan 2003)

With appropriately assertive policies and the skillful exploitation of American power, the optimists believe that the worst threats to American security—the axis of evil, at a minimum—can be successfully dealt with.

In the prevailing view in Washington, American power is not merely effective but virtuous. President Bush sees the world in stark moral terms and frames the global war on terrorism as a clear-cut struggle between good and evil.

As the self-proclaimed leader of the good guys in this black and white battle against the forces of evil, it seems inherently true and obvious to Washington that its actions are benign, its intentions are altruistic, and its purposes for the common good. Moreover, acting for good against evil require boldness and sacrifice, not timidity and equivocation.

But as captain of good against evil, Washington has expected that the other "good guys" will be at its side, at least cheering on the American battlers against evil if not joining in the fight themselves. This mentality is at the base of President Bush's view that other powers are "either with us or against us."

This view of American power and its righteousness is scarcely compatible with worldviews that contain many shades of gray. It is utterly incompatible with worldviews that see unrestrained American power as one of the great problems of the current order or worse, that see the United States as a bullying rogue hyperpower.

It fits awkwardly with worldviews that emphasize the limited utility of the varieties of power (above all military power) that

the United States possesses in abundance. It is flatly contradictory of worldviews that identify the United States as a self-interested lawbreaker flouting international convention to destroy its rivals.

This collision of worldviews produces a high degree of mutual incomprehension. The Iraq crisis is largely (though not entirely) behind us. This collision of perspectives on American power remains as a durable potential source of mutual incomprehension and discord.

Bush policies are working

Critics of the Bush administration's foreign policy often claim that Washington's aggressive, unilateralist, force-oriented approach will be unsuccessful or counterproductive.

Those skeptical of the current character of U.S. policy tend to believe that the United States will overreach, or provoke backlashes, or alienate allies, or fail to address root causes, or otherwise prove ineffective. Those most severely critical of the Bush administration's policies believe that it has embarked on a disastrous course, one that undermines international order, damages alliance relationships, provokes potential enemies, and will ultimately be harmful to long-term U.S. interests.

The Bush administration and its supporters feel, on the contrary, that they have been substantially vindicated by the course of events since 9/11. Critics predicted that war in Afghanistan could turn into a protracted Soviet-style nightmare and that "the Arab street" would rise up if U.S. military power were applied in this Muslim land. Instead, the Taliban regime was quickly swept away and substantial American military involvement was quite short-lived.

Critics predicted that the war in Iraq posed many risks and dangers and could easily turn out to be costly and unfortunate. Though conditions in Iraq remain unsettled, the war was quick, low-cost, and triumphant and—the essential bottom line—Sad-

dam's regime has been destroyed. In Bush administration eyes, a large threat has been removed at modest cost.

And whatever its critics may think about the Bush approach to the war on terrorism, here too the administration and its supporters see evidence of significant progress. This is not only due to the destruction of Al Qaeda's infrastructure and the capture or killing of some of its important figures, but to an overall decline in the number of terrorist attacks since 9/11 from 355 incidents in 2001 to 199 in 2002 (U.S. Department of State 2003: p. 25).

Not only supportive pundits but the administration itself offers this interpretation. No doubt, there are still many (in the United States and even more elsewhere) who believe that the United States will sooner or later have to alter course because its policies are destined to sputter and fail. For the time being, however, the world must reckon with an administration confident (if not cocky) in its views and dismissive (if not contemptuous) of its critics, an administration that is riding high and feeling vindicated by the consequences of its acts.

In the areas that it most cares about—reducing threats to and increasing the protection of the United States—it believes that its policies are working and that its critics have been proven wrong (Brooks 2003).

Growing doubts about NATO

For most of half a century, NATO was the cornerstone of American external policy. For Washington, NATO was a major stake and a major asset and whenever possible American leaders preferred to act in concert with the NATO allies.

From the earliest hours after the attacks of 9/11, however, the Bush administration exhibited a rather different instinct. Its initial concerns were not about getting the NATO allies on board for the retaliation to come or ensuring NATO's centrality in the

war that the Bush administration knew it would soon fight. Instead, the highest officials of the Bush administration were worried that allies might tie its hands, that unnecessarily including even the closest of friends might slow decisions, complicate choices, and hamper Washington's freedom of action.

Overall, NATO was remarkably absent from the debates and priorities of the Bush administration as it labored intensively to fashion a reply to 9/11. What is particularly surprising about this is that NATO had been instantly and unanimously supportive and had expressed a willingness to help. Indeed, on September 12, 2001, NATO took the unprecedented step of invoking Article V of the North Atlantic Treaty, declaring that an attack on one is an attack on all ("NATO Update" 2002). For the first time ever, NATO had laid the groundwork for a collective NATO military response.

But the operational impact of the Article V decision depended on the United States. As NATO Secretary General Lord Robertson observed at the time, "The country attacked has to make the decisions. It has to be the one that asks for help." ("NATO to Support" 2001) Washington did, of course, welcome the support that its NATO allies were offering. But from the public record, there is no indication that the Bush administration intended to build its response to 9/11 around the invocation of Article V.

From those post-9/11 beginnings down to the present moment Washington has showed reticence about turning to NATO or employing the alliance in its full multilateral form. The explanation for this reticence is the Bush administration's very different perspective on the role and value of NATO. As it often attests, it continues to see value in NATO and—so far at least—it does not favor the end of NATO. Rather, in a pragmatic fashion, the Bush administration sees that NATO can be potentially useful and occasionally convenient.

But NATO is no longer always necessary or central to Washington's calculations, and there are now often circumstances

when—as illustrated above—it is judged neither efficient nor desirable to draw NATO in.

Washington sees several problems with NATO. First, in terms of decisionmaking, it is viewed as a liability. It is hard enough getting one government to take a clear decision in a timely manner. The prospect of working decisions through a process that involves 19 (and soon 26) formally co-equal partners is likely to be slow, inefficient, and (as the Iraq crisis illustrated) may not produce desired results. Better, then, to retain decisionmaking discretion in Washington—especially in a time of war.

Second, in terms of military operations, the NATO allies are usually not necessary and can be operationally inconvenient (though sometimes politically expedient). For such reasons, Washington will often prefer to retain both decisionmaking and operational discretion. In short, Washington will use NATO when NATO is thought useful.

But as the experience since 9/11 demonstrates, if operating through NATO is expected to be burdensome rather than advantageous, it will be sidelined or marginalized. This has produced transatlantic disgruntlement in the past and could well do so in the future.

More skeptical views of Europe?

Though the European project of integration has over the decades produced frequent indifference from and occasional unease in Washington, in general the United States has been supportive of this exercise, which has increasingly come to dominate the time, energies, and priorities of European leaders. Certainly it has never been broadly threatened by or actively opposed to the development of an integrated Europe.

The crisis over Iraq brought to the fore two developments in U.S.-European relations that could produce more ambivalent, if

not downright negative, attitudes in Washington about an integrated Europe.

First, at least some in Europe seemed determined to position it as a counterbalance to American power, seeking to constrain the United States and discipline Washington's interventionism. The actions of Europe's opponents of Bush's Iraq policy, in conjunction with the notion that Europe should serve as a counterweight to the American power, has produced some predictable reactions in the United States.

Particularly among the neo-conservative supporters of President Bush, the result has been a striking growth in hostility to the European Union—not only among a minority in the United States, but also within a group with close ties to the administration.

The second feature of the Iraq case that has notable implications for U.S.-European relations is that Europe itself was bitterly divided over this issue. This was, of course, damaging for Europe and for at least its near term prospects. But just as importantly, the United States took advantage of this division, indeed, actively encouraged and exploited it. Divisions within Europe give Washington room for maneuver, allow it to work with those willing to follow its lead and try to isolate or ignore those who resist U.S. policy.

These two points together—unified Europe as a threat to U.S. interests and a divided Europe as advantageous to the United States—can lead to a very different American policy toward European integration than was evident in the past. Indeed, it can lead to a “radical change” in U.S. policy toward Europe, as Andrew Sullivan has written (Sullivan 2003).

American officials have taken to describing U.S. policy toward Europe as “disaggregation,” meaning, as *The Economist* interpreted it, “that the Bush administration is increasingly tempted to junk the United States long-standing support for European integration and to move instead towards a policy of divide and rule.” (“Divide and Rule” 2003) If this should become the unambiguous

and predominant policy of the United States, the implications for U.S.-European relations are portentous.

Skepticism about instruments and institutions of international order

As a general proposition, European states have been great champions of multilateral instruments and institutions. The prevailing view in Europe sees the development of the United Nations and the enhancement of international law to be key elements of a desirable international order.

The predominant view in Washington today, however, is very nearly the opposite. Columnist Fred Barnes, a strong supporter of both President Bush and of the war in Iraq, writes of efforts to have the United Nations play a role in post-war Iraq that “the good news” is that President Bush “regards the United Nations more as a part of the problem than the solution.” (Barnes 2003)

Indeed, from Washington’s point of view, the United Nations represents problems and impediments more than order and progress. Worse, the United Nations and associated legal frameworks represent useful instruments in the hands of those who would hamstring U.S. power. Even before the Bush administration took power, the sentiment against multilateralism was strong enough that the United States was absenting itself from multilateral instruments such as the Landmine Convention or the Comprehensive Test Ban Treaty that were judged to be contrary to U.S. interests.

But the Bush administration has enshrined this instinct as a pillar of American policy. Members of the administration have been openly skeptical about arms control, international law, the United Nations, and multilateralism generally.

The Iraq crisis only reinforced Washington’s skepticism about multilateral approaches to law and order in the international sys-

tem. Thus we have yet another rather fundamental collision between Europe and the United States. Europe prefers a world that Washington finds distasteful. Europe hopes that the world of laws and institutions can be sufficiently potent and robust as to restrain the United States, an outcome that Washington resents and resists.

No doubt, in its pragmatic moments the Bush administration will be prepared to work with and through the United Nations when this suits its needs. But it will not share Europe's vision of the desirable role of the United Nations or other international institutions and instruments.

Conclusion: Hard realities and the way ahead

American policymakers today live in a different world from the one inhabited by most of their European counterparts. It is a world of menace and war, a world of evil enemies and horrifying threats. Seeing the world through the strikingly influential prism of 9/11, American policymakers have distinctive and powerfully held views about the utility and necessity of force.

They have strong and heartfelt views about the utility and morality of American power. They have come to view the core institutions of the transatlantic world, NATO and the EU, with a hard-nosed and unsentimental pragmatism that sees little use or value in partnerships that do not advance the direct and concrete interests of the United States in the ongoing war against its enemies. And they have come to view virtually the entire apparatus of international order and cooperation as potential impediments to American purposes, as instruments in the hands of those who would restrain American power, and as inadequate barriers to the evil forces that threaten the United States.

This distilled core of belief is shared by few other governments in the transatlantic area. Even those who stood with the United

States on Iraq diverge considerably from Washington on most of these more fundamental questions.

In terms of international order and the future of the transatlantic relationship, the most crucial question in the aftermath of the Iraq crisis may be this: What lessons did the Bush administration draw from that experience?

And the answer, broadly speaking, seems to be that it reinforced all of these (pre-existing) impulses. As the Bush administration sees it, the U.N. Security Council proved incapable of standing up to Saddam Hussein. The detour through multilateral diplomacy at the United Nations proved to be a costly debacle. NATO proved to be an unreliable asset, as burdensome as it was helpful. The United Nations and the EU provided platforms from which America's friends and rivals sought to undermine its policies. And in the end it took American resolve and American military prowess to unseat the evil dictator in Baghdad.

What world are we living in? What world should we be heading towards?

What the Iraq crisis made dramatically clear is that the American and European answers to these questions are very different. This is why the management of transatlantic relations is proving so difficult, despite the existence of important common interests. Even in the context of a common interest, such as preventing the proliferation of weapons of mass destruction, Europe and America see threats differently, prefer different instruments, and pursue different outcomes.

How can Europe and the United States reconverge? With some small but meaningful steps to detoxify the transatlantic relationship.

First, tone down the confrontational rhetoric. Some statesmanship is in order here. This should be an easy and cheap way to take some of the sting out of a poisonous situation. There is nothing to be gained by prolonging the agony of the Iraq crisis by indulging the temptation to reiterate the correctness of one's own position and to criticize one's opponents.

The wounds will heal more quickly and the personal embitterment may fade more rapidly if our leaders can learn to hold their tongues and to value healing over scoring debater's points. Unfortunately, a number of the protagonists in this melodrama score poorly on this count.

Second, guard against the punitive instinct. It is already clear that there is a real temptation to teach the other side a lesson, to inflict a price for the antagonism displayed during the Iraq show-down. Payback in either direction may be gratifying but it is also shortsighted. But the punitive impulse appears to be quite powerful and is not now being wholly avoided.

Third, focus on pragmatic cooperation where interests converge. The first obvious point here is that everyone has a large stake in a successful outcome in Iraq. Certainly both Europe and Washington prefer a successful democratic transition. With the war in the past, working together to build a successful outcome in Iraq would be a very healthy step in the right direction. But so far, Washington has been reluctant to relinquish control in Iraq or to welcome a NATO or U.N. contribution.

Fourth, confront the differences in areas where there is potential common ground. For example, both Washington and Europe are strongly committed to nonproliferation. But they often disagree and feud over the threat posed by particular proliferation troublespots. This is not an insurmountable dilemma rooted in basic disagreements. Concerted effort to harmonize threat perceptions within NATO seems feasible and desirable. Similarly, both Washington and Europe wish to see agreements enforced. Effective enforcement—for example, of the Nuclear Non-Proliferation Treaty—would be in everyone's interest.

There are, in short, sensible steps that can be taken to reduce the tension in transatlantic relations. But it is not clear whether they will be fully explored. America today prefers primacy. Europe prefers order. Managing that difference is the great challenge for transatlantic relations in the years ahead.

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The New Strategic Relationship With Russia

Russia as Ally: The Chances and Pitfalls of Expanding Transatlantic Relations

Curt Gasteyger

This contribution primarily addresses the question of the future relationship between Russia and the Atlantic Alliance and the pros and cons of her joining the latter. Such a step is most likely to have various consequences for transatlantic relations in general.

At its summit meeting in Prague in November 2002, the Alliance admitted seven new members, all from North-, Central- and Eastern-Europe, some of them direct neighbors of the Russian Federation. Russia is, in other words, getting ever closer to NATO's security-cum-defense perimeter — and vice-versa.

This amounts to changing not only the erstwhile strategic East-West relationship but, more fundamentally, the security landscape of the entire continent. Some observers, particularly those in Russia herself, are inclined to see such a "rapprochement" of "East" and "West" if not as a threat then at least as "problématique" or provocative, all the cooperative treaties and councils of cooperation between the two sides notwithstanding.

The central questions here are therefore whether a) Russia's membership with NATO is becoming ever more likely, if not desirable or unavoidable; b) whether such a move would really serve the interests of Russia herself, of the Alliance and of international security writ large; and c) could it be that neither side might actually profit from such a marriage and hence rather leave the relationship in a friendly cooperative but institutionally not committal state?

After all, Russia sees herself still double-headed both as an Asian and as a European power. In other words, as a world power in waiting, still shy of one-sided engagements in general and particularly with a Western world that is dominated by the erstwhile rival and presently only superpower, the United States.

In any case, any institutional linking of Russia to NATO and hence contractual commitment to a transatlantic relationship are likely to signal a sea-change in Russian foreign policy and strategic orientation no less than in that of both the Alliance and, at least in part, of the United States.

Furthermore, all this would happen just at a time when alliances of the “old type” are losing their former mission with no clearly identifiable common enemy on the European continent’s horizon. In other words, such a new kind of relationship would be fundamentally different form, say, Poland or Romania joining NATO. Rather, it would change and possibly challenge many of the givens and specifics that have determined the very nature of transatlantic relations so far.

Russia in or of Europe?

At the outset it seems fair to state that today’s Russia is—her mental ambiguities about her real identity notwithstanding—more “European” than her Communist and Tsarist predecessors have been in the last two centuries. However, it still holds true that, to reverse Winston Churchill’s statement about his own country’s relationship to Europe, Russia is certainly “in Europe” but in some respects she is not, or not yet, “of Europe.”

That is at least what many Russians feel when looking at the vast expanses of their country beyond the Urals, while at the same time believing that the future status of Belarus, Moldova and even of Ukraine remains covered by clouds of uncertainty.

Nobody can therefore be absolutely sure as to whether Russia's political-demographic-ethnic configuration is more or less definitive, not to mention her still tangible interest and presence in the Caucasus and in Central Asia. There remains therefore some uncertainty as to whether Russia, the declarations of its leaders notwithstanding, behaves, and can be treated, as a full-fledged European and transatlantic-oriented partner.

Some may say that such ambivalence is, or should be, not really a serious obstacle to Russia's getting ever closer to, or even actually joining NATO and, who knows, possibly, though less likely, the European Union.

And yet, once tied into the structurally somewhat loosened and conceptually somewhat diluted network of inter-Alliance relations, Russia's dream about, or nostalgia for, a renaissance of her global power status may then come to rest. It is arguable, if not desirable, however, that—as security concerns transcend ever more geographical frontiers—Russia's own security preoccupation will eventually coincide with those of NATO.

These concerns go well beyond the traditional strategic objectives. They go from unfinished business in the Balkans via actual or nascent wars in the Middle East to manifold uncertainties in the Caucasus, Central Asia and Afghanistan. In other words, geographic limitations or frontiers are losing ever more their relevance.

In either case, Russia, because she interprets her security interests quite extensively, could ask for a special status when it comes to act as a security provider on the Eurasian landmass or as a principal combatant in the fight against Islamist terrorist movements.

Russia's joining NATO would therefore not only fundamentally change the latter's nature. It would at the same time change Russia's view of herself and her role on the continental heartland. The Russian journalist A. Pushkov described, somewhat provocatively, the consequences of such a Russian NATO membership.

He argued that in this case the U.S. strategic protections of its European allies would no longer be needed because Russia could offer more or less the same and even much closer by.

This is of course a somewhat specious argument. But it does reveal both Russia's almost desperate effort to be still respected as global strategic player, i.e., to be not simply another ordinary member of NATO but rather a strategic alternative to the United States.

Question marks

Beyond these somewhat speculative but far from negligible strategic-political considerations, i.e., whether Russia is or will become a truly European, let alone a global power, there are at least two other issues that deserve serious consideration when it comes to decide whether or not relations with Russia should either get still closer to, or indeed become a full-fledged member of, the transatlantic community and its core institution, the Alliance.

There is, first, the state of the Russian economy and the breadth and sustainability of its reforms. There seems to be general agreement that President Putin has in fact been able to push through a series of economic as well as legal reforms.

In fact, the Russian economy is growing by about four percent annually. Central bank reserves are at their highest level since the 1991 collapse of the Soviet Union. We are told that Russia's financial self-sufficiency has eliminated the danger of a government debt crisis. The country seems now able to pay \$15.5 billion in foreign debt in 2003, down from \$20 billion. Russia has become a (almost) full-fledged member of the G-8 group and is lobbying strongly for WTO-membership.

So far, so good. The snag in all this good news lies in the fact that much, if not most of this economic recovery is due to Russia's oil and gas exports. This makes her vulnerable in at least

two respects: first, to a decline in oil price, and second, to ever higher transportation costs from ever more distant oil and gas fields.

Still, Russia holds, after the Middle East/Gulf region, the second biggest proven oil reserves and is first as far as proven gas reserves are concerned. And yet, all these substantial assets notwithstanding, Russia, with a GDP one third of that of Germany, is still, economically speaking, a middle power at best.

The second area of concern relates to the state of the country's environment. The legacy of the past, particular nuclear waste, does, and will do so even more in the future, constitute a burden of yet unknown and immeasurable dimensions. Some agreements on its control and reduction exist already, particularly with the United States. But with Russia as an institutionalized "associate," let alone a full-fledged member of the Alliance, this staggeringly huge legacy is almost bound to become a matter of common transatlantic concern—with all the financial and social implications that go with it.

An emerging relationship

No doubt: Russian-NATO, hence also Russian-American relations, have undergone important changes in recent time. Most of them seem to be positive ones. Whether they are substantial enough to withstand reverses of fortune here and cope with as yet unsettled issues there, remains to be seen.

In the eye of many Russians—but not only theirs—their country's rapprochement with the West is as much, if not principally, due to her (or Putin's) concessions to primarily U.S. demands. The country has in fact—reluctantly—accepted NATO's East ward enlargement; it has taken note of America's withdrawal from the ABM Treaty and has agreed to a hardly more than symbolic reduction of the abundant nuclear weapons arsenals. She has also

accepted the presence of U.S. forces in several countries of Central Asia.

In this context, it is worth noting that out of the fifteen former Soviet republics, three—the Baltic states—are now members of the Alliance, and eight (the Baltic states included) have already, or may have in the future, U.S. forces stationed on their territory. Neither fact has had so far any discernable effect on Russian-NATO, let alone Russian-U.S. relations.

On the contrary, criticism of this reversal of fortunes is addressed less to the West and more to the Russian leadership itself. It has, in the words of an observer, “wasted Russia’s assets in Central Asia” (and, one might add, probably elsewhere). This partly because it was either too weak or too irresolute to prevent such an “intrusion” and retraction, or because the United States (or the West) toned down its criticism for Russia’s war in Chechnya.

In fact, Putin’s standing and reputation in the West, in Washington in particular, has constantly improved. He was upgraded from being “an active proliferator” to a “valuable partner,” or, in President Bush’s own words, from “that guy Putin” to “Vladimir” thus reviving “the personalization of a strategically extremely central relationship” for which, only two years ago, Clinton (and other Western politicians) were severely criticized.

Be that as it may, the important conclusion from all this is that the Russian-NATO and Russian-American relationship has undergone important, partly unexpected but on the whole positive change. Whether it is sufficiently substantial and sustainable to withstand reversals here and allow for agreement on as yet unsettled problems remains to be seen.

It is on this account that in particular Russian authors, both official and independent, wonder whether NATO’s Rome declaration and the newly established NATO-Russian Council (NRC) constitute a sufficiently resilient and authoritative base for a solid and mutually confidence-building partnership capable of han-

dling central and sensitive security (and hopefully other) issues. The jury on this is still out.

We begin with the actually or potentially positive trends towards a more and more resilient convergence of interests, hence also cooperation. The first, already briefly referred to, lies in closer economic cooperation, in particular and inevitably in the field of energy supply and demand. Here we find a convergence of Russian primarily economic and Western/Euro-American primarily strategic interests: the former aiming at assuring and boosting its export incomes, the latter at securing its energy supply and security outside of, or at least as a reassurance against, events in the Middle East.

But even such an increasingly important link between the “West” and “Russia” will remain contingent upon various factors. They can either further strengthen or seriously put in jeopardy what now appears to become an important component in this emerging relationship.

The second field of potential or actual convergence of interests and hence cooperation is to be found in the “war against international terrorism.” Both the United States and, somewhat more reluctantly, NATO (or several of its European members) have toned down their criticism of President Putin’s campaign in Chechnya. Thus, NATO’s Secretary General, Lord Robertson, while on a visit in Moscow, called joint counter-terrorism efforts “the very heart of what NATO and Russia are doing together.” (International Herald Tribune December 10, 2002)

From there to a series of cooperative agreements (such as joint sea-search and rescue missions and, possibly soon, joint work on a theatre missile defense system) is—it would seem—one such step.

The question is thus not whether a close cooperation with Russia in these or related fields—under the heading of “war against terrorism” and assuring “global security”—is desirable and feasible. Rather, it is whether its underlying conceptual basis

—a common understanding of the nature, scope and duration of this war, the definition of “terrorism” and, more broadly, the organization or defense of international security—is solid and durable enough to underpin and possibly institutionalize such NATO-Russian and/or U.S.-Russian cooperation.

For the moment it would seem that there are still too many “non-dits,” un-opened Pandora boxes, to be sure of an affirmative answer to this question.

A third positive effect of such NATO-plus-Russia operation can be seen in involving Russia in what might be called a “pan-European security conglomerate.” Its purpose would be to assure Europe’s stability in, or control of, its still volatile “fringe regions,” be they the Balkans, the Caucasus or the Near East. Without full and reliable Russian participation, such commitment would lose both credibility and support.

There remains, finally, the still unsettled issue of the almost forgotten Treaty on Conventional Armed Forces in Europe. Russia’s argument that the membership of now ten Central-East European countries (of which seven belonged to the Warsaw Pact and thus fell under the treaties’ ceilings) has fundamentally changed the latter’s content and hence needs revision, has some justification.

A closer association of Russia with NATO—possibly beyond the NRC—might provide the necessary stimulus to re-assess the treaty (and, incidentally, other East-West arrangements such as the OSCE) lest they become outdated, one-sided or simply untenable.

So much for the actually or potentially positive sides of a NRC-plus relationship between Russia and NATO. There is, however and almost inevitably, a down-side that deserves some observations.

The pitfalls

We begin with Russia's view of herself, her identity and her role as a major player either of Eurasian dimensions or at least with a clear-cut European orientation and influence. Only Russia herself, or indeed the Russian population, can provide the answer as to the country's future orientation and role.

But in a certain sense the answer may also become a function of a rapidly changing international environment. It places new demands and defines new priorities for all players. There is no doubt that the "war against international terrorism" has changed—and is still changing—both the nature of international security and the role and reach of military power to provide it.

If indeed the central threat is perceived to originate on what Halford Mackinder called the "Eurasian landmass" and its immediate neighborhood, then the biggest power on it, i.e., Russia, acquires, almost over night, a new and central role. In other words: Russia's relevance and influence are becoming, irrespective of her domestic weaknesses, central again in such a radically enlarged and new security environment. As such, Russia may have the—unexpected—option of becoming again the rival to, or, hopefully, the strategically indispensable partner of NATO and the United States.

There are signs that the latter is more likely. In what way and to what extent remains to be seen. But one thing seems certain: Russia will ask for a return of favors—today and, more likely, still more so tomorrow.

Second, if this assumption is not too far off the mark, then we must count with the possibility that Russia's misgivings about an open-ended U.S. military presence in major parts of Europe and Eurasia may grow. In her eyes this presence is perceived as leaving her with a second-rate status in the very regions in which she has been dominant for centuries. The bond of common interests in the still vaguely defined "war on terrorism" is, in Russia's view,

not sufficiently strong to induce her to renounce indefinitely on a come-back as global player.

From this follows a third consideration. It relates to the future role of military power in international politics and the kind of strategic doctrine to justify it. Up to this day, Russia's strategic concept is in several respects different from that of either NATO-Europe or the United States. This again becomes evident in the controversy about President Bush's revived project of ballistic missile defense; it is also different when it comes to fighting terrorism and the role of conventional forces.

The fourth potential or indeed ongoing controversy can be found in Russia's choice of partner or client countries. It is primarily a function of tradition, both Tsarist and Communist, as well as of geography. Iran, Iraq, India and to some extent also China are cases in point. Inevitably, NATO or some of its members may disagree with, or even object to, such special relationships.

As a consequence they may entertain serious reservations about involving Russia too closely into a common security policy. Here again the bond that the common war against terrorism is expected to create is, for the time being at least, institutionally too weak and conceptually too diffuse to make one overlook such historical and geographic differences.

In the final analysis, we must conclude that such actual or potential sources of dissent, conflict or simply difference of views put limits not just to Russia's membership with NATO but also to her becoming a full-fledged part of the transatlantic community. In other words: the idea and implementation of partnership is almost bound to find its limits in geography and history, in self-perception and diverging views of the future structure and organization of the international order.

As regards the latter, Russia remains determined not to leave the latter's shape and content to either the U.S. or to the transatlantic community but rather to hold the options open once it comes to agree on defining her own role in the world.

Some theses:

- Russia's view of herself and her role in international politics still differs in important ways from that of the "transatlantic West." Her desire to regain great (or global) power status—as a function of her size, geopolitical position and wealth of resources—may be dormant, but it is not dead. Joining the "war on international terrorism" almost on a par with the United States is acting here as an additional stimulus.
- A more succinct understanding between Russia and "the West" of what the "common threats" or "security challenges" are and what kind of policies and means should be employed for common action is therefore necessary. From this follows the question if and to what extent the United States and the Alliance are prepared and willing to share strategic/security responsibilities with third countries in general and Russia in particular.
- The interest of Europe, i.e., the EU, in a closer relationship with Russia is not necessarily and in all fields identical with that of the United States. That of the United States would seem to be of a more strategic-global nature (i.e., nuclear armament, non-proliferation, energy supply), the former more instrumental (i.e. economic cooperation, border control, crisis management). Such divergence need not but can be divisive in the U.S.-EU relationship. Hence it will require more broadly institutionalized consultation mechanisms than NATO can offer so far.
- Russia clearly distinguishes between a "common European space" (of which she wants to be part) and "European institutions" which, if joined, she thinks would limit her freedom of action both on a continental and a global level.
- The very notion of full-fledged "partnership" is not yet, it would seem, a household word in Russia's political practice. While the agenda of common interests between her and "the West" is growing, the urge for really operationally valid institutions does not seem irresistible for the moment on either

side. Under these circumstances, the NATO-Russian Council remains adequate for assuring the necessary cooperation in the foreseeable future.

- While Russia is, and will remain, a central actor in international security writ large, more thought should be given to involve more directly, durably and possibly institutionally, other major actors (such as Japan, China, India) in a network of transnational security cooperation: the revived “re-militarization of international relations” is becoming again a major feature and concern lest it boils down to either a monopoly of the United States or, more likely, get out of control. A conceptually and institutionally enlarged security cooperation could help to avoid either.
- The war in Iraq clearly demonstrates that Russia, as well as other countries, holds a view different from that of the United States on the use of military power against a country or a region suspected to be an agent of or shelter for terrorism. In other words, in Moscow’s view, the new threats to security, both national and international, are still insufficiently defined to warrant an open-ended and fully integrated strategic partnership.

The Future of the Transatlantic Alliance

Jean Betermier, Jean-Louis Gergorin

It is generally admitted, as a lesson learned from history, that Alliances scarcely survive the causes that were at their origin. However, thirteen years after the collapse of the Berlin wall and the downfall of the Soviet Empire, the Atlantic Alliance is still expanding. For its second round of enlargement, it has just welcomed seven new members and it is encouraging Albania, Macedonia and Croatia to continue their progress.

But is it the same Alliance? What is changing: the members of the Alliance themselves, the threats, the missions? What is permanent? How to shape its future according to the goal defined by the Declaration of the Heads of States and Governments at the Prague Summit “we commit ourselves to transforming NATO with new members, new capabilities and new relationships with our partners.”

No need to recall, that under U.S. leadership, NATO defeated the formidable threat exerted by the Soviet Empire without firing a single bullet, that it had permitted the reconstruction of allied countries devastated by the second World War and sheltered the reconciliation of the former adversaries. It could be seen as the incubator of the European reunification, it was within this shell of security that nations pursued their rapprochement and economic integration.

Moreover, let me underline that, as a paradox, one of its best achievements was to have repeatedly avoided war between two

of its members. From one summit to the other, the Atlantic Alliance has demonstrated a sheer capability to adapt itself to new situations, it has opened new venues in Europe and engaged Russia in a deep co-operation. When, for the first time it had recourse to force, it was in the former Yugoslavia, it was not for territories or interests but for values.

However, some observers do not hesitate to say that NATO is dead, but that we still do not know it. Others consider that henceforth it is nothing more than an alliance for low-intensity conflicts.

The fact that most of the newly admitted candidates did not meet the criteria established in 1995 for NATO enlargement could in itself suffice to indicate that military cohesion is no longer relevant. Through its extension NATO is transforming itself into a different institution. I could join those who argue that from one enlargement to the other, NATO is changing with a tendency to look more and more like a virtual Organization for Co-operation and Security in Europe. But a successful one, with a unique military clout, as NATO remains to date the only organization able to carry out an international military intervention of some importance.

When I was asked to deliver this paper under the title "Future of the Transatlantic Alliance," I thought that, voluntarily or not, this wording was suggesting something slightly different than the traditional name of Atlantic Alliance.

Indeed, the latter could be seen as describing a group of maritime states whose strategic cohesion was depending of the freedom of the Atlantic. The possibility of the American reinforcement of the European theatre was for a long time considered to be vital for the Alliance and the security of its European members. Sea lines were considered as the arteries of the NATO defensive system.

After the vanishing of the Soviet threat, this is no longer the case, the new situation is illustrated by the new role of the Supreme Allied Command for Atlantic, who is changing of nature and mis-

sion as it is becoming a functional command in charge of NATO military transformation.

Indeed it appears necessary to maintain allied forces interoperability at a time when U.S. forces are engaged in a deep transformation. Perhaps that the wording "Transatlantic Alliance" is offering a better description of the new situation which is made up of two large autonomous international groupings, no longer cemented by the Soviet pressure, but linked by a true community of interests and values.

What is changing?

The partners

Europe is slowly but continuously transforming itself into a political Union. Even if there is still a long march to do toward a common foreign and security policy, as one could see during the last months with the unfolding of the Iraqi crisis. Such a policy could not exist without some strategic identity and some military teeth of its own.

But in the meantime, the Union of 15 has roughly the same economic output than the United States and is its main challenger, a situation that is not going without some tensions. This double evolution is progressively transforming the transatlantic relationship. One could notice that as the Alliance is expanding eastward, it is becoming more continental and less maritime, but that the new members are probably more interested in the military protection of NATO than in any European Defense Policy, indeed they see the United States as the winner of the Cold War, the one that has re-established their freedom.

After the collapse of the Soviet Empire, the United States is the sole superpower in a global and instable world. For the first decade of the new era following the end of the Cold War, it seemed to be permanently hesitating between the role of a benign hegemon

and the return to isolationism. After September 11, it clearly opted for the former role and decided to lead the fight against the rise of global anarchy.

Contrary to European countries, the United States is a global power with interests, friends and adversaries, if not enemies, all over the world. For the first time in two centuries, on September 11, 2001, the U.S. was attacked on its homeland and it realized that it was becoming the primary target of the new threats, because it is seen as playing an imperial role in the many troubled areas. As it does not really need military support from allies that do not have many new things to offer, the United States is more and more inclined to act unilaterally, even when the consequences of its decisions could hurt its allies.

The Alliance and the new threats

However, if the threats deeply changed since the end of the Cold War and seem less tangible, they are evenly directed against the members of the Alliance. They stem from international terrorist groups and from states of concern, formerly named rogues. The spreading of modern technologies and the proliferation of weapons of mass destruction have given them an unprecedented harmful power. Those foes who claimed to oppose world globalization are using all the facilities it is offering.

The deterrence concepts which were underpinning our security during the Cold War lost their centrality. They are vain when dealing with terrorists or failed states resorting to suicide attacks. However, they could keep some relevance when facing rogues states, as long as their leaders remain more or less rational; such was the case during the 1991 Gulf War, Saddam Hussein was not dissuaded to invade Kuwait, but at least he was obviously deterred to resort to Iraq's weapons of mass destruction. This kind of denial could be voiced as "deterrence inside war."

Many conventional forces and weapons systems developed during the Cold War are no more in line with the new strategic situation. We all have to adapt our military forces to the new threat environment. The Prague summit stated that “NATO must be able to field forces that can move quickly to wherever they are needed, upon decision by the North Atlantic Council to sustain operations over distance and time ...”

The “out of area” pretext for not intervening is forgotten! NATO’s mandate clearly extends beyond Europe. That means that the newly created NATO Response Force might have to intervene rapidly outside of Europe. Politically it could be a challenging task! Particularly when such intervention will be against states suspected of harboring terrorists.

This new force notwithstanding is becoming a reality with the engagement of the Europeans, including France, which offered the most important participation together with Spain. On that matter, it is worth noticing that at the last Franco-British summit on November 24, 2003, President Chirac and Prime Minister Blair, when they proposed a new initiative focusing on the development of European rapid reaction capabilities, welcomed “the progress already made in establishing the NATO Response Force, noting that forces [both the European forces and to the NATO Response Force] are offered to both the EU and NATO on a voluntary case-by-case basis.” They confirmed that they “will work together to improve the links between the two organisations and to enhance their rapid reaction capabilities in a compatible manner.”

However, it is clear that given the diffuse perception of the new threats, and their different national interests in other parts of the world, not all allies are to be ready to participate in all military operations and that there is room for “ad hoc coalitions of the willing” inside the Alliance.

However, because those threats are not exclusively directed against Western countries, some of those coalitions are to involve

“non allied members,” as it was already the case in the Balkans. From now on, as it was often said by the Pentagon after September 11, it is the mission that will define the coalition, and not the coalition deciding of the mission.

Recently, a group made up of prestigious strategists working under the aegis of Georgetown University concluded, not without some good reasons, that “coalitions of the willing will be the preferred military instrument for at least the first decade of the 21st century ... because they distribute the tasks and responsibilities, and politically because they provide international legitimacy.”

Should those military arrangements be made around a hard core of partners sharing the same analysis and the same risks, they could be relevant, but how not to wonder about the political risks stemming from coalitions just tailored to meet the U.S. political interest of the day, only with the support of some states that could be considered as mercenaries.

Because all States could be threatened, penetrated by terrorists or mafias, the war on terror and the maintenance of international security requests a reinforcement of the role of the United Nations and the respect of International Law.

The transatlantic gap

The progressive, even slow, implementation of the EU common security and defense policy is renewing the transatlantic debate on burden sharing. It is true that the Pentagon spends globally twice as much on Defense and four times more on Research and Development than the 15 European Union member states together. The imbalance is even greater for “Research and Technology.”

The rift is to become larger as the United States recently decided to further increase of its defense budget, whilst at the exception of France and UK—which are increasing their military expenditures—most of European budgets are still declining. So, it

is no surprise that the EU intention to develop its own capabilities is often seen by U.S. analysts as a costly duplication at the expense of NATO efficiency; a policy that could not help to narrow the capability gap that was dramatically revealed by the Kosovo campaign and confirmed in Afghanistan.

However, a close look at the Headline Goals established by the EU would reveal that most of the requested European capabilities are converging with the objectives set by the NATO Defense Capabilities Initiative. An internal harmonization of European capabilities can only help.

To describe the existing and increasing difference of capabilities between U.S. forces and their European allies as a “technology gap” is misleading; in most cases European technology is comparable, even sometimes better, than U.S. technology. Indeed the argument is too often used to ignore when not rejecting possible cooperations between European and U.S. defense industries. As industry initiatives fostered by the commercial market are more and more the driver of military specification, particularly in information technologies, such cooperations could only contribute to the interoperability of forces.

The surge of the U.S. defense budget after September 11 is to increase the military gap. This raises the question of the possibility of U.S. and European forces to fight together and opened the discussion on the interest of responsibility sharing inside the Alliance: said bluntly, the United States should fight according to the American way of war, while the Europeans should be in charge of peace-keeping.

Washington’s reluctance to accept European offers of military participation during the first phase of the Afghanistan campaign did not fail to foster that trend. Some Europeans could have the view that it is already too late to catch up with U.S. military capabilities and that responsibilities sharing is to be the only possible solution, Europeans taking the lead in soft power and relying on the United States for hard power.

If some task sharing could be a good solution, such a division of roles could only mean the end of the Alliance through misunderstandings, mutual recriminations and frustrations. It would deprive the EU of all strategic roles and the United States of its best partners in the management of international security.

The risk of a conceptual gap

The dispute on insufficient European spending and costly duplications was recently reinforced in the wake of the Iraqi crisis unfolding by the debate on diverging views of Americans and Europeans on the role of military power in international relations. According to Robert Kagan, “On the all-important question of power—the efficacy of power, the desirability of power—American and European perspectives are diverging ... Americans are from Mars and Europeans are from Venus.”

Short of a common strategic culture it could become impossible for both parties to act and to fight together. It is true that different capabilities lead to different approaches concerning the role of power. The Europeans are inclined to use soft power where they may have a say, rather than on the hard side of security where American influence is predominant.

If it is true that nations should only have the strategy of their means as long as they do not have the means to proceed otherwise, it will be misleading to see in the European preference for soft power only the result of Europe current military weaknesses. Indeed, as a product of the 20th century’s tragic history, Europeans very painfully learned that power politics is not always the best solution to solve international disputes. They consider that diplomacy, economic cooperation and joint development matters more than military power and they candidly believe that those learning could be relevant for other parts of the world.

Most of them argue that if there were a need to demonstrate the limits of power in solving contemporary wars, a good example could be the Israeli-Palestinian conflict. When it comes to fighting terrorism, they consider that military forces are only a part of the solution which request, in the same time, cultural and economics approaches. Americans do not disagree, but they rightly underline that we cannot wait for those soft approaches to deliver the much desired outcome.

When facing the critics of their U.S. friends for the weakness of their military budgets, Europeans could argue that they are globally spending three times more in economic aid than the United States, an important contribution to stability in troubled areas. Chris Patten, the European commissioner for external affairs recently voiced this view when he said that “if we were to reduce our spending on development aid to the American level and to spend all what we saved on special forces, would that make the world a safer place?”

However, we may accept that Europeans could deliver better results with the same amount of money, if those contributions were smartly articulated to a common foreign policy.

Washington’s recent inclusion of the “pre-emption concept” as a part of its National Strategy is adding to the list of transatlantic disagreements. Yet, we might agree with Henry Kissinger’s recent statement “Preemption is inherent in the technology and ideology of the 21st century international system.” It is true that the threat of an imminent attack with weapons of mass destruction requires a fast reaction, but who will be the judge of an imminent attack in peacetime? When to react? When a missile is on the launching pad or at the beginning of a proliferating program?

Preemption, if it were to become the strategy of choice, could unravel the already fragile “international law.” It is worthwhile noting that in the days following the U.S. declaration on pre-emption, Moscow, at that time intervening inside Georgia, claimed its right to pre-empt the preparation of terrorist attacks.

What is permanent?

If NATO was made to oppose the Soviet military threat, it is more than a military alliance. As a Frenchman and a former foreign policy planner, I have a tendency to distinguish between the Alliance defined by the Washington Treaty of 1949 and the Military Organization that is supporting it, even if those two bodies received the same name. There is no reason for the members of the Alliance not to remain “determined to safeguard the freedom, common heritage and civilization of their people, founded on the principles of democracy, individual liberty and the rule of law.”

Indeed the threat of international terrorism is first and foremost directed against those moral values. It is why, while adapting our military tool, we have to concentrate on the political dimension of the 1949 Treaty.

But as Security is passing Defense as the central task of NATO, each partner is to respond accordingly to its own interests and under the influence of domestic policy and circumstances. Historically, coalitions are more fragile than alliances.

How shape the future?

The Atlantic Alliance is a community of values currently threatened by international terrorism and proliferation of weapons of mass destruction. As we are strengthening our solidarity, we should avoid the danger of falling into the clash of civilizations announced by Samuel Huntington. We have to try to draw a common vision of our relations with other cultures.

A decade after the downfall of the Soviet Empire, the “sole superpower” has less capacity to impose its will on its European allies than during most of the Cold War. The same United States that merits to be credited for the successful and progressive emer-

gence of a unifying Europe should accept to see it as a potential strategic partner and no longer, as Zbigniew Brzezinski had put it, as “a de facto military protectorate of the United States.”

Washington should not see the issue of European defense policy as an ungrateful attitude of Europe toward the United States, but rather consider it as a contribution to world stability in support of common interests. It has to invite its European partners to do more than the making of a constabulary force.

While the United States is facing the emergence of new power houses in Asia, Europeans have to realize that, in American eyes, they lost a part of their value as the main strategic object of their policy. It belongs to the Europeans to demonstrate that they can become a strategic actor of choice, not only on their continent, but outside of their region.

During the Cold War, with the exception of France and Great Britain which have maintained some capabilities to intervene alone outside of NATO area, European defense policies were oriented towards the protection of their national territories and borders under U.S. leadership. So, it is no surprise if the Europeans lost their feeling for foreign policy as power politics which could involve the use of force. Today, they have to frame their own strategic culture in accordance with their global interests and they have to articulate their economic policy with their foreign and defense policy.

It is clear that most current international issues need a global approach combining diplomacy, economic cooperation or assistance, military might and the will to use it when necessary. Defining the right mix of soft and hard power is not an easy task. However, if we do decline the invitation to hard and soft powers division between both sides of the Atlantic, because we consider it as irrelevant in the long term, we have to look for a more balanced approach of the problem: the United States should do more in soft power, while the Europeans should increase their military capabilities.

As an observer, I get the impression that there is not enough strategic dialogue between both sides of the Atlantic. Europeans are self-centered on the making of the European transformation of the Community into a Union, while the United States is rediscovering the role of force in international relations. Washington is waging new ways to do and win war. The European military strategists are still thinking in terms of avoiding war, dissuading the aggressor, controlling violence and keeping peace, whilst their American counterparts are reinventing maneuvers, concentration of fires with lean and mobile forces.

If one is convinced that a fair decision can be made with a limited amount of violence, indeed it can be argued that it is morally more relevant, more successful and less painful than a long lasting peace enforcement operation.

Among the issues to be discussed, pre-emption deserves special attention. Henry Kissinger made the point that “U.S. allies will not acquiesce in leaving the definition of pre-emption to an ally, however close and powerful.” Given the new threat environment and the challenge it poses, it is all the more important to try to agree on a common set of criteria for pre-emption.

As the United States decides to field an initial set of missile defense capabilities to protect “not only its territory and its deployed forces, but also its friends and allies,” Missile Defense is another issue that the Europeans will have to address. Many of them consider that Europe is more vulnerable to much simpler kinds of attack than long-range ballistic missiles, and that those attacks should be countered first with its limited defense and security budgets. However, given their geographic situation, they may at least contribute to the making of a global system, hosting long-range sensors within their territories.

To increase their military might, Europeans have to follow a multifold approach:

- They should increase their defense expenditures and rationalize their industry and market so as to avoid duplications resulting

from national protectionism. It matters all the more to develop industrial transatlantic cooperation, providing both sides could be put on equal footings. The idea that Europe has to buy all the military equipment it needs in the United States, while the U.S. market remains closed, would mean the end of the European defense industry and, in the absence of a clear military threat, the loss of political and public support for defense in Europe.

- Transform their military forces—doctrine, structure, equipment and logistic—giving them capabilities that can adapt quickly to new challenges. Europeans shall do their best to put their forces in line with U.S. military transformation, and avoid the enlargement of the already existing gap.
- As the European Union is on the verge of a new enlargement, members states willing to cooperate more closely on military tasks should be able to shape a core group like the Eurozone. Such a group could be a partner of choice inside the transatlantic alliance and could develop privileged cooperations with the United States.
- European member states should be more creative in the making of their Common Defense Policy and accept to pool some of their capabilities, mainly in training, logistics and supports, and more generally most of the assets that are not to be put directly in contact with enemies. A European DARPA should be established without waiting any longer for the settlement of a Common Procurement Agency. Tankers, airlift and sealift platforms could be run by a special agency as long as special arrangements are adopted for their crews. Pooling of special forces is an issue which should not be discarded, even if it is generally deemed too sensitive.
- We are at a defining time. The United States and EU have to weigh carefully the role of defense and security in their relationship. September 11 came as a tragic reminder of the vulnerabilities of our nations. As differences of economic inter-

ests could unleash disputes, it is all the more important that they take a great care of this relation, and that they try to share as much as possible the same approaches when confronted with new but common threats.

Concerning European Affairs, U.S. discontent seems to spring up from two domains. On the one hand, EU is taking too large a share of the world economy at the expense of the United States, on the other hand, it is militarily too weak to contribute to world stability. At the same time, Europeans see the United States as being more and more inclined to decide and act unilaterally on global issues that could have for them heavy consequences. A stronger Europe could be a better partner inside an Alliance that has granted peace to the Atlantic community for more than fifty years.

If Brzezinsky was right when describing the situation of Europe during the Cold War, it is time for the Europeans to move from Protectorate to Alliance.

Putin's Rapprochement with the West: Tactical Ploy or Strategic Choice?

Andrei Piontkovsky

The turn of the millennium has inspired considerable discourse on the subject of “Russia at the Crossroads of History.” Unlike any other country, Russia has had an ongoing interest for this topic throughout its history and especially over the last three centuries. Basically, we are dealing here with a long-standing, continual “crossroads” at which Russia is trying in exasperation to resolve the problem of its geographical, historical and metaphysical self-identification—is Russia part of Europe or not?

This teenage complex of attraction and defiance represents the archetype of the Russian political frame of mind. It has resurfaced on the pages of dozens of publications produced by the foreign policy community in the course of the past few years, bearing on the problem of Russia-NATO relations and on Russia and the West. They mainly focus on the feeling of being rejected and “shoved out of Europe.”

Furthermore, there have been even more than enough practical recommendations of “turning our Asian mug towards Europe” — strategic partnership with China, “equipping our armed forces with tactical nuclear weapons again” and supplying “anti-imperialist regimes” with nuclear weapons technology and the means for their delivery.

The excessively emotional reaction of the Russian political “elite” to the prospect of NATO enlargement and boisterous unanimous but senseless “no” coming from Moscow cannot be ex-

plained by the degree of real or imagined threats to Russia's security.

The eastward expansion of NATO, or rather the Eastern and Central European states' escape to the West, has disturbed the very roots of our political consciousness. It has revived a dispute that has never actually disappeared from the depths of our culture. Is Russia a part of Europe? It reminds us that in many ways we are not. Not because anyone is forcing us out of Europe, but because we have not yet resolved this tormenting question for ourselves due to some specific aspects of our history, geography, national psychology, and so on.

People like Chadayev, Solovyov and Ilyin, Russian philosophers of the 19th and 20th century, never asked themselves such a question. For them, the answer to this question has always been obvious.

Such a flight would not have become a focal event in Russia-West relations had the Russian political "elite," stirred by its deserted-lover complex, not started its "heroic" struggle against NATO enlargement. Like any other neurotic, it camouflaged its irrational complexes with pseudo-national nonsense about "the shorter time NATO airplanes carrying nuclear warheads need to reach their destination if they take off from Polish, or even worse, Latvian airfields."

The fact that Poland, the Czech Republic and Hungary have joined the NATO and thereby confirmed their European choice, clearly protracted controversy over whether we belong in Europe continues unabatedly.

Questions pertaining to internal and foreign policies, alike, are its inseparable parts. Regardless of whether the destiny of democratic institutions in the country are in question or Russia's relations with the outside world—the West in the first place—the crux of the matter is the same in both instances, namely, the fundamental values of Russian society. By "turning our Asian mug" to the West, the authorities are inevitably doing likewise vis-à-vis its own people.

The age-long struggle of “Westeners” and “Eurasians” further burdened now by the painful complex over losing the global cold war with the West, is now continuing in the domain of Russia’s culture. With the new president at the helm of the State, the pendulum has initially again moved, it seemed, to the side of Eurasianism.

This need not be taken as his personal merit. One might sooner remark that the rising to power of a person with such a biography and mentality, objectively reflected the predominant disposition within the Russian “political elite.”

In the first year of Putin’s presidency, our foreign policy assumed a clearly anti-American tone. The impression created has been that the chief objective of our foreign policy is to counter the United States on all azimuths, as many incidents proved. But in the course of our confrontation with the West, certain things seem to have become clearer even for the most fanatic Eurasians and the most fervent anti-Westeners.

Firstly, China is a self-sufficient state that has been moving about alone, with feline grace, unburdened by any complexes, for several millennia already. In contrast to the Russian elite; it has no need for any kind of strategic partnership with Russia, least of all on an anti-American basis. For China—the super-state of the 21st century—relations with the USA as its prime economic partner and political rival, are far more important than relations with Russia; thus, in establishing them, the Chinese leadership will be guided by anything rather than by the complexes of Russian politicians.

Furthermore, for Russia also, relations with the United States, the G-7 and the West are more important in an even greater degree than its relations with China. On the whole, all of Russia’s historical Eurasianism is an expression of its anger with the West and, for the Russian “elite,” nothing more than a psychological outlet in the critical days of its relations with the West.

Where do China, India, our “brother Serbs” or the North Korean dictator stand in all of this? They constitute nothing more

than fleeting whims of the Russian elite suffering from the syndrome of maniacal depression, needed in order to justify rationally its emotionally charged relations with the “eternally despised” and “eternally beloved” West.

The events of 9/11 have sharply accelerated the maturation of the top Russian leadership’s foreign policy. At the same time, the practical tasks involved in the creation of an anti-terrorist coalition that U.S. diplomacy has been confronted with in the wake of September 11, have forced it to waive many of the conceptual postulates that had been pronounced in the first months of George Bush’s tenure as president.

It became evident that even a country as mighty as the United States is unable to ensure its own security alone. Cooperation of the heterogeneous partners is essential, with individual forms of agreement and compromise being established in each case.

Russia’s significance as a foreign political partner of the United States has turned out to be substantially greater than it seemed only a few months ago, particularly in the context of military operations in Central Asia—a region in which Russia has maintained substantial potential, influence and connections. In any case, the United States has shown itself to be highly interested in a tactically defined constructive military-political cooperation with Russia.

President Putin provided the United States with notable practical assistance in the pursuit of its operations in Afghanistan. It would be surprising if he had acted differently. This could be the first time that a situation such as this has been created in Russian history, namely, that someone else was doing our dirty work. It has usually been the other way round.

Nevertheless, regardless of the Russian president’s obviously pragmatic choice, he has met with subdued reproof from a considerable segment of the Russian political “elite.” The trauma of defeat suffered in the Cold War and the loss of status as a superpower have grown into a deep psychological complex in the collective sub-conscience of Russia’s political class that it has yet to get over.

There is in the real world of today a serious military threat from the South whilst tomorrow an even more serious threat might appear from the East. An army of poorly equipped conscripts is all that remains of the Soviet superpower of the past century. Most of its combat-ready units are trapped in a single rebellious province. Yet, all its military doctrinal postulates are directed towards a non-existent confrontation with the West.

President Putin proved to be much quicker in realizing this grim geopolitical reality than the majority of the Russian establishment. Yet many well-known politicians and generals have been attempting to reverse what our president had declared as his position on the events of September 11, viz., "America, we are on your side."

Whilst not denying, in principal, the choice Moscow has made in favor of the anti-terrorist coalition, the "more enlightened" segment of the elite was persistently asking what "price" the West—the United States in the first place—was going to pay for the support that Russia has offered. The question was: "To what extent should America be supported?"

Such a formulation of the question lays down a false system of reference from the outset, and clearly distorts the perspective of our strategic discourse. Actually, we should focus our considerations on Russia and its long-term strategic interests. The proper question should be: "To what degree is it possible to get the United States involved in the joint resolution of strategic tasks concerning our security?"

The rupture that occurred between Putin and the "elite" over the approach to the eternal problem of "Russia and the West," was not only of a political but also of a psychological nature. So, it is opportune to refer, at this point, to the book written about Putin by the German political analyst, Alexander Rarr, under a rather appropriate title: "A German in the Kremlin."

For Russians, "A German in the Kremlin" immediately brings to mind the classic couple in Russian literature of Oblomov and Stoltz, namely the Russian landowner and his German supervisor.

It is not difficult to imagine how it would have been for “Oblomov in the Kremlin,” especially since there are so many Oblomovs in the corridors of the Kremlin. Oblomov would talk endlessly and in depth about the greatness of Russia and therefore seeing everything in the light of this “tradition.” Thus, he would not react to the challenges of the “Realpolitik” at all.

Putin-Stoltz, on the contrary, being a cool pragmatist and having reviewed bundles of book-keeper’s calculations, logically reasoned that one should not miss the chance that was being offered to take advantage of the military, economic and political resources by the only superpower of the world, to fulfil one of the Russia’s national security most important objectives—to do away with the hotbed threatening its security in the South.

The short span of historical time from September 11, 2001, to May 24, 2002, from the famous television statement by President Vladimir Putin, “We are with you, Americans,” to the signing of joint documents at the Moscow summit meeting, has been perceived as a period of enormous changes in the relations between the two countries.

It is the transition from a cold world full of mutual suspicion to a world of partnership. If the declaration on strategic partnership signed by presidents Vladimir Putin and George Bush (which few people in Russia or in America have read) is to be taken seriously, to a world of friendly or even allied relations as well.

However, how profound and lasting are these changes? Was the rapid Russian-American rapprochement merely a response to the situational interests of the leaders of the two countries at that moment? Vladimir Putin was eager to “sell” the Chechnya war to the world community and the public opinion of his own country as a component part of the fight by all civilized humankind against international terrorism.

He presented Russia as the vanguard of this fight, the first to enter into the historical skirmish with a new world evil. George Bush needed a quick and impressive victory in the Afghan opera-

tion, which Russia could facilitate to no small degree. Both these goals were more or less achieved. What next?

“The Joint Declaration on New Strategic Relations Between the Russian Federation and the United States” states that Russia and the United States already act as partners and friends and as allies in the fight against terrorism, regional instability and other contemporary threats.

If we have still not been completely convinced of the friendly relations between Russia and the United States, let us listen to Russian Foreign Minister Igor Ivanov: “The threat to Russia is not a global nuclear disaster or aggression from the United States and NATO. The threat to Russia is in the Caucasus and on the Asian border.”

Or finally, President Vladimir Putin, who in his statement at the Ministry of Foreign Affairs said that “a trusting partnership between Russia and the United States is one of the top priorities of Russian foreign policy” and that “between Russia and the United States, there is a common view of the threats to international security.”

Such is the official formal nature of our interrelations. But let us take any article, item, information or commentary on international problems from any of our newspapers, be it patriotic or liberal, or from any television program. Almost all of them are profoundly, emotionally, and passionately anti-American. Any military or economic failures of our “ally,” real or imaginary are joyfully savored, and its insidious plans are constantly being exposed.

The left wing of the Russian political class at the same time openly and consistently accuses Vladimir Putin of betraying national interests. The eternally servile mainstream establishment quietly grumbles and whispers, but so far has not found the resolve to openly challenge the president.

The president's opening to the West has not had the least effect on his Russia-wide poll ratings. First, this rating is determined by the fact that—at least until recently—millions of people were

receiving their wages and pensions on time, which was seen almost as an economic miracle compared to the disorganization of Yeltsin's times.

Secondly, this is once again evidence (as is also confirmed by polls) that anti-Americanism is not a social uprising of the deprived. It is a figurative uprising of very well-to-do and privileged people who are deeply hurt and suffering from their own perception of their secondary, impaired status.

This is not just a Russian problem. To the European elite, it was not September 11 that was a real shock, but the demonstration of American military might during the operation in Afghanistan, where the forces of the United States' European allies, other than Great Britain offered to be irrelevant.

The experience of this operation made ambitious Europeans face painful questions about the status of the European Union, the future of their armies, their military-industrial complexes, and their defense policies in general.

An elite-based complex from a sense of defeat in the Cold War and of defeat related to the serious and in many respects irreversible decline in Russia's global status holds sway over the collective subconscious of the Russian political class. To it the United States remains a phantom enemy that gives them meaning, and in heroic opposition to that enemy, all residual myths of elite perceptions of Russian foreign policy have been festering.

How fundamental are those pragmatic reasons that suggest the need for an alliance between Russia and the United States and the West, and can they overcome the negative energy of this complex? Before turning to this question, let us see how Russian-American relations and the principles declared in the joint declaration are perceived on the other side of the Atlantic, within the American establishment. And what role does the complex of victors in the Cold War play there?

Until very recently a cloudless, almost euphoric vision of the state of American-Russian relations prevailed in the American

establishment and media. Moscow supported the U.S. operation in Afghanistan and had stopped the fruitless polemics over the missile defense treaty and the expansion of NATO. Vladimir, the friend and comrade in the fight against international terrorism, whose soul friend George had looked deeply into, is in firm control of the situation in Russia.

Such a simple view of the future of Russian-American relations was at the same time naive and arrogant. Naive because it did not take into account that the foreign policy course toward rapprochement and ally relations with the West was superficial. It still had not taken root in the mentality of the Russian political class.

The leaders of the American political establishment were delighted with their "victory" in the Cold War. The status of being the only superpower did not make them bother with efforts to analyze what might actually be the national interests of the potential "ally." They were oblivious as to how to oppose chronic anti-American complexes. The global fight against terrorism cannot be a solid long-term basis for an alliance between Russia and the United States.

This is because of the growing erosion and vagueness of the concept of terrorism itself. Most countries, including the United States and Russia, tailor their own traditional problems to the slogan of the fight against terrorism. Russia—the military conflict in Chechnya that has reached an impasse, and the United States—the planned operation to overthrow Saddam Hussein. Each has its own lists of favorite terrorists, and they do not always coincide.

An article by Richard Haass, the State Department's director for political planning leaves the impression that the new ally is of interest to the United States only inasmuch as "ally relations" allow it to more successfully resolve the problems of Russian contacts with certain representatives of the "axis of evil" that bother the United States. And it is specifically these problems that—from

Washington's viewpoint—are in fact the center of Russian-American relations.

If efforts to recognize and defend the common long-term geo-strategic interests of Russia and the United States are not pitted against rising political entropy, the opportunity to establish true ally relations between our countries and more generally between Russia and the West will be lost. There are people both in Washington and in Moscow who understand this very well.

Thomas Graham, the former deputy of the above-mentioned Richard Haass and now an important official of the National Security Council, thinks on this score that the stability of the Pacific Ocean Region will be threatened if Russia's presence in Asia continues to weaken due to Russia's market reforms. Therefore, the two countries should work together on that issue.

Today the situation on Russia's eastern borders resembles the situation in the south. There exists a challenge that Russia cannot answer with its own efforts alone. In the case of Central Asia, this threat was military in nature, while in the case of the Far East, it is economic and demographic.

The option of a response through our own efforts was formulated more than a year ago in the report of the Council on Foreign and Defense Policy entitled "Siberia and the Far East in Russia of the 21st Century" (Moscow, June 2001). "The persistent and progressive combination of an aging population with the mechanical outflow of population is shaping conditions where only foreign migration will prevent the enormous Siberian-Far Eastern spaces from becoming depopulated.

Since the Chinese (and in the long-term other Eastern) immigration is inevitable, purposeful explanatory-propaganda work must be organized to change public opinion in terms of eliminating the fear of the "yellow peril" and forming a positive image of Eastern migrants.

This is a strategic program for Russia's surrender to China and its withdrawal from the Far East, and later from Siberia, at

first *de facto*, and then *de jure*. This program would be enthusiastically accepted by those of our "statists" and "eurasians" for whom the most important thing is to oppose America at any price and to continue to threaten America with our wrinkled fist, even if it is from a Chinese column.

Just as it used to be in the south, the China's objective challenge can be adequately met by Russia only in a close political and economic alliance with the West and above all with its leading power, the United States. The direct or indirect absorption of Russia's East by China does not correspond to U.S. interests, since it would mean the appearance of a new global superpower challenging the United States.

The prospects for an energy partnership of the two countries are also closely tied with the common interests of Russia and the United States in the Far East. The United States is trying to lessen its own dependence on deliveries of oil from the OPEC countries and primarily Saudi Arabia, which is actually the main financial sponsor of international Islamic terrorism.

Russia is a natural potential ally of the United States in this project. Having identified itself with the industrial world and joined the International Energy Association, Russia can become the stabilizer of the world energy market by substantially expanding the share of its presence there. That will allow it to change from a country whose economy is critically dependent on an outside parameter independent of it (the price of oil) to a crucial part of the structure that to a significant degree determines this parameter.

The future of Northeast Asia and the future of world energy markets are, in our opinion, fundamental spheres in which the interests of Russia and the United States objectively coincide and which would become a basis for a long-term pragmatic alliance.

We certainly cannot say that the politicians and experts of both countries do not understand that. But on the official level, there is not enough political resolve to articulate these common interests

clearly and unequivocally. One gets the impression that both of them want to stop midway so as to preserve other alternatives.

It is no secret that in Washington there is a fairly influential political school that would prefer to see the geopolitical structure of the 21st century as a kind of condominium of the two superpowers—the United States and “Greater China.” As for domestic Scythians and Eurasians, they are legion.

Even if we take for granted that Russia perceives itself as a part of Euro-Atlantic community, there is another problem the Russian political class faces: positioning itself inside the triangle (United States, EU, Russia).

Having proclaimed a global war on terrorism as its main aim, the United States has now reserved itself the right to not only decide who is a terrorist and which states are supporting terrorists, but also to make unilateral preventive strikes against them without waiting for the go ahead from the U.N. Security Council.

This policy goes a long way beyond the traditional interpretation of a nation’s right to self-defense based on the treaty of Westphalia and set out in the U.N. charter. It has met with opposition from a large section of public opinion in Western Europe. What was the Russian political class’s reaction to these developments within the European-Atlantic alliance, of which Russia was almost ready to call itself a part?

For a start, some in Russia noted with deep satisfaction that the sharp criticism of the U.S. administration in Europe is something that Russian diplomacy can use to its benefit. This is an accurate observation if the nature of this criticism and the benefits that Russia could stand to gain are correctly understood. Soviet and Russian diplomacy has already seen so many illusions dashed after the years of attempts to play on “transatlantic contradictions between the imperialists.”

Europe opposes not the United States, but the philosophy of unilateral decisions on military matters, professed by the current

U.S. administration. This philosophy worries Europe, both for reasons of prestige and substance.

No serious politician in Europe doubts for a minute that the EU and the United States are natural geopolitical allies. It is as allies that they are worried by America's "cowboy" behavior, because they fear that U.S. tactics and strategies could do damage to their alliance and to the long-term interests of the United States itself.

Though their debates can seem fierce at times, these are quarrels between geopolitical allies that share the values of the same civilization. Historically, Russia belongs to this same civilization, and it could play a positive role in these discussions by joining the Europeans in their attempts to have a moderating influence on Washington that sooner or later will make itself felt, all the more so as a large part of the American establishment shares Europe's concerns.

But Russia's strong state proponents are always looking for their own road, a road that only they seem able to see. Their reaction to the U.S. declaration on the possibility of launching unilateral preventive strikes was unanimous and quick in coming. It was a cry of "we want to do it too" and calls for Russia to launch immediate strikes against the Pankisi Gorge and hammer home to the world its own right do the same as the Americans, at least within the range of our backyard.

It's all very well that such statist ideas swell the fantasies of these impetuous swashbucklers fighting their strong state cause. But when there are two of these ideas, they do not sit comfortably in one head. If Moscow opts for a poor parody of U.S. unilateral measures, it can forget about diplomatic benefits on the European scene. Europe is desperately trying to teach the rough and ready American cowboy some manners, but it would never forgive the decrepit Russian bear this bizarre attempt to legitimize the U.S. imperial approach.

This is all the more so as Russian foreign policy rhetoric has taken on a distinctly schizophrenic note of late. One day, Russia

joins Europe in criticizing the unilateral leaning and arrogance of U.S. foreign policy, while the next day it accuses a decadent Europe of hypocrisy and failing to understand the significance of the fight against international terrorism that President Vladimir Putin is heroically waging alongside his big brother, George.

Diplomacy like this could see Russia lose everything it has gained over the last two years, both on the European front and in its relations with the United States.

The latest U-turn in Russian geopolitical posturing was Foreign Minister Igor Ivanov's claim that "Russia is now an integral part of a unified Euro-Atlantic community" and that "a new phenomenon in world politics, the significance of which goes beyond the Iraqi crisis" (Financial Times, February 14, 2003) is emerging—Russia, France, Germany's strategic triangle.

Russian foreign ministers seem to be chronically obsessed with an idea of multipolarity and designing of different kinds of anti-American triangles. Many still remember Mr. Evgheni Primakov's abortive strategic triangle of Russia, China and India.

Igor Ivanov stubbornly repeats his predecessor's blunder. He forgets that in spite of all transatlantic tactical disputes however passionately France and Germany sometimes criticize the United States they appreciate highly their strategic partnership with the United States and never sacrifice it for the sake of Russian "elite" ambitions and complexes. They can sometimes dance tango with Russia to provoke American jealousy. But they are engaged to America and this union is blessed in the heavens.

Economics, Finance and Trade

The G-2: A New Conceptual Basis and Operating Modality for Transatlantic Economic Relations

C. Fred Bergsten, Caio Koch-Weser¹

This paper proposes the creation of a new “G-2” consultative mechanism through which the European Union and the United States would manage their own economic (and possibly some security) relations and informally steer the world economy. It would address a growing number of issues through different groups of officials from different ministries on both sides of the Atlantic, perhaps loosely coordinated by an “overview group.”

The paper begins with a brief enunciation of the rationale for the G-2 and then addresses the key practical questions that would be involved in setting it up and operating it: What topics would it address? Who would address them?

It is essential to stress at the outset that the G-2, in playing its global management role, would be an informal process that would not replace any of the existing institutional mechanisms (including, for example, the G-7/8). To the contrary, it would seek to energize those broader groups, and greatly enhance their effectiveness, by providing leadership within them from the only two entities, the European Union and the United States, that together can make them exercise their own responsibilities more successfully.

It would do so through a constantly iterative process, in which the European Union and the United States would consult actively

1 The following article represents the personal views of the author and not necessarily the position of the German government.

with other relevant countries in each issue-area to make sure their views were taken fully into account in the G-2's own decision-making.

Conceptually, the new G-2 would represent the innermost of a series of concentric decision-making circles. The next circle, moving outward from the G-2 itself, would be the present "inner circles" such as the "finance G-7" (of finance ministers and, sometimes, central bank governors) on macroeconomic and monetary matters and the "quad" on trade issues.

Beyond these groups lies the next ring, the "executive committees" of the formal global institutions including the International Monetary and Finance Committee (formerly the Interim Committee) of the International Monetary Fund and (sometimes) the CG-18 of the GATT/WTO, which are intended to streamline and improve the functioning of those nearly universal organizations.

The multilateral organizations themselves, such as the IMF and WTO, constitute the outermost of the concentric circles that make (or ratify) the final and formal decisions in their issue-areas. Again, iterative consultations across the different circles would be a constant part of the process.

The need for a G-2

There are four basic reasons to create an informal G-2.

First, Europe and the United States currently have no conceptual foundation on which to base their relationship. The Cold War provided such a foundation for four decades but no replacement has yet been found. Absent such an intellectual basis, there will be constant risk of erosion or even rupture of transatlantic ties. The conflicts between the United States and parts of Europe during 2003 over Iraq and related issues of course heighten this concern.

Second, a G-2 would help counter the chief foreign policy shortcomings of each transatlantic partner: America's tendency to

unilateralism and Europe's tendency to insularity. Precisely because of its unquestioned superiority at this point in time, the United States needs a trusted and reliable ally to protect it from the constant go-it-alone temptations of superpower hegemony.

At the same time, given the present stage of its institutional evolution, the European Union needs a globally oriented partner to overcome the powerful impetus to self-centered behavior that derives from its enormous internal agenda. The events of 2003 also highlight these tensions.

Third, the world economy, like any political or social entity facing collective action problems, requires leadership from those of its members that have both the capacity and the will to provide it. This need is even greater now than in the past due to the rapid growth in the total number of state actors (187 members of IMF, 144 of WTO), and even more so in the growth of the number that have a real impact on the world economy (probably 30–40).

For the foreseeable future, only the United States and the European Union are economic superpowers that enjoy the capacity to steer the global economic scene. With the expansion of the European Union, the population, economic output (especially at PPP exchange rates), per capita income, trade flows, openness ratios and most other economic indicators of the two are remarkably similar.

Japan, once a member of a putative G-3, is fading and will probably continue to do so if only for demographic reasons. China is the rising power, and may need to be added to the leadership core in a few years, but is still a very poor country with an inconvertible currency, only halfway to being a market economy, and probably even further away from political democracy. Hence only the G-2 can steer the world economy for the foreseeable future.

Fourth, a G-2 already exists in at least a few issue-areas, demonstrating that the idea is feasible. It has been in place on trade policy for about forty years, since the original European Economic Community centralized that function in the Commission, and has

reached its zenith with the close current relationship between USTR Robert Zoellick and EU Trade Commissioner Pascal Lamy.

Their relationship indeed offers a unique opportunity to institutionalize the relationship that should be seized, as highlighted by the failure of even their unique partnership to prevent the breakdown of the WTO Ministerial Meeting in Cancún in September 2003. A G-2 exists in a sense in the military dimension through NATO, especially with the recent expansion of its initiatives outside the European theater. A G-2 is clearly a practical possibility.

What would a G-2 do?

This preliminary discussion suggests that a functional G-2 would always be simultaneously pursuing two sets of objectives: a more effective relationship between Europe and the United States themselves, and a more effective global economic order.

The basic idea behind the G-2 is to create a mechanism that would strive constantly to achieve these two objectives, which are almost always compatible and indeed mutually reinforcing. Indeed, harmonious transatlantic relations are a necessary condition for global stability and the latter is in turn extremely valuable, in both economic and political terms, to the European Union and the United States.

There are two basic strategies for creating a G-2. One would be “top down,” with a decision at the highest levels to develop intensive transatlantic consultation across a wide range of issues with ex ante determination of specific topics to pursue under that rubric (and probably under the direction of an overall steering committee that would relate the separate issues to each other and provide overall political impetus).

The alternative is a “bottom up” and more evolutionary approach, with opportunistic development of consultative ties on individual issues as there develop felt needs to construct them,

e.g., in the international monetary arena if sharp new instabilities in the dollar-euro exchange rate were to require more active cooperation on it or on environmental issues if the United States agreed to work seriously with the European Union on an acceptable successor to the Kyoto Protocol.

Whichever of these paths were eventually chosen, or permitted to evolve, it is useful to consider which issue-areas might be amenable to G-2 management. At least ten possibilities come readily to mind: trade, competition policy, regulatory policy including corporate governance, macroeconomic policy, international monetary policy, international financial markets, energy, the environment, migration and global poverty.

The experience of APEC, incidentally, which initially set out to be a sort of transpacific G-2 (though without a cohesive Asian pillar), suggests that officials in almost every issue-area will seek to organize their own consultative ties once a critical mass of other issue areas is reached—and especially if there is a “top down” decision from the highest political levels to pursue the concept, as there clearly was in APEC with its initial summits at Seattle in 1993 and at Bogor in 1994.

Trade, as noted, already enjoys a high degree of G-2 management. Even here, however, there are key systemic issues that are not being addressed such as each G-2 member’s rapidly proliferating network of bilateral trade agreements (where the “policy instrument” could be a strengthened Article 24 in the WTO) and the need for a more coordinated response to the critics of globalization. Moreover, this particular G-2 manifestation failed to prevent the WTO breakdown at Cancún.

There are two main issues: getting the G-2 to think of themselves primarily as stewards of the global trading system, rather than as mercantilist adversaries, and institutionalizing the strong personal ties that fortunately now exist in this domain (and clearly have been important in avoiding real trade conflict during this period of extensive and intensifying disputes).

Competition policy is another potentially fruitful area for G-2 management. If not quite as extensively as trade, it already enjoys a large measure of agreed European leadership at the European level and hence provides a clear partner for the United States. Consultation is already extensive across the Atlantic.

The GE-Honeywell dispute and possible future disagreements over Microsoft, however, highlight the substantive importance of forging much closer transatlantic agreement on both the philosophy and the procedures of antitrust prosecution. The rapid proliferation of new competition policies in numerous emerging market economies cries out for international leadership to minimize differences in both substance and process that can otherwise cause endless turmoil in future decades.

It should not be forgotten that this issue area became the focal point of much "trade conflict" between the United States and Japan for most of the 1990s.

One "policy instrument" could be publication of an agreed, and even joint, procedure for addressing antitrust cases that would avoid both duplication and risk of inconsistent results. Another, as already proposed by the European Union, would be addition of this issue to the agenda of the Doha Round in an effort to start forging an agreed international template for dealing with it.

Competition policy is of course only one aspect of regulatory policy, whose many dimensions could also benefit enormously from systematic G-2 management. The Transatlantic Business Dialogue (TABD) has in fact pursued a number of such issues, seeking Mutual Recognition Agreements (MRAs) à la EU itself in some. Even these seemingly technical discussions have often broken down, however, as when the Food and Drug administration of the United States refused to accept European certifications.

Macroeconomic policy is at once the most discussed and least operational of all the issue-areas on this list. The G-2 account for almost half the world economy have overarching responsibility

for its success, and their respective performances have surprisingly large effects on each other as well.

Yet there is little meaningful consultation, let alone coordination, between them despite the pressure of numerous discussion fora and evidence from earlier periods (especially the late 1970s) that such coordination can be quite effective.

To be sure, macroeconomic issues pose extremely difficult institutional issues (to which we return below), especially the independent role of central banks with regard to monetary policy and the famous “who speaks for Europe?” question on fiscal policy.

Nevertheless, concerted actions would seem to be particularly efficacious when the G-2 (and hence the world) face common macroeconomic problems, such as synchronized booms and slowdowns, the inflation of the 1970s and possibly deflation in the future.

There are of course numerous policy instruments that can be deployed, from simple coordination of public statements to help build market confidence to coordination of actual policy steps to enhance their effectiveness (including, in some cases, by avoiding contradictions and/or quantitative excesses from them).

International monetary relations, along with macroeconomic policy and by contrast with trade, are among the least active areas of G-2 management relative to the need. The dollar and the euro are the world’s leading currencies and the relationship between them has a major impact on the world economy.

The authorities in both areas are content to let market forces determine their exchange rate most of the time, however, despite the overshooting and misalignment that demonstrably prevail for prolonged periods and the resultant buildup of unsustainable imbalances such as the current U.S. foreign deficit (in excess of \$500 billion, or five percent of U.S. GDP).

In addition, there has been only limited reform of the “international financial architecture” since the crises of the 1990s. The system’s crisis prevention and crisis resolution mechanisms, especially with respect to major emerging markets, remain very weak.

Only intensified EU-U.S. cooperation and leadership can build the necessary defense mechanisms.

A closely related issue-area is international financial markets, where Europe is striving to complete its own integration (and thus bring the euro to equivalency with the dollar) and where a host of regulatory issues (e.g., Basel II) are at play.

Some of these issues of course relate directly to the corporate governance questions that are at the top of the contemporary agenda. This raises the prospect of joint policy instruments like the adoption of international accounting standards and common rules on key items such as expensing of stock options.

Energy policy is a critical issue where Europe and the United States have essentially “agreed to disagree” for some time. Philosophies, policies and practices (at both corporate and personal levels) are dramatically different on the two sides of the Atlantic and there are no serious efforts to reconcile them.

American military might and strategic petroleum stockpiles have sufficed to avoid major transatlantic problems vis-à-vis the oil markets in recent years, but the sharp conflict that flared after the first oil shock, and could have easily recurred in the context of the war in Iraq, should not be forgotten.

Possible policy avenues include serious joint efforts to accelerate the commercialization of low-carbon technology (e.g., in automobiles) and to commercialize non-carbon energy sources.

Closely related is environmental policy. Here too there are fundamental differences of views, at all levels, across the Atlantic as manifest most dramatically in the opposite positions on the Kyoto Protocol. One of the highest priorities of a new G-2 might in fact be to take a fresh look at global warming and to seek new approaches to address it effectively (including partly through new energy policies).

Both the energy and environmental issues of course have major implications for overall economic policy and performance, as well as important security inter-relationships.

Migration is another critically important issue for both Europe and the United States, especially when related to the aging of both populations (especially in Europe), but is perhaps discussed even less than the other topics on this list.

It carries huge social, economic and political implications for the sending as well as the receiving states, and hence requires effective global as well as bilateral management. It is unclear whether common action is needed in this area although, at a minimum, sharing of experiences and ex ante discussion of possible national policy responses would be extremely useful.

A possible new "policy instrument" would be to add of this issue to the Doha Development Agenda, which would clearly please the developing countries and provide potential breakthrough linkages between migration, trade and development policies.

A final possibility is global poverty. Particularly in light of September 11, security as well as humanitarian concerns suggest an emphasis on this topic. Africa could be an obvious focus as at recent G-8 summits. The specific topics involved cut across a wide range of economic issues: trade, private investment, foreign assistance, migration (see above) and numerous others.

The European Union and the United States have recently pledged substantial increases in both their foreign assistance levels and access to their markets for the exports of the poor countries. However, their aid levels are still far below the international norm (0.7 percent of GDP) and they persistently adopt new policies that retard rather than enhance market access (e.g., the recent U.S. steel safeguards and farm bill).

Concerted and bold new action by the G-2 is essential if the poorest countries are to be given a genuine opportunity to emerge from poverty.

In sum, all of these topics would almost certainly benefit from more systemic and more sustained attention by the responsible authorities of the European Union and the United States, working together within a new G-2 framework.

How would a G-2 work?

This list of specific candidate topics for G-2 management reveals immediately that any such process, if carried out on anything like the suggested scale, would engage very large numbers of people from a wide array of official (and perhaps private) institutions on both sides of the Atlantic. There would have to be a great deal of flexibility and informality in the process if it were to avoid becoming hopelessly bureaucratized.

The process could be viewed as deepening and institutionalizing, at the G-2 level, the transnational coalitions that already function in some areas (such as central banks, competition authorities, and trade officials) and creating new coalitions where they are either non-existent or very embryonic (as with energy and environmental officials).

Each responsible group could set out its own agenda and timetable, building on whatever practices were already in place. The mandate would be to establish, if necessary, and maintain a process of comprehensive consultation on the key issues being faced in each issue-area.

Three types of exchanges should take place in each group. One would simply be informational: full briefings on the latest developments in each region in the respective issue-areas, so that future actions in the other could at least take account of the partner's decisions.

The second could be on policy interactions, or the international implications of pending policies in one of the respective partners. The third and most advanced would be the possibility of occasional cooperative or even coordinated action to improve the prospects for effective response to a particular policy challenge.

The agencies and individuals that would be mandated to conduct these exchanges would of course differ from issue to issue. In the United States, the choices are relatively simple although

complications arise even here: two competition authorities and environmental policy authorities, four bank regulators, blurry decision-making lines for macroeconomic policy and a Congress that has ultimate authority over taxes, spending, trade and much else. It is not always clear “who to call” in Washington either!

Europe of course raises the added complication of the relationship between the member states and the institutions of the European Union as a whole, and sometimes among those institutions themselves, e.g., Commission vs. Council vs. Parliament. These are relatively clear for trade and competition policy, where the Commission largely “speaks for Europe.”

On most of the other issues, however, the EU is in the midst of a prolonged process of developing decision-making procedures that should ultimately provide a much clearer representative for G-2 (and other international) discussions.

A final operational element is the possible creation of a coordinating committee to maintain linkages and promote consistency between the issue-specific consultative groups. Such a committee is not essential but, operating as a small and very informal secretariat, could help keep the various pieces of the program in sync and avoid overlaps or inconsistencies.

The committee could also “assign” topics to individual consultative groups that might be mandated by the transatlantic political leadership at their summits or otherwise. If it were staffed by close personal representatives of the political leaders, as would be essential at least at the outset of the operation, it could also infuse “political will” and even do some trouble-shooting on its own when individual groups become bogged down by parochial problems peculiar to their topics.

Duplication with other international groups?

A final question that has been raised about the G-2 idea is whether it would duplicate existing groupings.

All of the other “Gs,” certainly including the G-7/8 and the formal international institutions like the IMF and WTO, would continue to exist.

To the extent that the G-2 became an effective steering committee, the existing organizations would in fact function more successfully. They would also become more significant themselves, by bringing the G-2 decisions to the next circles of leadership and carrying out agreed policies.

In particular, however, with the demise of Japan and the limited weight of Canada and Russia on most global economic issues, isn't the G-7/8 already essentially a G-2, thus obviating the need for anything new?

The answer to that question is a resounding “no.” First, the G-7/8 does include three countries that are of marginal relevance for most major international economic issues (Canada, Japan, Russia), which complicates its discussions and makes agreement more difficult.

Second, the presence of four European countries plus the Commission reduces rather than enhances the prospect of a common European position; the G-7/8, has ducked rather than confronted that fundamental problem in achieving meaningful coordination.

Third, the G-7/8 summits often lack substance and have become political rather than economic conclaves to the extent that some substance does survive.

Fourth, the “finance G-7,” which escapes some of the shortcomings of the summits, has also become ineffective because its members do not criticize each other and because of their resignation to inertia in the face of “overwhelming market forces” and the independence of their central banks.

Fifth, none of the G-7/8 variants even address some of the most critical issues on the list suggested above, such as migration and environmental policy.

The final and central policy question is of course whether a new G-2 could overcome these problems that have come to hamstringing the G-7/8 (and other international bodies) so severely in recent years. The honest answer is that it could do so only if launched with strong political commitment on the part of the top political leaders on both sides of the Atlantic and then implemented, on an ongoing and sustained basis, by officials with the same dedication.

The model is of course the American and European unions themselves: both overcame enormous odds due to the compelling nature of the gains from “deep integration,” political even more than economic, and implementation by a cadre of enthusiastic supporters of the concept.

Similar conditions will need to be met if a G-2 is to flourish in the early part of the twenty-first century. The driving elements would have to be a conviction on the part of both American and European leaders that their own relationship required a firm new foundation, that they needed to protect themselves from some of their own worst proclivities (unilateralism in the United States, insularity in Europe) and that they could only exercise their responsibilities for global leadership by acting together in a much more concerted manner.

All three make a strong case for launching the G-2 initiative at the earliest possible time.

Transatlantic Trade Relations

Jeffrey J. Schott, Gary C. Hufbauer

Introduction

Throughout the postwar period, the United States and Europe have worked closely to forge a strong political and economic alliance. Transatlantic trade and investment have been important components of that partnership. Trade and investment ties contributed to the postwar revitalization of the European economy, a robust NATO alliance during the Cold War, and the construction of a durable system of world commerce that promoted economic development and democracy around the globe.

It is not an exaggeration to say that the United States and the European Union have the world's greatest trade partnership (see table 1).

Transatlantic trade in goods totaled about \$370 billion in 2002, almost double the value of a decade earlier. U.S. merchandise trade with the EU is about the same as U.S. trade with its NAFTA partner, Canada, and more than twice as large as U.S. trade with Japan.

In addition, transatlantic trade in services—which totaled \$175 billion in 2000—far exceeds U.S. services trade with any other region. Taken together, transatlantic trade in goods and services is the world's largest.

While the trade flows are significant, what makes the transatlantic relationship so special is that each region has important

Table 1. US-EU Trade Relations (millions of US\$)

	Exports (US to EU)			Imports (US from EU)			Total Trade Volume (EU and US)		
	1990	1995	2000	1990	1995	2000	1990	1995	2000
Merchandise Trade	95,604	121,728	162,583	91,434	134,298	219,946	187,038	256,026	382,529
Percent of total (US)	24.7	21.2	21.1	18.3	17.9	18.0	21.1	19.3	19.2
Percent of total (EU)	16.1	19.8	16.8	16.8	20.7	25.6	16.5	20.3	21.0
Service Trade	41,630	66,233	92,675	44,830	52,064	81,942	86,460	118,297	174,617
Percent of total (US)	28.2	30.2	31.6	38.1	36.8	37.8	32.6	32.8	34.2
Percent of total (EU)	17.2	14.9	16.2	10.8	11.4	14.2	13.1	13.1	15.2
Total	137,234	187,961	255,258	136,264	186,362	301,888	273,498	374,323	557,146
Percent of total (US)	25.6	23.7	24.0	22.1	20.9	20.9	23.8	22.2	22.2
Percent of total (EU)	16.4	17.7	16.6	14.2	16.9	21.1	15.2	17.3	18.8
Relative to World Trade (%)									
Merchandise	2.7	2.4	2.9	2.6	2.7	4.0	5.4	5.1	6.9
Services	5.1	5.3	6.7	5.5	4.2	5.9	10.7	9.5	12.7
Total	3.2	3.0	3.7	3.2	3.0	4.4	6.4	6.0	8.1
Relative to US and EU GDP									
US	1.6	1.6	1.6	1.6	1.8	2.2	3.2	3.5	3.9
Merchandise									
Services	0.7	0.9	0.9	0.8	0.7	0.8	1.5	1.6	1.8
Total	2.4	2.5	2.6	2.3	2.5	3.1	4.7	5.1	5.6
EU									
Merchandise	1.5	1.4	2.1	1.5	1.6	2.8	3.0	3.0	4.9
Services	0.7	0.8	1.2	0.7	0.6	1.0	1.4	1.4	2.2
Total	2.2	2.2	3.3	2.2	2.2	3.9	4.4	4.4	7.1

Source: Department of Commerce, Bureau of Economic Analysis; IMF: International Financial Statistics

Note: EC-12 for 1990; EU-15 for 1995 and 2000

ownership stakes in the other's market. At the end of 2001, two-way U.S.-EU direct investment was valued at more than \$1.6 trillion on a historical cost basis.

The European Union is the host for 53 percent (or \$726 billion) of all U.S. direct investment abroad, and contributes 72 percent (or \$947 billion) of all foreign direct investment in the U.S. market. By contrast, the value of cross-border direct investment between the United States and both Canada and Japan is only about one-seventh of that of U.S.-EU investment.

These investments go a long way in explaining why U.S.-European trade relations have been more manageable than U.S. ties with Japan. Roughly one-third of transatlantic trade is conducted between U.S. or European parent firms and their subsidiaries. These firms are less prone to push for trade protection from their corporate family members, and more likely to support open trade and investment policies in both regions. They create a natural buffer against protectionism.

Nonetheless, the United States and the European Union typically have a large number of on-going trade and investment disputes simply due to the sheer size of transatlantic economic relations.

But these disputes generally have not been disruptive to transatlantic commercial relations. Even the multi-billion dollar disputes over steel trade and U.S. tax subsidies have affected only a small share of bilateral trade. The heated battle over the GE/Honeywell merger, vetoed by the European Commission's Directorate-General for Competition (DG4) may turn out to be a once-in-a-decade event, rather than a harbinger of a new round of investment wars.

Many disputes involve agricultural products, which account for less than 10 percent of bilateral trade. As a general rule, trade and investment disputes have been defused in deference to the broader strategic interests of the Atlantic Alliance.

The Bush administration in Washington and the Prodi Administration in Brussels are managing trade and investment rela-

tions with care and deliberation. Both sides worked closely together to launch the Doha Round in November 2001 despite significant differences on key agenda items. Both sides continue to use WTO processes to advance trade objectives and to adjudicate their disputes. Both sides consult on major competition policy cases, such as GE/Honeywell and Microsoft. And transatlantic trade and investment continues to flourish.

But trade politics on both sides of the Atlantic are sharply divided on how to handle prospective reforms in domestic laws and regulations that may be required to implement the results of the Doha Round or to resolve current disputes.

In 2003, U.S.-EU trade and investment relations are facing critical challenges that could test the transatlantic partnership. Differences over the scope and pace of agricultural reforms were an important contributing factor to the failure of the Cancún WTO Ministerial in September 2003. Conflicting regulatory regimes, especially on genetically modified organisms (GMOs), threaten a new wave of litigation and trade protection. Ongoing “mega disputes” on the Foreign Sales Corporation (FSC) and steel could slide into retaliation.

A “hard” European Union line on unbundling Microsoft would surely provoke transatlantic tension. Finally, both partners are engaged in showmanship designed to make the other appear stingy in the contest for support from developing countries. Showmanship is particularly evident in rival proposals for farm trade, GMOs, and pharmaceuticals. This kind of competition, however, is at the periphery rather than the core of transatlantic relations.

The transatlantic trade agenda in 2003 thus looks uncomfortably familiar. Problems that have lingered for decades will require heightened attention. Trade officials will have to draw on their intellectual and diplomatic skills to keep WTO talks on track and bilateral disputes on simmer. The following discussion summarizes several key issues.

Agriculture

For the past forty years, the United States and Europe have engaged in costly and subsidized competition for agricultural markets around the world (and in each other's backyard). The Uruguay Round finally established a framework of constraints on farm subsidies and modest commitments to reduce tariffs and enlarge quotas. But in practice, the Marrakesh Agreement required very little liberalization. Neither U.S. nor EU farm policies had to be changed significantly to meet the Uruguay Round commitments.

In fact, their current farm subsidies fall within the levels allowed by the WTO (even counting the additional costs of the 2002 U.S. farm bill). Subsidy largesse hurts rural producers in developing countries (though it also benefits urban consumers). As the heated debate in Cancún showed, U.S. and EU farm subsidies will have to be sharply curtailed in the Doha Round before developing countries will accept the substantial opening of their own industrial, agricultural and service markets—objectives sought by the United States and Europe.

In July 2002, the United States proposed radical reforms in subsidies, tariffs, and quotas, which would reduce its own peak tariffs down to a maximum of 25 percent, sharply expand its tariff-rate quotas (including on sugar), and cut its domestic subsidies by several billion dollars from current levels (holding out the promise of eventual elimination).

The EU paper issued in late December 2002 would replicate the limited achievements of the Uruguay Round, with modest cuts in tariffs (while maintaining tariff peaks), export subsidies, and domestic subsidies. The United States offer would maximize the pain for the European Union (and Japan); the EU plan moderates the prospective changes to its own policies and seeks changes in the method of scoring subsidies that would increase the reforms required in U.S. programs.

Both were initial bargaining positions, to be sure, but both the United States and the European Union found it difficult to “up the ante.” As a consequence, prior to the Cancún Ministerial, they issued a joint framework proposal that left blank key numbers on subsidy limits, market access terms, and “green box” requirements. EU negotiators found it hard to sweeten their December 2002 offer while member states were still debating their often-postponed decision on reform of the common agricultural policy.

U.S. negotiators found that any dilution in the size of the prospective Doha Round reforms would prompt several farm groups to lobby for the maintenance of the generous subsidies provided by the 2002 farm bill.

While it is too early to project the terms of a final Doha Round deal on agriculture, the short-run implications of the current U.S.-EU impasse are troubling. If WTO negotiators cannot agree on the modalities for agricultural negotiations, then officials will begin to doubt whether the Doha Round can meet the ambitious objectives set by ministers in November 2001 across the whole range of issues.

Developing countries responded to the cloudy signals at Cancún on farm reform by withholding support for the Singapore issues (investment, competition policy, trade facilitation, and transparency in government procurement). Trade officials are now scrambling to prevent a further unraveling of the Doha agenda. At best, the pace of talks has now decelerated, and they could possibly seize up.

Genetically Modified Organisms (GMOs)

The revolution in biotechnology has opened vast new horizons for production and trade, but also has raised new concerns about the long-term impact on human health and the environment. To

date, there is little scientific evidence to support those concerns. On the other hand, there is no proof-positive that GMOs are harmless. As a consequence, some governments have adopted a zero tolerance policy toward GMOs, awaiting the findings of ongoing research.

While these actions are an understandable political response to the strong public reaction against GMOs, they raise the legitimate concern that public health may serve to rationalize a new wave of regulatory protectionism. Indeed, the U.S. chemical industry now fears that the zero tolerance road will severely restrict European sales, both from plants in Europe and from exports.

Unlike growth hormones, GMOs are not banned in Europe. However, contrary to attitudes among the American public, GMOs excite considerable public fear among Europeans. In principle, the European Commission could authorize the sale of GMOs. But given the strong opposition of some member states, the EU has observed a moratorium on the approval of GMO products for the past several years.

Exports of genetically modified corn from the United States to Europe have been suspended, and 13 other U.S. products are stuck in the pipeline of regulatory approval. Meanwhile, selected agricultural advances are blocked in poor African countries, for fear that GMO products will be banned in Europe.

In the face of European reluctance to proceed with GMO approval, U.S. officials have now brought a case to the WTO. European companies share an interest with their American counterparts in speeding EU regulatory approval. Yet even if the WTO ruled against the European Union, the GMO issue is no more likely to be resolved than the growth hormone issue.

The chief obstacle is widespread fear among Europeans that GMOs will harm them, their children, or their environment. Rather than propel regulatory reform, WTO litigation could provoke a political backlash that stiffens resistance to negotiated solutions to the GMO trade problem.

Foreign Sales Corporation (FSC) and steel

A third challenge for 2003 is to contain long-running disputes on tax policy and steel, and forestall new bouts of trade retaliation. The steel dispute is currently being litigated in the WTO to assess whether U.S. safeguards measures introduced in 2002 conform to WTO requirements.

The WTO panel ruled against the United States, and the European Union stands a good chance of prevailing in the WTO Appellate Body. Meanwhile, both sides have cooperated in limiting the impact of the safeguards measures; as a result, a large share of European shipments has been exempted from the new duties. If the U.S. and EU economies enjoy strong growth in 2003 and 2004, the steel dispute could, in fact, melt away.

More worrisome is the dispute over the FSC, since it raises fundamental issues about the equity of WTO rules regarding border tax adjustments. This transatlantic dispute first arose in the 1960s, was resolved in the Tokyo Round negotiation of the Agreement on Subsidies and Countervailing Measures (SCM), and then resurfaced in 1997 when the EU walked away from the earlier pact and challenged the FSC in the WTO.

The first WTO FSC panel, in its October 1999 decision, ruled that the FSC did confer illegal export subsidies because revenue is foregone (Article 1 of the SCM Code) and exports are taxed more favorably than production abroad. In February 2000, the WTO Appellate Body affirmed the panel report in all essential respects.

In their decisions, however, neither the Panel nor the Appellate Body ruled on the EU claim that FSC violates the SCM Code because exports are taxed more favorably than production for the U.S. home market.

This omission (in the context of highly technical decision) seemingly left the United States an opening to alter the contours of the FSC while preserving much of its substance. It appeared that the United States could avoid the charge of granting an

export subsidy by extending its partial territorial tax system to the foreign production of U.S. firms the same way it was applied to exports—thereby meet the newly created parity test. Seizing this apparent opening, in November 2000 the U.S. Congress passed the Extraterritorial Income Exclusion (ETI) Act.

The EU again challenged the U.S. law in the WTO; subsequent panel rulings found that the new U.S. law also conferred prohibited export subsidies. The Appellate Body concurred in a ruling; in August 2002, the European Union was authorized to retaliate against about \$4 billion in U.S. exports if U.S. law is not brought into compliance with WTO obligations. The potential disruption to transatlantic trade is so great (more than 10 times larger than U.S. retaliation against bananas and beef hormones combined) that retaliation on this scale would provoke a crisis in transatlantic relations.

To date, EU officials have proceeded cautiously—publishing a retaliation “hit list” but not implementing any countermeasures. There appears to be an understanding not to take actions that could disrupt the ongoing Doha Round. But since retaliation already has been authorized, so the threat of a new trade war still remains.

However, the U.S. Congress is finding it very hard to agree on replacement legislation for the ETI, and it may not reach an agreement in 2003. No one expects the EU to poison the Doha Round by indiscriminate retaliation. But until the ETI is repealed, the arsenal will at the very least dampen U.S. initiatives aimed at curbing EU agricultural subsidies or opening EU markets to GMO products.

The United States has committed to bring its tax laws into WTO compliance. However, if the ETI is repealed with nothing to take its place, U.S. exporters will again compete on a tilted tax field. Not only will they have to pay VAT on sales into Europe, Canada, Mexico and other countries, they will also have to pay full corporate income tax on their export earnings.

Meanwhile competitors based in Europe and elsewhere will export their goods into the U.S. market free of VAT and take advantage of sales subsidiaries located in low-tax jurisdictions. This kind of tax tilt was a driving force behind enactment of the DISC in 1971, the FSC in 1984, and the ETI in 2000. It seems unlikely that the tax discontent harbored by U.S. exporters will melt away when ETI is repealed.

Thus, there is a great deal of pressure for renegotiation of the WTO subsidy rules and/or U.S. corporate tax reform that confers WTO-legal tax advantages to trading firms.

In sum, this issue is bigger than the \$4 billion retaliation bill set by WTO arbiters. It will likely require an admixture of tax reform and WTO reform to restore the balance in the trading system that was upset by the EU decision to litigate five years ago.

Economic sanctions

Economic aid and economic sanctions are used to promote good relations or to coerce good behavior from foreign governments. Growing commercial ties do create a web of interlocking interests, as Henry Kissinger has often said, but they also create a set of conflicting policy objectives within each country.

Should political and security interests trump commercial concerns? In the Cold War era, the obvious answer was yes—and Europe generally followed U.S. leadership on economic matters in deference to the broader strategic alliance. In the post-Cold War era, however, other interests command greater attention.

Over the past two decades, U.S. policy has been schizophrenic regarding the use of economic sanctions. Some members of Congress and the business community have felt that trade should be unfettered and not be a handmaiden to foreign policy. Other members have put forward legislation limiting U.S. trade with or financial assistance to countries that violate specified norms of

good behavior such as human rights abuses, proliferation of weapons, and drug trafficking.

Occasionally, third countries are also swept into the sanctions net—as happened in the Iran Libya Sanctions Act (ILSA) of 1996. Those sanctions, codified in law, require extraterritorial application of U.S. restrictions unless waived for national security reasons.

In fact, extraterritorial application of ILSA was waived by both the Clinton and Bush administrations. But renewed conflict in the Persian Gulf underscores transatlantic disputes about the use of economic sanctions.

In principle, ILSA inflicted penalties on foreign companies investing more than about \$20 million in the oil industries of Iran and Libya, two states identified as sponsoring terrorism by the United States. ILSA was immediately challenged by the European Union, and since its enactment the proposed sanctions—even though waived—have episodically provoked transatlantic debate.

The larger ideological issues—well before September 11—were the appropriate characterization of Iran and Libya, and the best way of dealing with the regimes. On these issues, there is little common ground between the United States and Europe.

Microsoft

The European Court of Justice (ECJ) has handed DG4 two defeats in recent merger cases. The common thread of these cases was that DG4 was over-aggressive in blocking mergers. The cases dealt with different issues than the Microsoft litigation, and it remains to be seen whether Commissioner Monti will reach an agreement with Microsoft over bundled technology (particularly the video player feature).

If an agreement is not reached, Microsoft will almost certainly take an appeal to the ECJ. Behind the scenes, the litigation will

likely provoke an intense transatlantic dispute, especially since the Justice Department has settled all its claims with Microsoft. The dispute will spill over into a rehash of the GE/Honeywell merger, blocked by DG4 in 2001.

Final thoughts

During the past two years, trade officials have developed a modus operandi for bilateral relations and for their joint stewardship of the multilateral trading system—due importantly to the close working relationship of U.S. Trade Representative Robert Zoellick and EU Commissioner Pascal Lamy.

But there are limits to personal diplomacy: It is inherently unstable, since the relationship can change dramatically with a new cast of officials. Personal tensions among the trade leaders can be harmful to trade relations—witness the decision by Sir Leon Brittan to bring the FSC case to the WTO in 1997.

Moreover, while there is good staff cooperation, there is nothing comparable to the Zoellick/Lamy relationship in dealings between the Antitrust Division of the U.S. Justice Department and DG4. Indeed, as the GE/Honeywell case showed, and as the Microsoft case could underline, quite different competition policy standards are applied in Europe and the United States.

Thus, a final challenge for 2003 should be to think about how to ensure the sound management of the trade and investment relationship in the future, whoever heads the respective agencies.

Would it be useful to establish an institutional mechanism to “lock in” consultative procedures—perhaps with a wider cast of ministers?

Could one take advantage of summit preparatory consultations to make progress on trade and investment issues among political leaders?

The separate paper by C. Fred Bergsten and Caio Koch-Weser outlines a new “G-2” process that offers one alternative for doing so.

U.S.-EU Regulatory Convergence: Capital Markets Issues¹

Mario Draghi, Robert C. Pozen

Analytic introduction

The “G-2” concept posits that there are certain aspects of international economic relations where the European Union and the United States can, and should, be willing to provide informal leadership on critical issues for the world economy. Trade policy has operated in a de facto G-2 context for most of the past forty years and is doing so today under the leadership of Pascal Lamy and Robert Zoellick.

Competition policy has largely followed such an operating framework in recent years despite recent cases of transatlantic disagreement. A third area that could follow this pattern is regulatory convergence in the financial sector.

America and Europe dominate most aspects of international capital flows, as detailed in the Factual Background section of this paper. Mergers and acquisitions as well as foreign direct investment, where the United States and the EU each has a stake of about \$500 billion in the other, illustrate the point. Similarly, the United States and the EU are globally predominant in many aspects of securities transactions and banking flows. Transatlantic leadership on financial issues would be appropriate in light of

1 As of fall 2003.

the European and American collective strength of experience in global capital markets.

At the same time, there is now a pressing need for new G-2 initiatives on financial issues. The debates over International Accounting Standards, application of the new Sarbanes-Oxley legislation and the EU Takeover Directive have serious repercussions. Resolution of these issues, or lack thereof, potentially impacts trillions of euros worth of international investment decisions.

In response, the staff of the relevant U.S. and EU public agencies have stepped up their efforts to discuss areas of regulatory concern. These efforts have improved the quality of the transatlantic dialogue and have led to a narrowing of differences in certain areas. However, from the perspective of the business community, the United States and the EU need to resolve the existing regulatory issues and work on more forward-looking relationship building—to promote convergence of rules and regulatory culture where possible, thereby preventing future disputes from arising.

In this context, the G-2 could provide political impetus at the very highest levels of the U.S. and EU governments to reach transatlantic consensus in a variety of areas, as detailed below. On some specific financial regulation issues, mutual recognition agreements (MRAs) may be the desirable route. On other financial topics, harmonization of national practices may turn out to be the preferred alternative. These are readily available approaches through which the G-2 could exercise effective leadership, and we recommend strongly that they be pursued.

Such efforts in the area of capital markets would engage large numbers of responsible officials on both sides of the Atlantic—potentially building sizeable transnational regulatory relationships and coalitions that would in turn strengthen the evolving G-2 process, to avoid future disputes if possible and meet future challenges when necessary.

With the recent erosion of EU-U.S. relations in the area of foreign policy, efforts to enhance U.S.-EU convergence in the area of

capital markets take on a new urgency. In our view, cooperation in the regulation of capital markets could play a major role in helping to improve the overall relationship between the U.S. and the EU.

Factual background

EU-U.S. regulatory convergence has particular importance for global capital markets and global economic growth. As the interdependence of national economies increases, so too does the global capital raising and capital allocation process. The number of multiple tranche securities offerings in the EU and the United States has risen significantly during the 1990s.

Most global multinationals have financing needs reaching beyond the capabilities of their local markets to handle alone, so they are frequently listed on multiple exchanges around the world. Access to local capital markets has helped them to eliminate exchange rate risk, broaden their shareholder base to include local markets where they operate, facilitate mergers and acquisitions outside their home market by using local currency stock as the acquisition currency, increase their visibility in non-home markets and generally gain exposure to the various local markets where they operate.

From an investor perspective, global capital markets present attractive opportunities for portfolio diversification. U.S. holdings of overseas securities have increased eight-fold in the last decade. The NYSE expects U.S. investors to double the non-U.S. component of their equity portfolios from 5 percent to 10 percent. European equities will form the majority of this increase. Flows in the other direction, holdings by foreign investors in U.S. stocks and bonds, are now four times the 1990 level.

The heart of interdependent capital markets is the relationship between U.S. and European corporate issuers and investors. Looking at the figures puts this relationship into context. U.S. and EU

equity markets combined represent 80 percent of global financial markets.

Capital raising and trading flows between the EU and the United States have grown enormously. The number of EU company listings in the United States now totals 255, with 151 NYSE listings and a further 104 listings on NASDAQ. 82 U.S. companies are listed in Germany, 69 on the London Stock Exchange, and 17 in France. For a variety of obvious reasons, the number of European (including non-EU) companies listed on NASDAQ fell significantly in 2002.

However, there were 19 new European corporate listings on the NYSE in 2001, and 5 in 2002. In 2001, the 174 European listed companies had a combined market capitalization of \$3.4 trillion. This compares with 74 Asia Pacific companies at \$0.9 trillion and 103 Latin American companies at \$0.2 trillion.

In 2002, European companies raised a total of 42 billion via primary equity public offerings. Of this amount, an estimated 15 percent was raised in the United States, largely through Regulation 144A quasi-private placements. These figures do not take into account additional capital raised through secondary offerings. Figures for Asian and Latin American offerings in the United States have been mere fractions of comparable European offerings in the United States.

In terms of secondary market trading, transactions in U.S. equities between U.S. investors and foreign investors (individuals and institutions) have ranged from \$3 to 5 trillion per year during the past 3 years, while bond transactions ranged from \$8 to 12 trillion per year.

In recent years, U.S. equity purchases of non-U.S. stocks have increased to around \$95 billion, and happen frequently through stock swaps in the context of mergers. Net U.S. purchases of non-U.S. bonds declined during the mid-1990s. Net total sales by U.S. investors of foreign securities totaled \$27 billion in the first three quarters of 2002.

Factors contributing to these trends include the stock market boom, multinational capital formation, substitution of equity for other methods of capital raising (driven by privatization), as well as the growth of an equity culture and corporate bond market in Europe (facilitated by the introduction of the euro).

While these statistics suggest that regulatory barriers have not prevented the development of a transatlantic capital business, there was relatively little pressure during the 1990's to reduce the regulatory differences that did exist between the United States and EU in the financial area. However, the adverse publicity associated with U.S. corporate scandals and the American legal response to these scandals have intensified interest in reconciling these differences.

Regulatory issues relating to the EU-U.S. capital markets have been reviewed in several contexts during the 1990s. In the trade context, during the 1997 WTO financial services sector round of talks, the EU and the United States did not make any market access demands of one another. This was not so much because there were few remaining barriers, but rather because the remaining barriers were codified in national regulations, which for the most part are not applied any differently to domestic financial firms than to foreign firms. Therefore, these issues were not deemed WTO appropriate.

An additional dynamic was that the EU and the United States broadly agree on the need for a liberal market access regime for financial services; and both have a similar interest in putting the priority on encouraging other countries, including the more economically advanced developing countries, to open up market access in financial services.

Efforts at regulatory convergence between the EU and the United States are long-standing, but pride in legislative and regulatory prerogatives (e.g., EU Financial Conglomerates and Data Protection Directives), or simply political force majeure (e.g., Sarbanes-Oxley Act), have tended to get in the way.

However, recent revelations surrounding Enron and World-Com have thrown the issues into sharper relief, in particular cor-

porate governance and accounting standards. The steady interlocking of markets, as well as the intensification of regulatory dialogue, appear to be increasing the willingness to achieve convergence, and generating practical programs for doing so.

The growing trend is now toward promoting EU-U.S. convergence on the legal and ethical infrastructures of the marketplace (e.g., company law, corporate governance, and accounting) as well as the regulation and supervision of financial markets. Two significant initiatives began in 2002:

The conclusions of the EU-U.S. Summit in May 2002 called for a transatlantic dialogue for financial services to form part of a "Positive Economic Agenda," which has resulted in a number of exchanges between the Treasury, SEC and Federal Reserve, on the U.S. side, and the European Commission's Directorate-General Internal Market for the EU. The Transatlantic Business Dialogue launched a Financial Markets Dialogue focused on the Sarbanes-Oxley Act, accounting standards and trading screens.²

At the Oviedo Informal Ecofin Council in April 2002, the European Commission presented a paper on "a first EU response to Enron-related policy issues," which essentially demonstrated that most relevant actions were already in the pipeline, and required only some review in the light of the new developments, plus the addition of a few agenda items. These items include: CESR Report on impact of complexity of derivatives trading and hedge funds; cross-sectoral policy assessment on rating agencies; and a look at the role of financial analysts.

Nevertheless, the European Commission, at the request of the Council, presented in May 2003 an Action Plan on Modernizing Company Law and Enhancing Corporate Governance in the EU.

2 In January 2004, SEC Chairman William H. Donaldson announced that this dialogue would be supplemented by a regulatory dialogue between the SEC and CESR.

This is the first attempt at pan-EU legislation on corporate governance, which has been addressed to date mainly via voluntary codes. The Action Plan draws on the conclusions of the report of the Winter group on corporate governance and company law. It aims to strengthen shareholders rights, reinforce protection for employees and creditors, while increasing the efficiency and competitiveness of business. It contains a set of proposals for action, covering short, medium and long-term priorities and devotes particular attention to a series of corporate governance initiatives aimed at boosting confidence on capital markets.

An encouraging feature of the Action Plan is that the European reference framework for this work has in general been explicitly focused on contributing to regulatory convergence, or at least avoiding the opposite.

Simultaneously with the Corporate Governance Action Plan, the Commission published ten priorities for improving and harmonizing the quality of statutory audit throughout the EU—to prevent conflicts of interest and to ensure that investors and other interested parties can rely fully on the accuracy of audited accounts. Public consultation for both sets of proposals concluded in August 2003 and the Commission expects to bring forward some of the constituent initiatives by early 2004 at the latest.

This paper reviews six key aspects of regulatory convergence between the United States and the EU that would have significant impact on the transatlantic capital markets. Three of these aspects involve areas where actions or potential actions by the United States are impacting the EU.

One is the possible accommodation of US GAAP to international accounting standards (IAS); the second is the extra-territorial reach of the Sarbanes-Oxley Act (“SOX”); the third is direct access of U.S. investors to European trading screens.

The other three aspects of U.S.-EU regulatory convergence involve situations where the EU may move toward or accommodate U.S. norms. One is the proposed liberalization of the EU

rules on investing pension assets; the second is the proposed revision of EU rules on takeover defenses; the third is the EU's new directive on supervision of financial conglomerates.

In each of these six areas, the paper will outline the background on the relevant issues and suggest a preferred set of policy alternatives for the Bertelsmann Group (the "Group") to advocate.

Global accounting standards

For most European companies, conversion to US GAAP is the single biggest barrier to making a public securities offering in the United States or registering securities to trade on a U.S. stock exchange. The SEC has already accommodated European issuers by allowing them to use home country disclosure requirements on management compensation and affiliated transactions.

But the requirements of US GAAP in areas such as segment reporting are difficult to meet for many European companies, especially German companies that have historically relied on "hidden" reserves. This has been an inhibiting factor for companies based in continental Europe to register their shares with the SEC and list in the United States.

Most multinational companies would agree on the need to establish a uniform set of accounting standards that could be utilized on a global basis. Such standards would substantially reduce accounting costs of multinational companies, and would allow them to more easily access capital markets throughout the world.

In turn, such standards would allow investors to compare company performance more accurately, and to allocate capital more efficiently among competing claimants.

Although the SEC has historically taken the position that US GAAP is the best accounting system in the world, Enron and other corporate scandals in America have called into question this position.

In a bid to unify fragmented standards across Europe, the EU announced earlier this year that all EU companies listed for trading on a European market must adopt International Accounting Standards (IAS) for consolidated accounts for financial years commencing after 1 January 2005. This announcement applies to approximately 7,000 companies currently using their home country GAAP. At present, only a few companies in the EU follow IAS on a consistent basis.

In the United States, both the SEC and the Financial Accounting Standards Board (FASB) have recognized the importance of the EU's emphasis on accounting principles as well as detailed rules. At the same time, the International Standards Accounting Board (IASB) has been developing detailed rules in many areas to supplement the EU's traditional reliance on general accounting principles.

To provide support and impetus to these efforts, the group should advocate a total reconciliation of US GAAP and IAS as soon as it is practical. In 2002, however, there were at least fourteen significant accounting differences between US GAAP and IAS according to Deloitte Touche Tohmatsu. In some areas, the International Accounting Standards Board ("IASB") is currently working on a project that is likely to lead to convergence with US GAAP.

For example, the IASB is proposing to move from pooling to purchase accounting for business combinations as US GAAP recently did (though with stricter rules on restructuring charges). However, the IASB and the FASB are moving in different directions in other important areas of accounting. In addition, there is internal disagreement, within the United States and within the EU, on important accounting issues.

One of the most controversial areas is IAS 39. This standard is of enormous significance for financial services firms and any other companies which use financial instruments, especially derivatives, to hedge risks in their business. The key elements of this standard are:

- A more extensive use of fair value
- Marking all derivatives to fair value
- Strict rules on the use of hedge accounting
- Macro hedging and internal hedging are no longer allowed
- First day profits on derivatives are not allowed
- Valuation of OTC derivative portfolios on a transaction by transaction basis
- Discounts on block transactions are no longer allowed

Another controversial area is the proposed requirement to pass the estimated expenses associated with stock options through a company's income statement. Under a new draft rule, the IASB has proposed the mandatory expensing of all stock options at the date of grant. So far, some U.S. companies have voluntarily decided to expense stock options, while others have not (especially high tech companies).

Despite political opposition from high tech companies, the FASB intends to propose by the end of 2003 mandatory expensing of stock options. In the process, the FASB expects to establish a uniform valuation methodology for companies to expense stock options on their income statements.

Since IAS and US GAAP are both currently in a state of flux, but all EU companies must adopt IAS by 2005, it would be useful to identify and analyze the significant remaining differences between the two accounting systems at the start of 2004.

Such an analysis, especially if it included suggestions for compromises on the key issues, would facilitate regulatory efforts to harmonize IAS and US GAAP. Such an analysis would also help EU companies estimate the costs involved in reconciling IAS accounts to US GAAP—a requirement for listing on the NYSE or NASDAQ.

Therefore, the Group should authorize the retention of an accounting firm to delineate the significant remaining differences between IAS and US GAAP at the start of 2004.

Extra-territorial application of SOX

The enactment by the U.S. Congress in the summer of 2002 of the Sarbanes Oxley Act of 2002 (the “SOX Act”) resulted in the application of many provisions of the new statute to foreign companies as well as the auditors and lawyers who provide services to those foreign companies that are “reporting companies” (Reporting Companies) in the United States.

A “reporting company” is one that is required to make periodic filings with the U.S. Securities and Exchange Commission (the “SEC”). According to the U.S. Chamber of Commerce, there are 185 companies based in the EU listed on the NYSE, and 149 companies based on the EU listed on NASDAQ. All listed companies, as well as companies that voluntarily become registrants without listing their securities (e.g., issuers of high yield bonds who later register those bonds for trading purposes only), are subject to all of the provisions of the SOX Act, absent a specific exemption. The terms of the SOX Act do not apply to foreign companies that merely furnish information to the SEC under Rule 12g3-2(b).

Most significantly, the SOX Act requires a personal certification by both the CEO and CFO (or their equivalents) to be included with each filing by a Reporting Company of its annual report on Form 20-F.

This certification includes a verification that the report complies with the requirements of U.S. law (i.e., the report does not contain any material misstatement or omission and that the financial statements of the company fairly present in all material respects the financial condition of the issuer.) To make these certifications, Reporting Companies are required to have in place internal controls and procedures effective for generating complete and accurate financial information. The officers must have both evaluated the effectiveness of such systems and reported any deficiency therein.

The SOX Act also mandates similar certifications in another section, which involves criminal penalties for knowing or willful violations.

Other provisions of the SOX Act address specific relationships between the Reporting Company and its management. These include the repayment to the company by CEOs and CFOs of certain bonuses and share trading profits following an accounting restatement due to material non-compliance resulting from misconduct; prohibitions on most loans from companies to their officers and directors; and permanent bars against “unfit” individuals from serving on any boards of publicly traded companies.

Additional requirements of the SOX Act in the corporate governance area may be inconsistent with home country practice for many foreign issuers. For example, the SOX Act mandates disclosure of whether Reporting Companies have adopted a Code of Ethics and, if so, whether there have been changes in or waivers granted from the Code.

However, unlike U.S. issuers, non-U.S. Reporting Companies need not immediately disclose waivers, as long as all waivers are disclosed in the annual report. Similarly, the SOX Act mandates that a Reporting Company releasing any non-GAAP financial measure reconcile it to the most comparable measure under GAAP.

However, there is an exception if the measure is required or expressly permitted by the standard setter for financial statements in the company’s primary financial statements; and the measure is actually included in the non-U.S. Reporting Company’s annual report filed in its home country.

While the SOX Act mandates a regime for audit committees that is inconsistent with the normal governance procedures of many non-U.S. Reporting Companies, the SEC has addressed these inconsistencies through exemptive rules. The SOX Act requires that an audit committee composed entirely of independent directors be responsible for the appointment, compensation and oversight of the company’s external auditors.

The external auditors may not provide any of nine enumerated non-audit services to the company, and may provide other types of non-audit services to the company only if approved by the audit committee.

In the rulemaking process, however, the SEC has granted exemptions for non-U.S. Reporting Companies from the requirement that audit committees be composed entirely of independent directors.

For example, the SEC allows non-executive employees to serve on an audit committee of a non-U.S. Reporting Company if the employee is appointed under a collective bargaining agreement or co-determination statute. Similarly, if a non-U.S. Reporting Company has a two-tiered board system, the SEC applies its audit committee requirements only to the audit committee of the supervisory board.

The SOX Act imposes particularly onerous requirements on non-U.S. accounting firms that are engaged to provide audit services for non-U.S. Reporting Companies, or that play a substantial role in audits. Non-U.S. auditing firms will be required to register with the newly formed Public Company Accounting Oversight Board (PCAOB), and become subject to inspections, investigations and potentially disciplinary actions by the PCAOB.

On the other hand, the SEC has made some accommodations to foreign auditing firms subject to the SOX Act. For example, the rotation requirement is limited to partners serving the parent or subsidiaries with 20 percent or more of the parent's assets or revenues. Similarly, the "cooling off" periods for employment of audit firm members by an audit client will be limited to key positions in a non-U.S. Reporting Company.

Thus, although the enactment of the SOX Act had the potential of dramatic and severe extraterritorial application of U.S. law outside the United States, which may very well contravene recognized principles of comity in international law, the SEC has shown sympathy for arguments of conflicts of law and has tried

to create specific exemptions in the rulemaking process to deal with those conflicts.

The Group also should recognize that it would be extremely difficult to obtain any legislative amendments to the SOX Act, as there is widespread public support for its underlying principles—transparency and accountability. Therefore, it would be best for the Group to argue that the SEC should more broadly and flexibly exercise its interpretive discretion and exemptive authority under the SOX Act in relation to a limited number of important issues.

In particular, the Group should urge the SEC to adopt reasonable and precise guidance on financial certifications by CEOs and CFOs of Non-Reporting Companies, especially with respect to financial controls. The Group should also ask the PCAOB to find a pragmatic solution to the current requirement for inspection and discipline of foreign auditors of Non-Reporting Companies if those auditors do not have offices in the United States.

Trading screens

Near the top of the list of official European complaints about the U.S. regulatory environment in the capital markets context is the demand for access by European exchanges directly to U.S. investors by placing trading screens on the desks of U.S. broker-dealers.

European securities exchanges are effectively prohibited by the SEC from directly accessing the U.S. market without first registering as a U.S. exchange. The Federation of European Stock Exchanges (FESE) has been quite successful in raising awareness of this perceived barrier—at one stage the EU planned to bring the issue to the World Trade Organization (WTO).

But the United States successfully argued the issue was not suited to the WTO, because it is not a national treatment issue. Foreign exchanges in the United States are accorded national

treatment, since the requirement to register as a U.S. exchange is no more onerous for EU exchanges than for exchanges located in the United States.

One SEC concern, related to investor protection, focuses on the fragmentation and varying quality of regulation of European markets (their differing trading systems, supervision, disclosure, etc.). The second SEC concern, related to the range of entities underlying the securities products that would be offered, focuses on differing accounting and corporate governance standards within the EU.

The Europeans argue that a new Investment Services Directive and updated Standards for Regulated Markets in the EU should largely overcome the first concern. The second appears less easily resolved until the IAS is widely adopted and corporate governance reforms are instituted throughout the EU.

Following numerous discussions between the European Commission and the SEC, the SEC has indicated a reluctance to contemplate open access for products that have their “primary listing and area of offering” outside the United States on the grounds that this would go beyond national treatment to a position that is not available for U.S. exchanges seeking to access the European market. The SEC has expressed a willingness to consider the matter in the broader context of its recently launched market structure review.

The question has been posed whether foreign companies would have less incentive to access U.S. capital markets by listing on a U.S. market if foreign screens access were granted.

Even if EU trading screens were allowed in the United States, an EU company would continue to have many of the historic reasons for seeking a U.S. listing, such as creation of a stock currency for acquisitions of U.S. companies and the establishment of stock incentive plans for U.S. employees of the EU company.

The Group should recommend exploration of two possible approaches aimed at accommodating the EU’s interest in trading screens. One approach would be to limit the use of European

trading screens to institutional clients. This has been a successful approach to expanding the breadth of quasi-public offering by foreign companies under SEC Rule 144A.

A second approach would be to qualify specific products listed primarily on specific EU markets for direct access to U.S. broker-dealers. A possible start might be common stocks trading on the London Stock Exchange.

Open entry to EU pension management

In the EU, the provision of retirement benefits has operated under various national laws and practices. With a few exceptions, these national laws and practices have created barriers to entry for other global financial firms skilled in the management of pension funds. In particular, it is currently not possible for companies operating across borders to offer a single, pan-European occupational pension plan to employees. Many countries do not permit funding of state pensions, or maintain quantitative investment restrictions and currency matching requirements on funding.

This area is particularly significant because many of the EU's largest countries (e.g., Italy, France and Germany) are facing an imminent pension crisis. In response, most are considering a shift in their emphasis from defined-benefit plans to defined-contribution plans as well as permitting funding.

U.S. firms are particularly interested in offering investment services to defined-contribution plans because of the extensive American experience with 401(k) plans and individual retirement accounts. The assets of defined-contribution plans now constitute a majority of pension assets in the United States, although defined-benefit plans still hold over 40 percent of pension assets. U.S. firms offer defined-contribution plan managers not only a broad choice of pooled products, but also an extensive array of record-keeping and educational services.

However, the general principles underlying the EU's policy of free trade in financial services have not been well implemented by certain EU countries. Indeed, many U.S. executives believe that certain EU countries have used the implementation of pension reform policies to reassert nationalistic approaches to financial services. For instance, German pension plans must be managed by a specialized institution incorporated and located in Germany.

It bears emphasis that U.S. executives are focused on the investment of EU pension assets, rather than on the contribution, distribution or taxation of pension assets—areas which have more impact on local budget issues.

Some of these issues are addressed in the EU Institutions for Occupational Retirement Provision (“Pension Directive”) passed by the Council in May 2003. The Pension Directive establishes a common prudential framework for occupational pension schemes across Europe. It is modestly helpful legislation, but its main value is in the signal it sends to member states to make pension reform a priority, and in establishing a solid legislative foundation for further work on policy reforms.

The Directive has a long and somewhat tortured history—having been through the European Commission, the European Parliament and the Council as three separate proposals over a period of 12 years before passing.

The original Commission proposal included the prudent person principle but gave member states the ability, within prescribed limits, to impose some quantitative restrictions, including a cap on investments in non-matching currencies. In its first reading, Parliament went further than the Commission in the direction of codifying the prudent person rule and would have required that exceptions be removed after a period of years. However, the final version does not include such a sunset provision.

The final Pension Directive takes a few steps backwards by allowing some quantitative restrictions. Member states can impose more detailed rules than the prudent person rule for plans in

their countries, including quantitative restrictions, if they are prudentially justified.

In addition, to the extent member states impose these rules on plans within their own country, they can require institutions conducting cross-border activities in their country to comply with the following restrictions on their activities in the host state: a 30 percent cap on investments in unregulated markets, a five percent cap on investment in a single issuer and 10 percent cap on investment in issuers in the same group, and a 30 percent cap on investment in assets denominated in currencies other than those in which liabilities are expressed.

Moreover, the Pension Directive now incorporates the issue of biometric risks (risks of longevity, disability and premature death). The original Commission proposal did not cover biometric risks, because the Commission strongly opposed inclusion of product specifications in a prudential directive.

In its first reading, Parliament added a provision requiring that plans offer the option of coverage for biometric risks through a lifelong pension, disability coverage, and provision for survivors. The final Pension Directive merely allows member states to mandate coverage of biometric risks and insurance of the principal if employers and employees agree.

Mandating coverage of biometric risks or providing insurance will significantly increase administrative costs—thus, reducing overall returns at the end of the life of the pension, and building in a competitive advantage for insurance providers.

The Pension Directive provides a further advantage to insurance companies over other service providers by allowing them to invest occupational retirement plans (known as IORP) by creating segregated accounts for their pension assets and liabilities.

However, it would not allow other types of regulated financial institutions to qualify automatically under the favorable provisions applicable to IORPs. Instead, the final version directs the Commission to monitor the market for occupational pensions

and consider extending the IORP provisions to other regulated financial institutions at a future date.

The Group should generally support the implementation of a consistent European approach to the investment of EU pension assets. The key focus is now implementation of the Pension Directive. In particular, the Group should recommend that legislation implementing the investment aspects of the Pension Directive in every EU country consistently incorporate the following key requirements:

- Prudent person rule: No EU country should quantitatively restrict how pension assets can be invested, but rather should rely on principles of diversification and prudence. Research has demonstrated that pension plans experience higher returns under these principles than categorical asset allocations imposed by a national government.
- Level playing field for providers: All types of authorized financial services firm, including EU subsidiaries of U.S. securities firms and asset managers, should be allowed to offer services and products to EU pension plans. The competition among providers and products will help maximize returns to plan participants and beneficiaries.
- Cross-border flexibility: Financial institutions that qualify to manage pension funds should be free to provide service or products from any location within the EU. Allowing managers such locational freedom will achieve efficiencies that reduce the cost of plan management to the benefit of plan participants and beneficiaries.

Takeover rules

In the United States, most publicly traded companies are owned by a widely dispersed group of shareholders, even though a few institutions may hold blocks of shares as large as 10 percent of the outstanding.

One of the key checks on inferior company performance in the United States is the potential for non-negotiated changes in control. While the SEC rules on corporate takeovers are neutral, some state statutes and state case law have allowed poison pills to be implemented. Availability of such measures has not had the effect of preventing hostile takeovers, but may have resulted in achieving higher prices for target shareholders.

In continental Europe, by contrast, ownership structures of publicly traded companies are more heavily concentrated, with the dominant block of shares frequently held by the national government, local families or commercial banks. These dominant shareholders control the board of directors, which often have legal duties to labor and community interests as well as to shareholders.

The board (or supervisory board in Germany's two-tier board structure) may appoint a CEO who is more responsive to the interests of the dominant shareholder than to minority shareholder concerns. In turn, the dominant shareholder or primary bank serves as an effective check on the CEO, as hostile takeovers are relatively rare in the EU (outside of the UK).

The attitudes and rules toward hostile takeovers in the EU have been slowly converging toward those in the United States, although substantial differences remain. One significant barrier to hostile acquisitions are the "golden shares" retained by EU member state governments in partially privatized companies. These "golden shares" take different forms, but typically provide for special intervention rights or veto rights for the government, particularly in change of control situations.

There have been several recent significant European Court of Justice decisions limiting the scope for government golden share schemes. In June of 2002, the ECJ ruled that all golden shares constitute per se restrictions on the principle of free movement of capital and therefore also on freedom of establishment, and can therefore only be justified in limited circumstances, provided that

the objective falls within a “general or strategic interest” and cannot be attained by other less restrictive measures, and that the measures are based on precise criteria known in advance and open to court review.

However, the Court left open an exception for national security defense—which allowed the Court to uphold Belgium’s golden share in two energy companies and may apply to other industries. In May 2003, the ECJ struck down additional golden share schemes in the UK and Spain, and further narrowed the permissible parameters, stating that the objective must fall within the Treaty of Rome’s exceptions such as defense or national security, or fall within the broader EU legal definition of “overriding requirements in the general interest.”

The European institutions have progressed towards adoption of a first pan-European takeover code. In 2001, a highly negotiated version of the Takeover Directive failed to pass on a tie vote in the European Parliament.

The opposition was led by Germany, which objected to the Code’s provisions that would have required advance shareholder approval for certain takeover defenses, including the poison pill, arguing that this would raise a level playing field issue with the U.S. and other jurisdictions that permit defensive mechanisms without prior shareholder approval. It should be noted that, unlike much of Europe, boards in the United States have a court-sanctioned fiduciary responsibility to shareholders that operates to prevent maintenance of defensive measures when contrary to shareholders’ interests.

Chancellor Gerhard Schroeder has been particularly supportive of a special German law limiting any single shareholder to 20 percent of Volkswagen’s total voting rights. However, the European Commission has begun legal proceedings to challenge the validity of the so-called Volkswagen Law.

In May 2003, Commissioner Bolkestein once again met with resistance to his efforts to obtain majority support for a revised

pan-European takeover bill. This time his bill was delayed by the Germans, the Scandinavians (who dislike the one-share, one-vote principle in the proposal), and Great Britain.

In December 2003, the European Parliament and the Council of Ministers reached agreement on a Takeover Directive that provided member states the option of applying the directive's key shareholder protections to companies headquartered in their jurisdiction. The optional approach was opposed by Commissioner Bolkestein and most market participants on the grounds that it would not force convergence of takeover rules in Europe and could introduce new levels of complexity and reciprocity in the functioning of bids. Nonetheless, it was agreed on in order to get the Directive on to the statute book.

The apparent failure to adopt a meaningful EU Takeover Code means that a substantial barrier to the creation of a single EU capital market is maintained, with potentially adverse effects on the EU's general competitive position and the need for consolidation in specific sectors.

Yet Germany does not currently allow the use of golden shares or multi-class arrangements as anti-takeover devices. Moreover, in 2002, Germany put into effect its own Takeover Code with a general requirement that the Management Board refrain from taking any action to frustrate a takeover offer, subject to five exceptions:

- The Management Board may take any action that it prudently could take if there were no takeover bid.
- In any event, the Management Board may search for a competing bid from a “White Knight.”
- The Management Board may take any action to frustrate a takeover bid if such action is approved by the Supervisory Board within its legal authority.
- The Management Board may take any action to frustrate a takeover bid if such action is approved at a shareholder's meeting after the takeover bid is announced.

- The Management Board may take any action to frustrate a takeover bid if such action has been approved in advance of a shareholders' meeting. (Note that the Management Board may not invoke a poison pill to thwart a hostile takeover unless in advance shareholders have approved both the authorization of sufficient shares and the abolition of preemptive rights.)

Given the adoption of the new German Takeover Code and the significant watering down of the EU Takeover Directive, the Group should recommend the retention of legal experts to monitor implementation of the Directive in the EU member states and to highlight at an early stage those jurisdictions that will or will not apply the directive in its most meaningful form.

Further, the legal experts should compare the anti-takeover elements of Delaware corporate law to the relevant provisions of German and EU Codes. These comparative analyses would be particularly useful to EU leaders as they seek to give legal force to the EU Takeover Code in their respective jurisdictions.

Financial Conglomerates Directive

The EU's new directive on the enhanced supervision of financial conglomerates and its extraterritorial application to financial groups with a parent based outside the EU is high on the list of issues under discussion between the EU and the United States. U.S. securities firms argue that this new directive places them at an unfair disadvantage relative to European universal banks, because U.S. securities firms are regulated by the SEC, rather than by the Federal Reserve.

The new directive has also brought to the fore perceptions by the United States and EU of the faults of the other's supervisory structures and practices.

For U.S. securities firms operating in Europe, the key issue is the directive's requirement of verification by the EU competent authority of "equivalent supervision" by third-country authorities. There is concern among U.S. authorities and the financial services industry that if the EU were to consider U.S. supervision as not equivalent, it would raise the cost to U.S. firms of doing business in the EU and thus place them at a significant disadvantage to their EU-parented competitors.

Under the proposal that has now been adopted, the EU competent authority (i.e., the lead EU regulator of the non-EU parented group) must consult with the new Financial Conglomerates Committee, comprised of Member State officials, before taking a decision. The Committee may provide guidance as to whether a third-country's supervision achieves the objectives of the directive.

A negative opinion by the Committee, if endorsed by the Commission, would be binding. The Committee has yet to draw up its rules of procedure, so it is not known how it will address the issue, but it is likely that it will form an opinion on a country-by-country basis.

The Commission is convinced that a common EU position on key countries, such as the United States, must be reached to avoid confusion (one Member State's authorities approving a third-country's supervision and another one not) and to ensure there is no regulatory arbitrage. The EU authorities have used meetings with the SEC and the Federal Reserve Bank to explain the reasoning behind the directive, and in particular third-country equivalence.

However, U.S. financial firms are suspicious that the need for a common EU position could simply be a thinly veiled means of putting pressure on the United States to fall in line with the EU's approach to consolidated supervision, which is largely based on the premise that banks play the central role in financial markets.

In the United States the situation is quite different, with much higher levels of disintermediation outside of commercial banking,

and a bigger role for investment firms and asset managers. The Commission has privately acknowledged that Fed supervision might be deemed equivalent but that SEC supervision might be argued to fall short. In this situation, U.S. parented groups supervised by the SEC would be disadvantaged vis-à-vis their competitor banks supervised by the Fed.

Since the debate on the supervision of financial conglomerates is very much up in the air, the Group should suggest that the European regulators accept the SEC as well as the Fed as the primary regulator for U.S. financial conglomerates. If necessary, the European regulators could ask the SEC to consult with the Fed on specific issues such as money laundering or capital requirements.

Conclusions

The United States and EU are generally moving closer together in many aspects of financial services. This relationship is based on a significant flow of primary and secondary offerings across the Atlantic, and has grown as both the United States and the EU have struggled to respond to the recent wave of accounting and corporate scandals. Yet the convergence between the United States and the EU is far from complete. The regulatory structure in areas like pensions and financial conglomerates is quite different, and so are the approaches to corporate governance and accounting.

Therefore, financial services present an excellent opportunity to bolster the relationship between the United States and the EU by building on an existing, but incomplete, foundation for common ground. Given the erosion in the U.S.-EU relationship in the foreign policy area, it is particularly important for the Group to use this opportunity to strengthen transatlantic ties in financial services.

In choosing specific aspects of financial services on which to proceed, the Group must be careful. On the one hand, we cannot

attempt to make major changes in aspects that have recently been shown to be relatively intractable. On the other hand, we should be reluctant to concentrate on areas in which global standards have already been promulgated without the Group's intervention. In addition, the overall set of recommendations should be roughly balanced—calling on both the United States and the EU to make appropriate accommodations to each other.

The Group should therefore focus on a few selected areas where there is a significant potential for change, but the field has not yet been totally occupied. In our view, these dual criteria suggest four areas for specific efforts by the Group—two mainly on the U.S. side and two mainly on the EU side. The Group should also authorize further expert analysis of particular aspects of accounting and legal frameworks in order to help facilitate the resolution of a difficult set of issues—one on each side of the Atlantic.

On the U.S. side, the Group might fruitfully encourage the SEC to take a modest step toward allowing EU trading screens to be shown directly to U.S. investors by adopting the approach of Rule 144A, where the rules on transatlantic offerings have been loosened for offerings limited to institutional investors. In addition, the Group might identify a few subjects under the SOX Act—perhaps involving certification standards for financial controls of non-U.S. Reporting Companies, or local supervision of foreign accounting firms serving such Companies—and ask the SEC to take a more flexible approach to these subjects.

The Group might also help both regulators and companies by authorizing a paper identifying the key remaining differences between IAS and US GAAP, together with suggestions for resolving these issues.

On the EU side, the Group should support the adoption of truly pan-European principles by each EU country in implementing the new pension directive; in this area, the devil is in the details and the details are subject to a broad range of discretion-

ary judgments in each country. The Group should also provide political impetus to ongoing efforts to persuade EU institutions and regulatory bodies that they should accept the SEC as the primary global regulator of U.S. securities firms, drawing on the provisions of Gramm-Leach-Bliley, perhaps with a proviso that the SEC consult the Federal Reserve on topics like capital adequacy.

The Group might also help EU leaders think through the difficult issues involving anti-takeover laws by authorizing an expert analysis of the current legal regimes in Germany and Delaware as compared to the proposed EU Takeover Code.

Transatlantic leadership toward financial regulatory convergence would illustrate several of the basic elements of the “G-2” concept. Europe and the United States could operate as a very informal steering committee, reaching agreements on how to proceed as a kind of “G-2 caucus” and then promulgating their concurrence through formal and multilateral structures like the International Accounting Standards Board.

Such informal steering efforts at this point in history would be especially valuable, in light of the acute tensions in overall Europe-United States relations and the recent tensions even in the traditional areas of G-2 success like competition policy.

Effective cooperation in financial services would indicate a willingness on the part of the “G-2” to exercise leadership in an area where global responsibility clearly lies on its shoulders. Such leadership would demonstrate the practicability of the “bottom up” approach to overall G-2 activity (as opposed to a “top down” directive from political leaders to carry out G-2 coordination on a large number of topics). Such leadership on financial issues would also meet the basic G-2 criteria of both improving relations between Europe and the United States themselves, while contributing to a more effective global economic order with tangible benefits for the rest of the world.

Hence we believe that adoption of the recommendations in this paper would convey two major sets of advantages. Most im-

portantly, they would help resolve a series of issues that are significantly hindering international finance and thus international commerce. At the same time, the process of implementing the recommendations in this paper would further demonstrate that the “G-2 strategy” of effective collaboration between Europe and the United States constitutes a viable way of providing needed leadership for the world economy.

Energy Policy Issues for EU-U.S. Consideration: Economic Benefits Achievable by Restoring Crude Oil Prices to a Competitive Level

Philip K. Verleger, Jr.

Introduction

Global economic growth has been unnecessarily restrained for more than three decades by artificially high energy prices. Real GDP in the United States would be at least 10 percent higher today had oil and natural gas prices been determined since 1970 by competitive forces, not a cartel. Real GDP in the European Union would be at least 15 percent higher and real GDP in Japan might be 20 percent higher had energy markets been governed by competitive forces. Economic progress in developing nations that depend upon imported oil would have been substantially greater had energy been available at competitive prices.

However, energy has generally not been obtainable at competitive prices for the last thirty years. Instead, a cartel of eleven oil-exporting countries has constrained the amount of oil supplied to the market. The cartel's limitation of supplies has caused oil prices to range from 15 to 300 percent above levels deemed competitive by most experts. The cartel's success in artificially raising oil prices, in turn, has affected natural gas prices in many countries.

As a consequence, consumers in the EU and the United States have spent between two and three times as much on energy as they would have had oil markets been driven by competitive forces. This diversion of disposable income to energy expenditures has

restrained growth in purchases of other goods and services, acting as a brake on economic growth.

Global economic growth has been held back further by sudden increases in oil prices (price “spikes”), which, while infrequent, impose large one-time losses in GDP. These losses are never fully offset if, as, and when prices return to the pre-spike level. Instead, each price “event” inflicts a further, permanent cost on the global economy.

Governments of industrialized countries have always had the capacity to moderate the effects of price spikes and the efforts of the oil cartel to inflate prices artificially. This ability was limited initially but has increased recently.

Now, in 2003, industrialized countries have a real opportunity to take steps that would restore oil prices to competitive levels and keep them there for a decade or more. Such an action would yield large economic dividends, including the probable banishment of deflationary pressures.

Acting together, the United States, the EU, and Russia have a unique chance today to break the oil cartel’s control of the market, stabilize oil prices at a competitive level—which we believe is roughly \$16 per barrel today for Brent crude (the international benchmark), and eliminate the drag of higher oil prices on world economic growth.

The policy would involve using existing government oil stockpiles creatively, lifting trade barriers on exports of energy-intensive goods from oil-exporting countries to G-7 members, and expanding government global stocks. Fully implementing such a program would likely lift world growth rates by as much as two percentage points above rates that might otherwise prevail in each of the first three years following its institution.

In this paper, we begin by presenting background information on the oil cartel, showing that the organization has successfully lifted prices well above competitive levels for more than thirty years. We note that the artificially high prices set by the cartel

have cut between 10 and 30 percent from the GDPs of the EU, the United States, Japan, the rest of the Organization for Economic Cooperation and Development (OECD), and the world's developing, oil-importing countries.

We then present a program for stabilizing oil prices. The plan includes three elements: stabilizing oil prices at the competitive level by using government-owned stocks, removing trade barriers that block imports of energy-intensive goods from countries endowed with large energy resources, and creating an oil price stabilization authority to manage the program.

The proposed program would be open to all exporting countries. However, we acknowledge that some of the cartel's members may attempt to frustrate the plan, preferring to retain the high-price regime that has prevailed for thirty years. We suggest that such a decision would be a mistake.

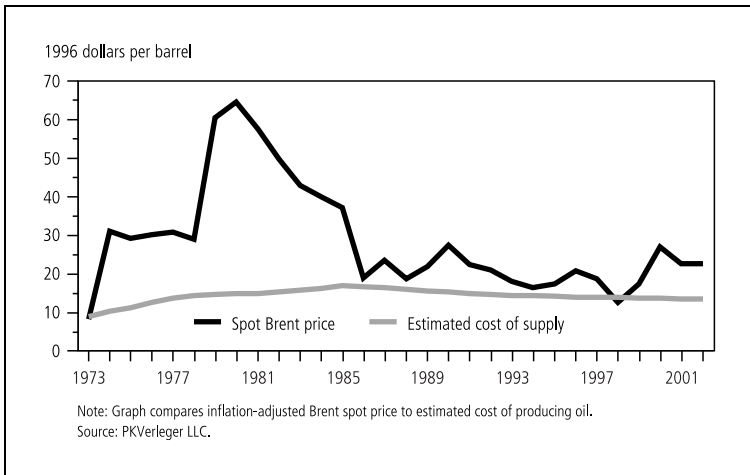
Those countries that did not join in the effort to stabilize oil prices at competitive levels would not benefit from the lower tariffs on energy-intensive goods offered to nations that did agree to participate. Those countries not taking part would thus likely see a diversion of foreign direct investment to other exporting nations that decided to join. Non-participating countries would also likely experience a lower rate of economic growth.

Background

A cartel of oil-exporting countries, the Organization of Oil Producing and Exporting Countries, or OPEC, seized control of the oil market in 1973 following the Yom Kippur War. Led by Saudi Arabia, the organization's members¹ agreed to cut production

1 OPEC members in 1973 were Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. Ecuador and Gabon left the OPEC in the 1990s.

Fig. 1: Comparing real price of crude oil with incremental production costs—1973 to 2002



and withhold oil from the world market for the purpose of raising prices.

The effort was extraordinarily successful. As may be observed from Fig. 1, the real price of oil surged from \$8.30 per barrel (in 1996 dollars) to \$31 in 1974 (again in 1996 dollars). By comparison, the real, inflation-adjusted cost of finding and producing oil at the time was thought to be around \$4 per barrel.

Fig. 1 shows the inflation-adjusted spot price of Brent crude oil and our estimate of the cost of finding and producing oil. As can be seen from the graph, the oil-exporting countries have kept prices above the estimated cost of finding in all but one year since 1973.

The crude oil referenced in Fig. 1 is “Brent.” This crude is pumped from the United Kingdom’s oil producing sector. Because volumes are freely traded, it has become the most visible and most important indicator of oil prices for the world today.

The cost estimate shown in Fig. 1 is based on the work of several economists. Mabro et al. (1986) calculate that the incremen-

tal cost of finding oil in the North Sea in the mid-1980s to be \$12.50 per barrel, or around \$16 per barrel in 1996 prices. Adelman (1972) found the cost of production in the early 1970s to be less than \$2 per barrel.

More recently, experts at various integrated oil companies such as Shell and BP have commented that productivity improvements and technological breakthroughs have reduced the cost of finding and developing new reserves to between \$12 and \$15 per barrel today. The figure of \$15 per barrel is used here for 2002. The intermediate figures shown in Figure 1 are extrapolated.

Examining Fig. 1 reveals that OPEC has kept oil prices well above the cost of production. Since 1973, spot prices of crude oil have exceeded the estimated cost of production in twenty-eight out of twenty-nine years. The only exception was 1998, when prices temporarily collapsed.

In the following year, OPEC members cut output by more than six percent, which caused prices to quickly rise well above the production cost. In the twenty-nine years since the Yom Kippur War, real prices have averaged \$29.39 per barrel, a figure 101 percent greater than the estimated average production cost of \$14.55 per barrel.

OPEC's success in raising prices has imposed real costs on the global economy. Countless economic studies published in the early 1970s document the economic toll of the higher oil prices. A 1983 article in *The Economist* (titled "Now Thrive Popeye") detailed the benefits of low-priced oil, estimating that a 30 percent decline in oil prices would raise real incomes in oil-importing countries by 1.5 percent. A 60 percent cut in oil prices—the amount required to bring prices to competitive levels—would have raised incomes by three percent.

Two years later, on the eve of the 1986 oil price collapse, *The Economist* ("Cheaper Oil" 1985) again wrote that cheaper oil would stimulate the global economy. Their analysis suggested that a 50 percent decline in oil prices would boost OECD GDP

by two percent. The analysis also found very large economic gains for South Korea, India, and Brazil.

These calculations remain valid today. A reduction in oil prices of 35 to 50 percent—the amount required to bring markets to competitive levels—would free between one and two percent of GDP to be spent on other activities in the EU, the United States, and Japan. These savings are similar to those calculated in 1983 and the benefit for global GDP could be expected to be the same.²

These results provide an indication of the well-recognized economic gains associated with a decline in the level of oil prices. Additional gains can be achieved by reducing the volatility of world oil prices. Many economists, most notably Federal Reserve Chairman Alan Greenspan, have noted that oil price spikes that accompany disruptions in the supply-and-demand balance have “asymmetric impacts” on economic activity. Such effects are said to occur if a percentage increase in the commodity has a larger (or smaller) impact than a percentage decrease of equal magnitude.

Research by Hamilton (1983) supports this assertion. Hamilton noted that five of the six postwar recessions up to 1980 had followed increases in oil prices, and he indicated that the economic slowdown began roughly three quarters after the price shock. His results suggest that the cumulative elasticity of GDP with respect to the price of oil is roughly 0.1, implying that a 10 percent increase in oil prices over the prior four quarters would cut the current period’s growth in GDP by one percent.

More recently Hamilton (2003) prepared estimates of the “but for” increases in real GDP that would have occurred in the

2 A cut in oil prices in 2003 would not produce as large a reduction in energy expenditure in 2003 as in 1983 in Europe or Japan because both regions have reduced their use of oil. However, the total dollar savings would be similar because natural gas has replaced oil. The decline in oil prices would cause a parallel decline in natural gas prices, cutting expenditures on that fuel.

absence of oil shocks. He determined that price spikes had statistically significant impacts on real GDP on four occasions: 1955 at the time of the Suez crisis, 1973 at the time of the Arab oil embargo, 1978–79 during the fall of the Shah of Iran, and 1990 following Iraq's invasion of Kuwait. The key conclusion from his analysis is that GDP in the United States was:

- 1.5 percent lower seven quarters after the 1955 crisis began than it would have been absent the higher oil prices caused by crisis,
- 10.3 percent lower seven quarters after the 1973 crisis began than it would have been absent the Embargo,
- 11.4 percent lower thirteen quarters after the 1978–79 crisis began than it would have been absent events in Iran and the subsequent outbreak of the Iran/Iraq war, and
- 4.5 percent lower seven quarters after Iraq invaded Kuwait than it would have been had prices not increased after the invasion.

Table 1: Calculations of U.S. GDP Losses During Four Past Energy Crises

	Length of effect (quarters)	Actual average change in GDP	Possible average change in GDP	Lost GDP (billion 1996 dollars)	Percent of GDP per quarter	Cumulative shortfall in GDP (%)
Suez crisis	7	0.02	0.30	32.6	0.2	1.5
Oil embargo	7	-0.28	1.18	390.1	1.4	10.3
Fall of Shah	13	0.11	0.96	610.5	1.8	11.4
First gulf war	7	0.28	0.75	321.4	0.7	4.5

Source: Hamilton 2003.

In summary, fluctuations in petroleum markets over the last thirty years have imposed real economic costs on the global economy. These costs are measured first in the lower level of real GDP that

results from the success in raising oil prices achieved by the oil producers' cartel. The costs are bumped up further by the asymmetric impact of oil price spikes.

A program to restore crude oil prices to a stable competitive level

The EU, the United States, Russia, other members of the OECD, and many developing and newly industrialized countries have an enormous interest in creating a competitive global oil market. Today, this would mean reducing the price of Brent crude by 35 to 50 percent.³ This in turn would reduce natural gas prices in the EU, where these prices are linked to oil prices, by as much as 40 percent.

Consuming countries have at least two alternative means for driving oil prices down to the competitive level. They could jointly confront the oil producers' cartel using various legal strategies to break the organization. Alternatively, they could propose market and trade-opening strategies to gain the cooperation of producers.

The industrialized countries have considered the first option, confrontation, often since 1973 but always rejected it. For example, the Washington Energy Conference convened by Henry Kissinger in 1975 was initially proposed to take on OPEC. In the end, however, the conferees agreed only to create the International Energy Agency (IEA) and establish programs to distribute oil among industrialized countries in the event of a future market disruption.

Sixteen years later, France convened a "producer/consumer dialogue" following the first Gulf war for the purpose of discus-

3 The spot price of Brent crude oil was \$32.50 per barrel on January 13, 2004. In a competitive market, Brent would sell for between \$14 and \$18 per barrel.

sing market stabilization. That meeting did not lead to a confrontation, and it accomplished nothing. Subsequent conferences have been equally unsuccessful.

Now, thirty years after the first oil shock, governments of industrialized countries—particularly those of the EU and the United States—clearly have no interest in challenging oil producers directly.

It is possible, though, for consuming countries to restore crude oil prices to competitive levels without directly facing off with the oil cartel. The effort can be led by the EU and the United States, operating in cooperation with Russia and possibly Japan. The cooperative approach would involve three elements:

- An agreement by the EU, the United States, and other OECD nations to suspend all tariffs and duties on imports of energy-intensive commodities such as aluminum, steel, and petrochemicals manufactured in energy-exporting countries that agreed to join in the program to restore crude oil prices to competitive levels
- A decision by the EU, the United States, and other OECD nations to distribute their large, government-owned inventories of crude oil and products when crude oil prices exceed the price level deemed to be competitive
- The development of a program to double or triple government-owned inventories of crude and products by creating a global commodity pact modeled along the lines of the International Tin Agreement

The first element of the program should involve an agreement to remove all tariffs and quantitative limits on imports of energy-intensive goods from producing countries participating in the stabilization program. Such a step would provide a strong incentive for many oil-exporting nations to participate.

Oil-exporting countries with sizeable natural gas reserves (Russia, Qatar, Iran, and Saudi Arabia) enjoy an enormous natu-

ral competitive advantage compared to industrialized nations in producing energy-intensive goods because the cost of transporting natural gas is so high.

For example, incremental supplies of natural gas to the United States today must come in the form of liquefied natural gas. The landed wholesale cost in June 2003 was between \$5 and \$7 per thousand cubic feet. Between 50 and 70 percent of the price represents transport costs.

Thus, the comparable price of natural gas to industrial users in the Middle East or Russia would be perhaps \$2 per thousand cubic feet. The cost advantage may be as much as 50 percent in many cases.

Removing trade barriers would boost activities in energy-intensive industries such as fertilizer production, iron and steel smelting, aluminum production, and petrochemicals. Historically, energy-intensive industries have located near low-cost energy sources when trade barriers were absent.

For example, the aluminum industry located in the Northwestern region of the United States to take advantage of the cheap electricity made available by the damming of the Columbia River. Today, plants would be located in Russia, Qatar, Saudi Arabia, or the United Arab Emirates if the output could be shipped to industrialized countries freely.

Removing trade barriers would benefit consumers and oil-exporting countries. Consumers would realize a lower cost of goods containing high energy content. Oil exporters would be encouraged to diversify their economies into activities that make full use of their competitive advantage.

Removing trade barriers would logically lead to the relocation of energy-intensive industries that rely on natural gas—aluminum smelting, perhaps iron and steel, and almost certainly basic petrochemicals—to these nations. More economic diversification in the region would hopefully push the leaders of these countries toward taking a greater interest in the health of industrialized nations.

However, the program's benefits can be enjoyed only by those oil-producing countries willing to abandon the effort to boost oil prices artificially. Only those nations agreeing to cooperate with the restoration of a competitive crude market would be granted tariff-free access to the G-7 countries.

Oil-exporting countries would have to commit to producing at the maximum rate consistent with prudent reservoir management policy. These countries would also agree to stop collaborating with other producers for the purpose of artificially boosting oil prices. G-7 countries would reserve the right to withdraw trade concessions from any oil-exporting country that joined with other oil-exporting nations in a coordinated output reduction designed to raise prices.

The second element of the program should be an agreement among EU members, the United States and other G-7 countries to release oil inventories held in government-owned or controlled facilities for the purpose of restoring crude prices to the competitive level. At the end of 2002, these countries jointly held or controlled 1.2 billion barrels of oil (see Table 2). These inventories represent 30 percent of world stocks.

Table 2: Estimates of OECD petroleum inventories and world petroleum consumption for selected years

	Total stocks (million barrels)	Public stocks (million barrels)	Private stocks (million barrels)	Worldwide consumption (million barrels per day)	OECD days of coverage of private stocks
1982	3,395	610	2,786	61.7	72.4
1990	3,658	1,063	2,595	66.0	61.3
2000	3,740	1,210	2,529	76.2	51.8
2002	3,729	1,272	2,467	76.9	50.0

Source: BP Statistical Yearbook and IEA.

These stocks affect the level of world oil prices. While providing a measure of security, strategic petroleum stocks also lift the price of

oil because government-owned inventories substitute for private holdings. Economic theory predicts and market data confirm that private stocks decrease as government holdings rise. The decline imparts an upward bias to the cash price of crude oil. Today, the price of crude oil would be as much as \$5 per barrel lower (\$23 instead of \$28 per barrel) if government stocks were liquidated.

G-7 governments can use their inventories to moderate the high price of oil by offering to “lend” supplies to buyers. Such a strategy would involve allowing buyers to exchange crude oil taken today from government facilities for a like volume of oil to be delivered in the future. Such an arrangement would be identical to the lending of gold by central banks.⁴

Buyers would agree to participate in such transactions as long as oil for forward delivery sold for less than oil offered for delivery today. For example, on Friday, July 25, 2003, the price quoted for immediate delivery of Brent crude oil was \$28 per barrel. However, on that date a buyer could acquire Brent for delivery in June 2006 for \$23, a \$5 per-barrel discount compared to the price of prompt supplies. Under an exchange program, buyers could have taken oil from government stocks on July 28 while purchasing oil to be returned to the government in June 2006 for \$23 per barrel.

Such arbitrage transactions would cause a decline in the spot price of crude oil. To be precise, under certain conditions the spot price of crude might drop as low as \$23 per barrel if governments allowed buyers to take sufficient volumes of crude oil.

The third element of the program should be the expansion of public stocks and creation of an international authority with the responsibility to assure that oil prices remain at the competitive level.

4 Central banks often lend their gold reserves to private firms in order to earn a return on otherwise stale assets. A jeweler, for example, will borrow 100 ounces of gold today for a cash payment, agreeing to return a like amount of gold in a year.

This organization would have the power to construct new storage facilities, purchase oil for the facility if prices threatened to fall below a specified floor prices and, under extreme situations, the power to order proportional production cuts by all nations producing oil for the purpose of preventing short-term price collapses. This feature of the proposal contains two specific elements that have in the past not been part of the oil market.

- Authority to control output globally: It is envisioned that all oil producers in the world would jointly cut output if a short-term collapse in oil prices was threatened. This feature differs from today's market, where only a few countries cut production to stabilize prices. Instead all countries would share production cuts.
- Development of much larger stocks for the purpose of price stabilization: These stocks will be created to maintain a stable price environment. The need to order production cuts will not likely arise for several years because large volumes of oil will be required to fill the buffer stock.

This third component of the proposal—expanding public stocks and creating an oversight authority—serves three purposes. First, a market for crude oil is created at those times when demand falls below supply. Second, stabilizing prices will offer a guarantee to investments threatened today by the risk of a sudden fall in prices. Third, the burden of price stabilization is shifted from a small group of low-cost producers to all major oil producers.

Creating a guaranteed market for crude reduces the risk of investing in high-cost, long-lead-time projects that promise to deliver large volumes of oil in three, four, or five years. Most forecasts of world energy supply-and-demand balances indicate that these supplies will be required within five to ten years.

Yet many experts expect prices to fall to low levels in the latter half of this decade. Many of the needed investments are likely to be delayed or canceled if prices decrease, just as they have been in

the past. Ten years from now, prices could again spike because needed investment was abandoned between 2005 and 2010. Stabilizing prices at the competitive level would remove the destructive economic cycle of underinvestment that is inevitably followed by a period of very high prices and macroeconomic losses.

Introducing an international authority could allocate production cuts among all producers under those rare times when global supply exceeded global demand plus the buffer stock's capacity. Under such conditions, the authority would be vested with the power to order temporary reductions in output by all large oil producers.

Such authority would extend to producers in the United States, Canada, Russia, United Kingdom, and Norway, as well as the traditional OPEC members. The authority would have powers similar to those once vested with the Texas Railroad Commission. From 1946 to 1971, the Texas Railroad Commission and other state authorities regulated the volume of oil that could be produced from wells in the state. The cuts successfully stabilized prices (Bohi and Russell 1978).

Similar authorities existed in several other states, as well as the Province of Alberta in Canada. A new international authority would work with these organizations as well as the governments of oil-exporting countries to manage any needed production cuts smoothly.

Major oil-exporting countries should welcome the establishment of such an authority because it would allow any reduction in output to be more widely distributed. As a result, the income of some exporting countries could well be as high as it is now or higher, despite the lower oil price, than it might be if they operated under the current regime.

Under several scenarios, OPEC's largest producers would see little change in their income from oil sales. These countries could possibly see increases in incomes when the benefits of trade, stronger global economic growth (which would boost oil demand), and higher volumes of oil sales are factored into the picture.

Conclusion: A program to restore oil prices to competitive levels will pay real benefits to the global economy

Artificially high oil prices caused by OPEC's manipulation of world oil markets have constrained global economic growth for thirty years. GDP in the United States could be 10 to 15 percent higher today had consuming countries attacked the cartel's efforts to restrict output and raise prices in 1974 instead of acquiescing to the extortion. The GDP of the EU might be as much as 20 percent higher had OPEC's efforts been stymied.

Progress in developing countries would have been much greater and efforts to alleviate poverty more successful if OPEC's efforts had been frustrated.

In 2003, the world's industrialized nations have a real opportunity to redress OPEC's wrongs. New economic developments in Russia create a chance to undercut OPEC. This effort can be strengthened by the prudent use of government-owned stocks to bring oil prices down.

At the same time, industrialized nations can use the "carrot" of better access to their homeland markets for energy-intensive goods as an incentive for oil producers to cooperate rather than resist efforts to lower oil prices.

Further incentives to cooperate can be created by organizing a price stabilization scheme that includes expanded government-held stocks and an international agreement to share any production cuts among all oil producers rather than just oil-exporting countries.

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Bridging the Transatlantic Environmental Divide

Daniel C. Esty

Overview

Not for a generation have EU-U.S. environmental relations been so strained. The list of differences in policy preferences, underlying perspectives, and strategies for addressing critical issues is extensive. While the Bush administration's decision to back away from the Kyoto Protocol and its failure to advance a serious alternative response to the problem of climate change has drawn a great deal of attention, a number of other disagreements and disputes are also ongoing.

These issues include: the EU ban on U.S. beef imports that have been treated with hormones, the regulation of biotechnology in general and genetically modified organisms (GMOs) in particular, labeling of GMO food, the proper use of the "precautionary principle," whether and how to create a Global Environmental Organization, how to build environmental sensitivity in to the World Trade Organization (WTO), the proper role for environmental standards in export credit programs, and the implementation of the Basel Convention on the Control of Hazardous Waste, which remains unratified by the United States.

With such a high degree of antagonism between the United States and the EU, the broader international environmental agenda is in tatters—as the dismal outcome of the World Summit on Sustainable Development in Johannesburg demonstrated.

This array of disputes provides a strong practical argument for an initiative to bring the United States and Europe closer together on environmental issues. But there is also a deep theoretical logic to strengthened transatlantic efforts to develop a program of international environmental cooperation.

Underlying logic

Ecological interdependence, economic integration, and the benefit to national environmental efforts of data and information exchange at the international level all argue for a vigorous worldwide program of environmental cooperation. Improved transatlantic environmental relations can provide a stepping stone on the path toward a robust international environmental regime capable of addressing shared problems and common concerns.

The economic theory of public goods calls for governmental action to be undertaken on the scale of the harm or issue to be addressed. Because some environmental problems are inescapably transboundary in their scope, international environmental cooperation is essential. In this regard, an EU-U.S. environmental initiative could kick-start the drive to establish a better functioning international environmental regime and could be used to identify a sensible set of core issues on which to focus global cooperation efforts.

Beyond the requirements of transboundary pollution spillovers and shared natural resources, a transatlantic environmental initiative would be valuable as a way of reducing the environmental stresses on the international trading system and of reinforcing the push toward deeper economic integration and open markets.

Trade liberalization heightens tensions at the trade-environment interface. Absent a focus on environmental issues, any development strategy aimed narrowly at promoting economic growth creates a risk of spurring uncontrolled industrialization

and other economic activities that generate unnecessary pollution and unsustainable consumption of natural resources.

Moreover, the market disciplines on non-tariff barriers that are the essence of modern trade agreements restrict the domestic regulatory choices that are available to countries and must be structured in ways that do not run roughshod over legitimate environmental standards and programs.

Likewise, environmental policy choices inescapably affect trade. Regulations and standards that are not carefully crafted can become impediments to trade. International environmental cooperation thus emerges as a necessary counterpart to international economic collaboration. Whether to address “trade and environment” issues is therefore not really a choice, the only question is how to address them.

Beyond the need to address transboundary harms and to manage interdependence—both ecological and economic—there are a number of environmental issues that do not require international cooperation but which benefit from the exchange of information at an international level.

Many environmental problems are most easily tracked and best understood when national data is examined comparatively at the global scale. Comparative analysis also facilitates policy evaluation and the identification of effective (and ineffective) governmental interventions. International information exchange is also useful in determining which technologies and policies represent “best practices” that should be replicated and used more broadly.

Building an EU-U.S. environmental agenda

Some issues make sense to address on an EU-U.S. basis because the underlying problems arise on a transatlantic scope. Other issues might be considered for EU-U.S. action because the United States and Europe are similarly positioned vis-à-vis a recognized

environmental threat or share an interest in taking on a particular problem. Finally, some issues might be taken up on a transatlantic basis because of the opportunity for the United States and the European Union to demonstrate worldwide leadership and energize a global response.

Differences in perspective between the United States and the European Union make it difficult to envision real action on some of the pressing items on the international environmental scene. The following EU-U.S. environmental action agenda therefore offers an array of options, some of which would be quite difficult to advance, while others offer the possibility of relatively quick consensus.

Global climate change emissions trading

One of the most serious EU-U.S. divides centers on how to respond to the build-up of greenhouse gases in the atmosphere which threatens to lead to global warming, sea level rise, changed rainfall patterns, more severe windstorms, and other climate changes. The Bush administration's decision in 2001 not to pursue ratification of the Kyoto Protocol has been a source of particular transatlantic strain.

Despite this stance, the U.S. government has developed its own strategy for reducing greenhouse gas emissions and improving the eco-efficiency of the U.S. economy over the next decade. More importantly, a growing segment of the U.S. private sector has chosen to take up the climate change challenge ahead of government mandates.

Understanding within the European Union about how best—and most cost effectively—to reduce greenhouse gas emissions also continues to evolve. The EU's prior hostility to climate change controls centered on an emissions trading regime has softened considerably.

Indeed, a significant number of European climate change experts and government officials now recognize that the most efficient way to address the climate change threat is through a system of allocated emissions permits that allows those who are best positioned to reduce greenhouse gases to “over-fulfill” their reduction targets, permitting those who cannot cost effectively reduce their emissions to buy extra allowances. Such a market-based approach minimizes the overall cost of emissions reduction, creates incentives for innovation, and improves economic efficiency.

The European Union and the United States share an interest in reducing greenhouse gas emissions by as much as possible as soon as possible at the lowest possible cost. More importantly, transatlantic leadership on this issue is essential if the developing world is to be brought into the international emissions reduction regime in a serious manner.

Two initiatives within this realm of transatlantic cooperation should be considered: a global greenhouse gas emissions trading mechanism and an expanded research agenda aimed at fostering new technologies to abate the climate change problem.

Any governmental program to reduce greenhouse gas emissions must pass obligations on to those who are in a position to take actions to reduce emissions—producers and consumers. Price signals that make it clear that the energy future will be different from the past would help to guide corporations and individuals that are making energy choices and investments that have important greenhouse gas implications.

Setting up an emissions reduction program that engages market forces would also help to motivate entrepreneurs to think about alternative approaches to power generation, transportation, and other activities that result in greenhouse gas emissions. Appropriate economic incentives might also induce venture capitalists to invest in technology development to address the climate change problem.

In this regard, an international emissions trading mechanism that allows companies to claim credit for greenhouse gas emissions reductions on projects which they fund anywhere in the world might jump-start the process of achieving the reductions called for by the 1992 Climate Change Convention (which the United States has ratified) as well as the Kyoto Protocol.

By working together on this initiative, the United States and the European Union can ensure that the international infrastructure necessary to track and monitor emissions, measure and certify emissions-reduction projects, and benchmark policy progress develops on a commonly accepted and analytically rigorous basis.

Establishing methodologies and protocols for such an emissions trading mechanism would demonstrate EU-U.S. leadership and provide an opportunity for the key actors to design an economically rational and environmentally effective climate change regime. The benefits from such a global emissions trading mechanism pilot project would extend beyond the United States and Europe. Developing countries would gain in several respects.

First, emissions reductions undertaken anywhere in the world benefit everyone. The planet does not care where the action occurs.

Second, developing nations would be the recipients, in many cases, of the investments made to reduce emissions. In fact, many of the most cost-effective options for reducing greenhouse gases can be found in China, India, and other parts of the developing world.

Third, the launch of such an initiative would provide exposure to and experience with emissions trading at no or low cost.

Finally, these initial efforts would undoubtedly reveal problems with the emissions trading regime that need to be addressed and highlight system refinements that should be adopted before emissions control requirements are imposed on a worldwide basis.

A second initiative focused on technology development in support of eco-efficiency, mitigation or elimination of greenhouse gas releasing products and processes, and enhanced carbon sequestration could speed up the process of moving toward a future where climate change is no longer a threat.

The Bush administration has committed billions of dollars to this endeavor. Both the European Union and the United States have recently launched hydrogen initiatives, which could produce fundamental breakthroughs in the years to come. A transatlantic technology development joint venture to advance energy efficiency, promote renewable energy sources, and further carbon sequestration efforts would be a logical extension of these existing programs.

Environmental issues in the Doha Round

Subsidies—particularly environmentally damaging and trade-disruptive agricultural subsidies—are a major issue on the table in the Doha Round of Multilateral Trade Negotiations. And, as noted earlier, trade-environment tensions could be eased with new commitments to build environmental sensitivity in to the WTO structure on a systematic, narrowly tailored, and non-protectionist basis.

Defining the terms of engagement for international commerce, including the environmental standards that companies and countries are expected to follow, would be a major boost to the prospects of success for the Doha Round.

In advancing this agenda, a transatlantic initiative might build on the “Equator Principles” recently adopted by a consortium of EU and U.S. banks as guideposts for their project lending in the developing world. WTO adoption of these environmental and social standards, based on the sustainability guidelines of the International Finance Corporation, would demonstrate that im-

portant public values, such as environmental protection, can be folded in to the structure of the trading system without undermining trade liberalization and economic growth.

Such a WTO commitment would blaze a trail for improved management of economic and ecological interdependence. In doing so, it would help to energize the present world trade talks and combat the anti-globalization backlash that continues to threaten progress towards deeper economic integration.

Strengthened international environmental governance

Transboundary environmental problems demand international cooperation. A transatlantic environmental governance initiative might focus initially on data collection, problem tracking, trend analysis, and policy evaluation to provide the foundations for effective concerted action. Such an emphasis on environmental information and performance metrics would also provide a model for broader global efforts.

A transatlantic environmental governance initiative might also provide a forum for negotiating collaborative approaches to common problems as well as a mechanism for identifying financial resources to assist countries needing support to carry out commitments to action.

To further test the potential for a Global Environmental Mechanism, a transatlantic initiative might seek to establish a “best practices” clearinghouse where policy approaches and technology options could be evaluated and the most successful alternatives broadly disseminated.

Movement toward a strengthened international environmental regime would help to ensure that transboundary environmental problems are addressed, pollution spillovers and the potential over-exploitation of shared resources do not become trade as well as environmental issues, and disputes are settled quickly and at

the lowest possible cost. There is no arena where successful multilateralism is more urgently needed nor any realm where the existing architecture of global cooperation is more plainly deficient.

International data collection and information exchange

A transatlantic initiative to collect environmental data, analyze pollution causes and effects, and highlight effective policy interventions could pay big dividends. One of the striking features of the environmental policy domain is how many important decisions build on poor data and weak analytical foundations. At every scale—local, regional, state or provincial, national, and global—decisionmakers would benefit from more rigorous underpinnings for the choices they make.

In almost every other policy arena and academic discipline, a strong push has developed in recent years to be more data-driven and fact-based. The environmental realm has been curiously slow in moving in this direction. A transatlantic environmental information and data exchange initiative could reverse this pattern.

Environmental R&D initiative

An EU-U.S. environmental research and development initiative would help to emphasize the important role that technological innovation plays in improving environmental quality. A number of recent studies have demonstrated that only in a small number of circumstances has environmental progress emerged from changes in human behavior. In a far larger number of cases, technological breakthroughs made it possible to reduce pollution harms and better manage natural resources.

A jointly funded EU-U.S. environmental R&D initiative aimed at a small number of priority issues could make a significant dif-

ference in changing the ecological trajectory of the planet. One thrust might center on the development of clean energy sources. While it would be a mistake for the United States and the European Union to target any particular form of alternative energy, a project that seeks to invigorate research and development across a spectrum of future energy sources including hydrogen, wind power, solar energy, and other options would be valuable.

In addition, a project aimed at bringing Information Age tools—computer power, remote sensing, modern telecommunications, nanotechnologies, etc.—to bear in support of environmental goals might also pay big dividends. Investments in technological development offer important benefits not only for the United States and European countries but for the developing world as well.

In fact, one of the most useful ways to redirect the planet's environmental future would be to ensure that developing countries do not go through the full "Kuznets curve" cycle of dirty industrialization that the developed world has suffered. The quicker that emerging economies can be brought on to a sustainable track the better for everyone on Earth.

Conclusion

Managing interdependence represents a critical challenge for countries across the globe. The deep economic integration across the Atlantic gives both the United States and the European Union a special interest in developing strategies for such cooperation. Bridging the existing transatlantic environmental divide would be an important first step toward a future of ecological and economic cooperation.

Generating models of environmental collaboration that might be extended on a worldwide basis would also be of enormous value.

The initiatives identified above range from the very ambitious (a global greenhouse gas emissions trading mechanism) to the relatively modest (an environmental information and data exchange). Each of the potential agenda items stands out as an important area for transatlantic cooperation. These proposals could be undertaken while respecting the existing EU-U.S. differences in ecological perspectives, economic preferences, political conditions, and social choices.

Any and all of the initiatives would provide environmental leadership for a world that desperately needs new momentum in this realm.

Immigration and Integration: The Transatlantic Challenge

Philip Martin

Thinking about migration

Migration is the movement of people from one place to another. Migration is as old as humankind wandering in search of food, but regulated international migration is a relatively recent development, since it was only in the early 20th century that a system of passports and visas developed to regulate the flow of people across national borders.

Most of the world's 6.3 billion people never cross a national border—most will live and die near their place of birth. International migration is the exception, not the rule, and is manageable because:

- The number one form of migration control is inertia—most people do not want to move away from family and friends.
- Governments have significant capacity to regulate migration, and they do, with passports, visas, and border controls.
- Historical experience (European migration to the Americas) as well as contemporary experience (Italy, Spain, South Korea) demonstrate that economically motivated migration does not have to persist.

Under the right circumstances, the migration turning point can be reached within a decade or two, as economic development make emigration unnecessary or turns previously emigration areas into immigration areas.

Migration responds to differences between areas. The major differences that can produce migration arise in demography, economics, and security, and these differences have been likened to plus and minus charges on a battery—nothing happens until a link is established between them.

In migration, links over borders are often described as networks, and networks that provide the information that encourages migrants to move, help them to cross borders, and enable them to find jobs and stay abroad have been strengthened by three late 20th century revolutions, in communications, transportation, and rights.

The major reasons to migrate to another country can be grouped into two categories: economic and non-economic, while the factors that encourage a migrant to actually move are grouped into three categories: demand-pull, supply-push, and network factors.

The three factors encouraging an individual to migrate do not have equal one-third weights in an individual or family situation, and the weight of each factor can change over time. Generally, demand-pull and supply-push factors are strongest at the beginnings of a migration flow, and network factors become more important as the migration stream matures, explaining why it is sometimes said that the best way to initiate a migration flow from an area is to recruit guest workers there.

Family unification is the most important non-economic factor encouraging migration.

Differences between areas are increasing, and so is potential migration. Demographic trends provide an example:

The world's population is growing by about 1.4 percent or 84 million a year, with 97 percent of global population growth in developing countries.¹ Population density is higher in developing

1 According to the Population Reference Bureau (www.prb.org), the world's fastest growing population is in Gaza, where the population growth rate is 4.5 percent a year, and the fastest shrinking population is in Russia, where the population is declining by 0.5 percent a year.

than in developed countries—29 persons per square kilometer in the high-income countries versus 51 in low- and middle-income countries, according to the World Bank.

Will people move from more densely populated places to less densely populated places in the 21st century, much as the 19th century was marked by migration from more densely populated Europe to the Americas and Oceania?

Economic trends provide the second example of differences that are likely to increase migration in the 21st century.

The world's GDP was \$30 trillion in 2000. Global per capita income averages \$5,000 a year, but per capita incomes in the 25 high-income countries averaged \$26,000 a person in 1999, versus \$1,200 in low-and middle-income countries.

This means that an average person moving from a poorer to a higher-income country can increase her income 22 times, which helps to explain why some migrants take big risks in their attempts to enter high-income countries, turning to smugglers or buying false documents.

There is a second dimension to economic differences that prompt international migration. The world's labor force in 1999 was 2.9 billion, and 1.3 billion or 45 percent of the world's workers were employed in agriculture. In most poorer countries, farmers are taxed, while farmers in developed countries generally receive subsidies.

The farm-non-farm income gap in developing countries encourages rural-urban migration, helping to explain why the urban share of the population of the low and middle income countries rose from 32 to 41 percent between 1980 and 1999.

Many industrial countries had a "Great Migration" off the land in the 1950s and 1960s, and similar "Great Migrations" are underway in many countries, including China, Mexico, and Turkey.

The Great Migration off the land has three implications for global migration:

- First, ex-farmers everywhere are most likely to accept so-called 3-D jobs (dirty, dangerous, difficult) in urban areas, either inside their countries or abroad.
- Second, ex-farmers who must find new jobs often make physical as well as cultural transitions, so they are more willing to go overseas if there is recruitment or a migration infrastructure to help them to cross borders.
- Third, most rural-urban migrants remain within their countries, moving to urban areas, but cities in developing countries have become nodes in the international migration infrastructure. Once an ex-farmer is in a city, it may be easier to obtain visas and documents for legal migration, or to make arrangements for illegal migration.

The third major difference that prompts migration involves security and human rights. After the global conflict between capitalism and communism ended in the early 1990s, local conflicts erupted in many areas, leading to separatist movements, new nations, and more migrants, as in the ex-Yugoslavia and the ex-USSR.

Creating new nations is almost always accompanied by migration, as populations are reshuffled so that the “right” people are inside the “right” borders. With more countries, there is the potential for more migration: There were 191 generally recognized nation-states in 2000, up from 43 in 1900.

The CIA fact book lists 191 “independent states,” plus one “other” (Taiwan) and six miscellaneous (including Gaza Strip, West Bank and Western Sahara) (www.cia.gov/cia/publications/factbook/index.html).

Governments sometimes send migrants to areas with separatist feelings or movements to suppress them.

If the area breaks away and forms a new nation, these internal migrants and their descendants can become international migrants without moving, as with Indonesians in East Timor or Russians in the Baltics.

Differences encourage migration, but it takes networks or links between emigration and immigration areas to move people over borders. Migration networks comprise factors that enable people to learn about opportunities abroad as well as the infrastructure that enables migrants to cross national borders and remain abroad. Networks have been shaped and strengthened by three major revolutions in the past half century—in communications, transportation, and rights:

- The communications revolution helps potential migrants learn about opportunities abroad, as anchor migrants are able to communicate easily and cheaply with family and friends at home, providing them with information about opportunities in a context potential migrants understand.
- The transportation revolution highlights the declining cost of travel. The British who indentured themselves to migrate to the North American colonies in the 17th century often promised to work three to five years to repay one-way transportation costs. Today, transportation costs, even for unauthorized entry, are generally recouped much faster.
- The rights revolution, the spread of individual rights and entitlements, allows some foreigners to stay abroad. Many countries provide all persons due process, delaying removals, and many have expanded social safety net programs to all residents, making it easier for migrants in the country to stay abroad.

Growing demographic, economic, and security differences increase potential migration, and the communications, transportation, and rights revolutions strengthen the networks that enable migrants to learn about opportunities abroad, move, and stay abroad.

There is little that countries experiencing “unwanted immigration” can do about the demographic, economic, and security differences that promote migration in the short run, and they also have little power or desire to reverse the longer-run communica-

tions and transportation revolutions that inform migrants and make it less costly for them to travel.

Thus, the default migration management option is altering rights. Governments create and enforce rights, and migration management in the 1990s typically involved enacting new or modified laws to restrict the rights of especially newcomers.

For example, the United States in the 1990s enacted laws that restricted the access of unauthorized as well as many legal immigrants to social assistance program benefits, and many European countries revised their laws to make it harder to apply for asylum.

European issues

Most European societies were shaped by emigration to the Americas—about 60 million Europeans emigrated between 1820 and 1914 (Bade 2000). However, during this great Atlantic migration, there was also significant migration from east to west within Europe, as from Poland to Germany.

Two world wars led to the creation of new nation states in Europe, and there was a massive exchange of people who wound up in the “wrong” country when borders were redrawn, such as the exchange of Greeks and Turks in the 1920s and the migration of ethnic Germans to West Germany after World War II.

Most of the economically motivated migration within and to Europe after World War II reflected rural-urban migration within a country and movements between territories and colonies abroad and the home country, such as between Algeria and France, or India-Pakistan and the UK.

However, faster postwar recovery in northern Europe prompted the recruitment of guest workers in southern Europe, where economic and job growth was slower. These guest workers were expected to stay abroad a year or two and then return with savings and skills.

However, with little public debate or consideration of longer-term impacts, guest workers who wanted to stay longer, and employers who wanted to continue to employ them, prolonged the relationship under rules that gave guest workers the right to unify their families and have a secure work and residence status analogous to a legal immigrant in North America.

Most guest workers returned to their countries of origin according to the assumptions of the rotation model, which imagined that guest workers would save enough during a few years of work abroad at high wages to finance upward mobility and spur economic development at home. However, many guest workers settled abroad during the *Wirtschaftswunder* and unified their families, giving most European countries populations and labor forces that today include five to ten percent foreigners.

In 1999, there were ten million foreigners from outside the European Union among the EU's 375 million residents. Net immigration was 711,000, making it a more important contributor to population growth than natural increase (there were four million births and 3.7 million deaths in the EU in 1999).

Foreigners are not distributed uniformly across Europe. Germany has less than one-fourth of the EU's population, but 36 percent of the EU's foreigners. It is hard to compare foreigners in Europe with the foreign-born populations of classic immigration countries, because many European countries report data by citizenship, and some allow citizenship to be conferred by blood, not place of birth.

This means that there can be "second-generation" foreigners in many European countries, but not in Canada or the United States. For example, almost 20 percent of the foreigners in Germany were born in Germany, while the United States and Canada have no second-generation foreigners.

On the other hand, Germany considers ethnic Germans—persons born in Eastern Europe and the ex-USSR with German parents or grandparents—to be Germans, so that the three mil-

lion ethnic Germans who moved to Germany in the 1980s and 1990s are not considered to be immigrants, even though they were born outside Germany and many do not speak German.

Germany changed its citizenship law in 2000 to give children born to legal foreign parents automatic German citizenship.

Stocks of foreigners rose in all European countries during the 1990s. The economic impacts of newcomers are hotly debated today, unlike during the guest worker era. During the peak years of guest worker recruitment, 1961–1974, immigration was generally considered an economic plus that also served the political goal of accelerating economic integration within the EU.

Unemployment was very low—the number of vacant jobs often exceeded the number of unemployed workers—and undervalued currencies in a world of fixed exchange rates encouraged domestic and foreign capital to be invested in western Europe to produce manufactured goods for domestic consumption and export markets.

Increasing the size of the domestic labor force was considered difficult because the Great Migration off the land was largely completed, there was a baby boom that made it hard to raise female labor force participation, the expansion of education systems delayed the labor force entry of some young workers, and improved retirement systems encouraged the exit of some older workers. Under such circumstances, recruiting guest workers in nearby labor-surplus countries seemed to make eminent economic and political sense.

Even before the oil crisis of 1973-74 prompted western European governments to stop recruiting additional guest workers from outside the EU, doubts were growing, as it became clear that “there is nothing more permanent than temporary workers.”

Settled guest workers were allowed to bring their families, and there were calls to integrate them, but governments simultaneously attempted to encourage returns, with France and Germany offering return bonuses in the early 1980s. At the same time, the

enforcement of laws aimed at preventing unauthorized entry and employment were stepped up.

Most guest workers stayed abroad between 1975 and 1985 and unified their families, since their countries of origin, such as Yugoslavia and Turkey, were also pushed into recession by higher oil prices. Some countries attempted to discourage family unification by prohibiting spouses from working for several years after arrival, so many newly arrived wives did not join the labor force, and some were isolated in ethnic enclaves so that their labor force entry was difficult when they were finally allowed to work.

The positive economic impacts of guest workers decreased as foreigners changed from mostly workers to mostly non-workers. In Germany, for example, two thirds of all foreigners were employed as wage and salary workers in 1972, but less than a third were similarly employed after 1995.

The fall of the Berlin Wall in 1989 unleashed a new wave of east-west migration. This migration, much of which was politically difficult to control, since Western European governments did not want to be accused of creating a new Berlin Wall, allowed the enforcement of laws against illegal immigration to be relaxed.

Especially in Germany, foreigners found that they could most easily enter as asylum seekers, and over 1,000 a day were registering in the early 1990s. Their dispersal throughout the country, and a change in policy that denied asylum applicants work permits, contributed to the popular perception that immigration means higher social welfare costs rather than economic benefits.

In response to this upsurge in migration, most European countries took steps to manage migration by restricting access to the asylum system with safe third country rules (foreigners must apply in the first safe country they reach), new visa policies and stepped up border enforcement, and speedier processing of applications.

However, persisting high unemployment rates made it difficult to discuss the economic contributions of migrants in a way that would have built support for more labor migration.

In the meantime, most European governments took steps to secure the rights of legal immigrants, and to establish new programs to ensure the integration of migrant children to avoid the creation of an underclass.

Since the mid-1990s, many European discussions in favor of immigration turned to the more abstract “demographic need” for immigrants to preserve pension systems.

Immigration would have to increase sharply in most European countries to avoid population decline, increase even more to maintain the 1995 working age population, and more than that to maintain the ratio of those 16 to 64 years old to residents 65 and older at mid-1990s levels. For example, the Big Four EU countries—France, Germany, Italy and the UK—include two thirds of EU residents and received about 88 percent of EU immigrants in 1995:

- If the Big Four wanted to maintain their 1995 populations at current fertility rates, they would have to triple immigration levels, from 237,000 a year to 677,000 a year, with the greatest increase in Italy.
- To maintain their 1995 labor forces, the Big Four would have to increase to 1.1 million a year.
- To “save social security,” to keep the ratio of persons 18 to 64 years old to persons 65 and older stable, the Big Four would have to increase 37-fold, to almost nine million a year.

There are alternatives to having immigration, including having resident workers work longer and increasing productivity, but they have received less attention.

Most European countries do not appear ready to increase immigration on such a scale. The EU plans to enlarge by accepting 12 Eastern European countries and possibly Turkey.

Studies of potential migration after the entry of the first 10 countries, planned for May 2004, suggest that if Poles and Hungarians had freedom of movement rights, 335,000 workers from Eastern Europe (excluding Turkey) would migrate west the first year, and

then the number would shrink to 160,000 a year by 2010, with 80 percent of the migrants moving to Austria and Germany (Boeri and Brucker 2000).

However, this projected modest additional migration prompted Austria and Germany to insist that the EU prevent nationals of new EU member nations from migrating for at least two years after their expected entry in 2004 (2004–05).

After this two-year wait, the current 15-EU members could individually prevent freedom of movement for another three years (2006–08), and then a further two years (2009–10), for a maximum seven-year wait before nationals of newly entered EU countries could seek jobs freely in other EU countries.

Most of the workers expected to migrate from Eastern to Western Europe would be unskilled or semi-skilled. During the high-tech boom of the late 1990s, many European employers complained of shortages of professionals, especially in computer-related occupations.

Governments in France, Germany, the UK and other European countries responded by easing entry under existing programs or establishing new programs to facilitate the entry of non-EU computer professionals, and many European countries eased rules to allow foreign students who graduated from local universities to remain as workers.

The German government approved a “green card” program that offered five-year work permits to non-EU foreign computer professionals who were paid at least Euro 51,000 a year (Martin and Werner 2000). The number of green cards issued was modest—14,600 between August 2000 and July 2003, an average of 400 a month.

However, the SPD-Green government used the green card program to change the tenor of the immigration debate, and set the stage for Germany’s first planned immigration system, with some immigrants selected through a system that favored the admission of well-educated immigrants, some offered five-year permits that

could eventually lead to permanent residence status, and some non-EU foreign graduates of German universities allowed to become immigrants. The Federal Constitutional Court in Karlsruhe blocked Germany's new migration law in December 2002.

North America

The North American migration system includes the world's major emigration and immigration destinations, whether defined in volume terms (migration between Mexico and the U.S. averaged 230,000 legal immigrants a year in the 1990s, plus 300,000 to 400,000 unauthorized settlers) or in per capita terms (between 10 and 20 percent of persons born in the Dominican Republic and El Salvador have emigrated, and Canada aims to increase its population by one percent a year via immigration).

Migration in North America has demographic and economic impacts in both sending and receiving areas.

The United States is a nation of immigrants whose motto “*e pluribus unum*,” (from many one) is a reminder that Americans share the experience of themselves or their forebearers leaving another country to begin anew in America.²

Most Americans believe that immigration is in the national interest, and this belief did not change after the September 11, 2001 terrorism attacks, as political leaders consistently drew a distinction between immigrants and terrorists.

During the 1990s, more than 12 million newcomers—legal and illegal immigrants—settled in the United States, more than the ten million who arrived during the first decade of the 20th century.

2 The exceptions are Native Americans, slaves and those who became U.S. citizens by purchase or conquest, such as French nationals who became Americans with the Louisiana Purchase, Mexicans who became Americans with the settlement ending the Mexican War and Puerto Ricans who became U.S. citizens as a result of the American victory over Spain in 1898.

Immigration has economic costs as well as benefits, and these costs were the focus of often-contentious debates in the mid-1990s, after the approval of Proposition 187 in California in 1994 and major federal legislative changes restricting the access of immigrants to social assistance (welfare) in 1996 (Migration News 1994 and 1996). Proposition 187 was never implemented, the access of some legal immigrants to social assistance was restored in the late 1990s, and immigration faded from the headlines during the economic boom, when the unemployment rate reached its lowest level in three decades and the economy generated an average 10,000 net new jobs each work day.

Since the dot.com recession, the most contentious issue has been the temporary worker program for foreign professionals, the H-1B program, which is scheduled to shrink from the current 195,000 a year to 65,000 a year in 2004.

The United States accepts four major types of immigrants:

- The largest group is relatives of U.S. residents. 675,000 or 63 percent of the immigrants in FY2001 had family members in the United States who petitioned the U.S. government to admit them.
- The second-largest category was employment-based: the 179,000 immigrants and their families admitted for economic or employment reasons.
- The third group was refugees and asylees: 108,000 foreigners who were granted safe haven in the United States.
- The fourth category is diversity immigrants: persons who applied for a U.S. immigrant visa in a lottery open to those from countries that sent fewer than 50,000 immigrants to the United States in the previous five years.

In addition, the United States receives non-immigrants, foreigners who come to the United States to visit, work, or study, and unauthorized foreigners, those who arrive without inspection at ports of entry, and those who arrive legally, but violate the terms of

their visas. The number of unauthorized foreigners in the United States is believed to have more than tripled in the 1990s to seven to nine million in 2002.

Transatlantic dialogue

Europe and North America are confronting new migration management challenges in the 21st century that, despite different histories and experiences with newcomers, suggest possibilities for transatlantic dialogue and cooperation in migration management, integration, and stay-at-home development.

The first requirement for effective migration management is to acknowledge that the richer industrial countries are and will continue to be immigration destinations. This means they will have to answer the fundamental questions of how many newcomers to accept, from where and in what status newcomers should arrive, and how the rules of the immigration system should be enforced.

- Canada and the United States have answered these questions with front-door immigration systems for settler immigrants, side-doors for tourist and business visitors and students and guest workers, and border control policies in the United States aimed at stopping unauthorized entries through the back door, primarily the Mexican-U.S. border. However, the United States has developed few effective systems to prevent unauthorized foreigners who enter the United States from working.
- Two distinct immigration systems are emerging in Europe. In Southern Europe, foreigners often arrive illegally or violate the terms of their legal admission, find jobs, and then are legalized in “rolling amnesties” by their employers. Northern Europe has been more restrictive, seeking to discourage family unification by tightening rules on foreign spouses, imposing requirements on newcomers to learn the local language, and increasing expenditures to combat illegal entries and employment.

The United States seems to be adopting the Southern European approach, in the sense that most immigrants are persons already in the country who “adjust” their status from student, worker, or unauthorized to immigrant. Potential U.S. immigrants are on probation; if they receive welfare benefits, commit crimes, or come to the attention of authorities while unauthorized, they may not be able to adjust to immigrant status.

The importance of the adjustment path to immigrant or secure status means that side and back door entry systems have become more important, since these are the entry doors for most immigrants. What is not well understood are the linkages and interactions between front, side, and back doors.

Is it true, as UNHCR’s Ruud Lubbers sometimes asserts, that opening front and side doors to immigrants in Europe would diminish unauthorized migration? Clearly, if front and side doors were opened wide enough, there could by definition be no unauthorized foreigners. But it is less clear what effects a partial opening of front and side doors would have on back-door unauthorized migration.

The second issue is integration. Integrating foreigners has never been easy; the history of traditional immigration countries is littered with assertions about the capacity of people from particular nationalities, ethnicities, religions, and beliefs to integrate successfully.

Perhaps the key to understanding why these assertions were proven wrong is that integration means change; change by the immigrants to adapt to the receiving country, and change by the receiving country to adapt to the immigrant. Mutual change means that it is hard to define the end point of integration. Immigration countries are, by definition, “unfinished” in the sense that they continue evolving and changing as immigrants arrive and are integrated.

There are many definitions of integration, but the most important is economic integration: how do the incomes of immigrants

compare to those of the native born, and are the children and grandchildren of immigrants largely indistinguishable from the children of native born?

Immigrants are concentrated at the extremes of the education ladder, most integration issues involve those with relatively little education, and there are integration problems with the unskilled on both sides of the Atlantic. In the United States, a major integration issue is inequality: most immigrants with little education get jobs, but many have low earnings and access to few benefits such as health insurance.

Since family circumstances affect education and income mobility, the fact that 30 percent of U.S. immigrants are Mexicans with an average of eight or nine years of education means that 40 percent or more of immigrant children face economic and family disadvantages to upward mobility.

In Europe, the integration issue focuses more on employment than inequality. Once in a job, migrants' wages tend to be closer to the native born than in the United States, and more social benefits are generally available, but many foreigners cannot get jobs. The European experience with unskilled newcomers in the 1990s demonstrates how hard it is to have large-scale unskilled immigration, a highly regulated labor market, and extensive social welfare systems.

Under such circumstances, newcomers can add to unemployment and welfare rolls rather than employment, slowing integration and increasing xenophobia.

The third issue is relations with emigration countries. Migration from poorer to richer countries will not solve the world's poverty problem—the numbers are simply too big. The solution to unwanted migration must be stay-at-home development, which requires economic and job growth. The relationship between migration and development can be summarized under the 3 R's:

- **Recruitment:** Are migrants employed workers whose exit has negative consequences for their countries of origin, represent-

ing a loss of brains or brawn, or unemployed workers who have jobs and earnings abroad but would have been unemployed at home?

- Remittances from migrants abroad, and the use of remittance savings in the country of origin: Are remittances significant, and do they create jobs and spur development in the country of origin, or are they low and mostly add to inflationary pressures in housing and land markets?
- Return: Is the sending country's stock of human capital increased by the return of migrants who acquired additional skills and earnings abroad, or does emigration represent a permanent loss of skills? Do returning migrants transfer technologies and other productivity-increasing ideas to their areas of origin, planting the seed for more local and foreign investment?

Europe and North America have a mutual interest cooperating in the effort to enhance migration's contributions to development, to share experiences on what works and what does not, and to ensure that global institutions provide advice on the 3 R's that reduces rather than increases the inequality that fuels migration.

For example, most industrial countries have recently made it easier for doctors, nurses, and IT specialists to enter, work, and settle. Rough calculations suggest that 20 percent of those with at least college degrees from developing nations are in the 25 richest countries, and they represent about 10 percent of the college-educated who are employed in more developed countries.

If Europe and North America do not contribute funds to replenish the human capital they are absorbing from developing countries, global inequality and migration pressures may rise.

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