



ECONOMY AND SECURITY: THE REVERSED ALLIANCE

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The Post-Bush era has begun – under G.W.Bush himself. And one central trend is clear: the security relationship is on the upswing, but the economy is in pretty bad shape.

Until very recently, most Transatlantic debates reflected serious concern (and sometimes outright pessimism on the future of the alliance) when looking at the security dimension, but tended to find reassurance in the very solid economic foundations of the alliance. Indeed, it has been rightly noted that during the worst phase of Euro-American (and intra-European) disagreement over Iraq, economic ties actually boomed. In short, security may often divide the Atlantic, but the economy would unite it – regardless or even in spite of government choices. The web of “deep interdependence” linking together Europe and America provided a precious safety net, and a crucial task for policymakers was to preserve this state of affairs, ensuring that there be no spillover of security/diplomatic frictions onto the economic/business sector. The likely direction of negative contagion was almost taken for granted: it would travel from security to the economy.

The situation seems to be changing dramatically. With a growing sense of disorientation as the US economy teeters on the edge of recession (which, not accidentally, we treat as almost a taboo expression), the whole political economy of the Transatlantic relationship is put in question. A standard analysis these days posits that economic growth is being led by Asia and a few emerging economies in other areas, while Europe muddles through and the US is in bad trouble.

One remarkable effect is that the risk of contagion in Transatlantic relations now flows in the opposite direction than in the past: from the economy to security and diplomacy.

Should the US role as the leading world economy be quickly eroded (accelerating a secular trend and reaching the tipping point where confidence collapses), the political leadership of the US would also suffer. American policymakers have always drawn a great amount of political legitimacy and even a form of moral authority from the objective strength of the American growth engine. The alliance will be reshaped in unpredictable ways in case of a deep and protracted economic crisis originating essentially from America itself. A paradox for Bush’s successor might be the following: the next US administration may take all the right steps to burnish America’s image abroad in terms of “public diplomacy”, and yet the economy’s slowdown may inflict serious damage to US leadership.

In the meantime, a contradictory feeling is gripping European policymakers, businesspeople and pundits alike: after having feared a security “decoupling” between the two sides of the Atlantic for decades, they now begin to hope (some privately, others openly) for an economic decoupling.

Or at least, they are having second thoughts on the absolute value of deep interdependence. In other words, there is an understandable temptation to believe that Europe has what it takes to weather this storm on its own and it may actually stand a better chance of avoiding the crisis by walking alone. Even though some data tell us that Europe’s aggregate economic outlook is more balanced than the US economy, any self-congratulation on this side of the Atlantic would be badly misplaced.

We suggest great caution in this respect, since such an attitude can easily turn into an ugly combination: fear and hubris.

The growing asymmetry

With the impending presidential election in the US, nervousness is growing across Europe also because of some of the economic views expressed by the candidates. Financial imbalances are almost inherent in John McCain's economic strategy – as expressed in his major recent speech on the issue. The protectionist impulse is palpable on the Democratic side, although it is certainly not unique to America and in any case there are aspects of globalization that require extensive rethinking of some long held assumptions. Yet, to see the mood of US public opinion shift markedly against globalization is a genuine novelty with uncertain consequences.

Europeans should watch carefully the evolution of the link between economic and security issues in the US electoral drama. One feature shared by all three candidates seems to be the lack of an overriding framework on security affairs: the candidates are doing their best to leave behind the "war on terror" legacy and still have to elaborate a full-fledged alternative.

The only exception could be what Charles Kupchan calls an "expansive" view of NATO – a view that is generically supported across the US political spectrum. The risk here is a widening asymmetry: the US, going through a phase of economic retrenchment, would continue to expand its security outreach (trying to persuade the traditional allies to go along and in fact contribute more than in past); Europe, now much less confident in the viability of America's economic role, would focus on consolidating its position after a prolonged period of rapid change and "twin enlargements" of the EU and NATO (trying to persuade Washington that the Alliance is badly overstretched and that a further widening might as well kill it). The NATO summit in Bucharest confirmed this asymmetry by bringing to the surface the rather different – sometimes conflicting – priorities of various members of the alliance.

A superficial glance at the US presidential platforms conveys an interesting picture: John McCain is probably Europe's safest choice on economic issues (at least on trade) but very problematic on security issues; the reverse applies to the Democrats, with the big caveat of asking for much more active support in Afghanistan.

Possibly the most worrisome option, from a European perspective, is McCain's explicit call for an "Alliance of Democracies" as the core of a new international order: this might relegate Europe to the position of one sub-grouping among others – in other words, one among equals. It would be the end of the complex special relationship we call the Transatlantic alliance. Even if NATO were to serve as the hub of a potentially global web of democratic partnerships, the relative European weight would be radically diminished. But even more importantly, an inclusive democratic club would, by definition, be exclusive with regard to Russia (at least under current circumstances in that country). A sharp deterioration of relations with Moscow would be a huge extra price for the Europeans to pay – mostly in economic terms, given Europe's strategic interdependence with Russia.

The problem is that in the Democratic camp there are reasons for equally serious concern, but especially looking at the economic side of the equation. Here, a strong focus on domestic priorities might easily produce, sometimes unintentionally, a penchant for international confrontation on trade. Democrats are also likely to expect even more, not less, than a President McCain from the European allies in exchange for more willingness to engage in multilateral consultations. The risk of excessive expectations exists on both sides of the Atlantic.

Having TEA together

Not all these factors are a source of friction, however: there are opportunities as well. Here is how, in brief: we assume that the notion of de-linking Europe's economic trends from America's is factually illusory and politically costly; thus, the ultimate solution – one that safeguards both our common economic and political interests – lies in getting out of the crisis together by re-starting the Transatlantic engine. If the roots of Euro-American frictions are now in the economy, it is the right time for the Europeans to take a wide ranging policy initiative in the economic sphere over the next few months – while it becomes more important than ever that we cultivate our security ties (see below).

The initiative we advocate is to accelerate discussions over a Transatlantic Economic Area (TEA), which should be presented as exactly the kind of “safety net” we may now be losing under the pressure of economic crisis. The project would help boost the existing level of interdependence across the Atlantic, extending it to areas which so far have been poorly integrated, and reducing tensions in hard times. The concept of a TEA – to which German Chancellor Angela Merkel has been particularly committed – seemed to be in search of a specific content for a while: times are ripe for completing the opening-up of Transatlantic exchanges by focusing on the regulatory framework. If we needed any confirmation, it has now become all too evident that finance is at the heart of globalization; it follows that there will be no true Transatlantic market until financial transactions are subject to the same rules. These rules – once adopted in an area inhabited by nearly 800 million rather affluent people – would then set an essential standard on a world scale. As such, they would clearly be central to further discussions in the G7 format and potentially beyond.

For the incoming US administration, the TEA would help concentrate minds on the continuing practical benefits of open exchanges with Europe. We all have a lot to gain by taking the controversy on a whole wave of regulations away from the purely domestic context, if only because the nature of financial transactions is definitely cross-border. In this side of the Atlantic, everybody would really be forced to think in EU-wide terms in the key service sector.

The policy programs of US presidential candidates appear still fluid on the increasingly crucial question of new financial rules, but any US administration (and any Congress) will enjoy wide consensus on the point that strong intervention is overdue at this stage. There is space for European proposals to become an integral part of the American debate.

Over time, the policy mix we advocate would really amount to setting in motion a “new Bretton Woods system”, at least as a work in progress, and laying the Transatlantic foundations of an open – but rule-based – international order. A strong Transatlantic consensus is needed, first of all, to seriously reform the IMF, enhancing its early-warning role. Moreover, the TEA should not be conceived as an alternative to current multilateral negotiations such as the Doha Round, but as a trigger for a wider consensus.

The political significance of such moves should not be underestimated, as they would send a powerful signal of cohesion between the two largest economic areas of the world at a time of growing doubts about the resilience of the international structures they have created since around the middle of the last century.

Vive l'Europe de la défense

It was very good news when France proposed a substantial step forward on European defence and the EU-NATO relationship, based on a working agreement with the UK which still has to be finalized. The other key European players need to be brought fully on board and raise to the challenge – by also contributing tangible resources.

It may well be the case that defence policy as such is just a subset of a wide and multidimensional security policy – yet, it is an indispensable component. Without it, any EU security policy remains hostage to the will of other, more “hard power-oriented”, actors – be they allies, potential partners, problematic regimes or non-state organizations. And this undermines the potential of all the forms of soft power at Europe’s disposal. In sum, certain key defence capabilities should be seen as enablers for security policy as a whole.

In this perspective, only few EU members actually provide the bulk of the EU’s overall defence capabilities, and have a habit to deploy them. As a consequence, a “core group” on European defence, comprising France, the UK, Germany, Italy, Spain, Poland, can lead the EU on the path to a greater international role. From a specifically Italian viewpoint, the core at six is a much preferable alternative to the “Big Three”, also for the obvious reason that the proposed formula places Italy itself inside the leading group. But more generally, the six-country grouping is rather diverse in terms of military traditions and geopolitical priorities, so that its very composition would ensure a fairly good representation of the range of opinions in the EU. Indeed, this arrangement can inject the needed political dynamism into an EU security and defence policy as well as provide the resources to make it real.

Of course, problems would remain even if such an arrangement were fully agreed in principle. Foremost among them is the lack of public support for inherently risky combat missions of uncertain duration, especially when no clear prospect of political “success” is in sight. Limited support is due to the nature of the threats but also to the orientations of most European societies. In essence, most Europeans do not view combat missions as the primary tasks of their militaries, and practically no European leader is willing to tell them otherwise.

No new “mission statement” or Strategic Concept will ever solve the problem of insufficient public support among European publics for close coordination with the US on key potential missions that NATO might undertake in the near future. As the growing debate over the evolution of the Afghan mission stands to demonstrate, differences have to do with substance, not just tactics.

Against this background, the only serious basis for (political and military) burden sharing is financial sharing of the burdens. The reasoning applies to the EU as much as it applies to NATO, since they share the same problem when it comes to solidarity. Its logical implication is that the current mechanism of “costs lie where they fall” is counterproductive and should be abandoned in favour of a sizable “common funding” for stabilization and peacekeeping missions. A legitimate objection may be that having some countries pay for dangerous missions that others would undertake is like hiring a mercenary force; yet, the current arrangement is somehow even worse, by overburdening those who do more and leaving the others free to abstain and criticize – admittedly no great display of solidarity. In fact, a common funding mechanism provides an incentive for active participation as all members of the group are paying upfront in any case.

The EU and NATO will sink or swim together in the field of international security, even though they will not work in perfect harmony. We should avoid unrealistic expectations: the EU-NATO relationship will not be a perfect clockwork, but neither should it be dysfunctional.

In order to improve practical cooperation, a great opportunity is now offered by the more relaxed US attitude toward an EU role in defence as a complement to NATO: this is symptomatically reflected in a comment by Nicolas Sarkozy at the Bucharest Summit, where he described G.W. Bush's new openness as "a gesture that shows understanding for what is happening in Europe".

Probably for the first time, European defence is really seen by significant sectors of the US security community as a value added, not just a polite concession to be made. Perhaps more so by President Bush than by his successor, if we are to judge from statements alone.

In any case, it is fair to say that American experts on Europe are keener than the presidential hopefuls to speak about the Old Continent – which is a sign of the times we should be a bit worried about. Henry Kissinger has recently written about the "three revolutions occurring around the globe" as the main strategic challenge to world order, defining the first of these as "the transformation of the traditional state system of Europe... With the nation no longer defining itself by a distinct future and with the cohesion of the European Union as yet untested, the capacity of most European governments to ask their people for sacrifices has diminished dramatically."

Kissinger captures a central dilemma for all EU members in relation with each other as well as with the US: while their own collective ambition and international expectations of a strong EU role grow, their ability to act accordingly is severely limited. At the same time, Europe no longer enjoys the luxury of staying aloof from the problems of the rest of the world, precisely due to the other two revolutions cited by Kissinger: "the radical Islamist challenge to historic notions of sovereignty; and the drift of the center of gravity of international affairs from the Atlantic to the Pacific and Indian Oceans". From a European perspective, these tectonic shifts are just too big to be left to the US alone.

We can conclude that the EU is almost condemned to act. And to avoid the risk of permanent insolvency (a mismatch between ends and means), it must raise the stakes: only more public awareness of the EU's true interests in the world will produce more willingness to spend time and resources on world affairs.

A "global Europe" will only emerge as part of a renewed Transatlantic link. It will be a pragmatic and cautious process, based on performance rather than empty ambitions as such. And it will not posit that autonomy (from the US) is a goal in itself.

The EU as a whole should be regarded (and first regard itself) as a contributor to wider efforts by the Transatlantic community or even more diverse groupings: it should thus adopt the same standard that individual countries are increasingly committed to, i.e. influence tied to direct (and mostly measurable) contributions to collective tasks. In short, the onus is on Europe to demonstrate its usefulness as a major security partner, even as we wait the next administration to show what it really means by "listening to the allies".

Anticipating crises

Even under the best of circumstances, a number of crises are very likely in the near future, and all of them refer to countries which are particularly important to the world's political economy. Two seem paramount.

The number one is Iran, which is probably just the first of several challengers of the established "regional orders". Iran can play on several tables despite serious domestic weaknesses, by leveraging oil prices, the conflict in neighbouring Iraq, and its influence on various armed groups: that is why the Iranian case will set a precedent, for better or worse. Certain aspects of the challenge posed by Tehran are unique, as regards the legacy of 1979 with the US, and the Shia-Sunni divide in the Muslim world. However, on other counts today's Iran is the harbinger of things to come: it has a hybrid political regime (theocratic and repressive but not totally closed to outside influences and not invulnerable to domestic criticism), and a hybrid economic system (underdeveloped and facing huge demographic pressure, but with great potential); it is highly nationalistic and feels frustrated by Western attitudes. The reality is that other countries in the European neighbourhood (both to the East and South) may well display some of these features in the next decades.

It is thus crucial to walk a narrow diplomatic path: combining stronger pressures on the Tehran regime (possibly EU sanctions in parallel to the UNSC sanctions) to raise the costs of its nuclear program while laying the groundwork for an engagement on a wider set of issues (not unconditional engagement of course, but an open-ended process with limited preconditions). This should include a search for innovative solutions to the problem of nuclear proliferation such as a consortium for the provision of fissile materials. In any case, each further step should be based on a strong Euro-American agreement: direct American involvement is indispensable and additional European sanctions are a precious asset also to prevent Washington from going alone. Between now and November, the Europeans can help create the conditions for the next US President to have more than two options on his/her desk: Iran with the bomb or bombing Iran. We all know that facing this "either-or" alternative would be a nightmare.

The number two "crisis epicentre" is China, not so much as a classic security threat but rather as a factor in the US elections and, consequently, in Transatlantic relations. Having avoided major frictions with Beijing has been the main untold success story of the G.W. Bush years – until March 2008, that is. In fact, the China issue had even remained on the sidelines of the presidential campaign until recently, but of course the Tibet-Olympics connection has catapulted it onto centre stage. To be true, China was bound to come up in any case as candidates would start focusing on their platforms for preserving (or restoring) America's global role in the face of the "emerging powers"; on each major issue, from currency reserves and sovereign wealth funds to climate change, from energy independence to nuclear proliferation, from space programs to a number of regional questions, China has already become a key actor and can only become more so in the next future. But the Olympics headache is now forcing everybody to take a stand and abandon some of the constructive ambiguity toward the Beijing government. It has thus become simply impossible to insulate Euro-American relations from the shockwaves of the Tibetan protests.

We got a taste of how explosive the China factor can become on the occasion of the Transatlantic spat over the possible end of the EU arms embargo. That episode (which reached its most acute phase to date in 2004-2005) brought to the surface the fundamental asymmetry in geopolitical outlook toward China and Asia that separates the US from Europe. But the most striking discovery was that each side of the Atlantic badly misjudged the importance of China for the other side, almost as if, incredibly, Beijing was just a marginal international concern.

What is absolutely necessary is a sustained Transatlantic dialogue on China, designed to tackle behind closed doors a host of interrelated issues well before – not after – they become acute crises.

As in other sectors, in tackling the China issue it will be essential to understand the evolving balance of security and economic considerations: the US seems somewhat more at ease than most Europeans with a Chinese economic superpower, while the Europeans do not regard China as the potential military threat that Washington is quietly working to contain; perceptions are thus almost exactly reversed. A regular dialogue unhindered by the need to publicly display unity can do a lot to smooth some of the differences and avoid unpleasant surprises.

There may be a third large epicentre of crisis, i.e. Russia, which now seems to hang in the balance between hopeful signs of moderation (even large scale cooperation) and a state of permanent tension. This is more than a topic of Transatlantic disagreements because Russia directly affects the nature of the Euro-American relationship: it is the country that can redefine the meaning of Europe's borders, for better or worse. Again, asymmetry plays a major role, as the most of Europeans regard Moscow as a natural and inevitable counterpart on the Eurasian landmass, whereas the US can shape its relationship with Moscow in more selective ways. For the EU, the North-Eastern neighbourhood that overlaps with Russia's near abroad is also a source of internal divisions between most of the old and most of the new members. The big question mark is whether conditions are ripe for a grand bargain in which Europe would also play a major role. In the meantime, two extreme scenarios seem plausible but are equally exaggerated: either a new Cold War set in motion by a Russian attempt at "rollback" in parts of Central-Eastern Europe, dragging the EU into a disastrous battle of attrition; or a Washington-Moscow deal bypassing the Europeans, perhaps based on America's desire to focus on the Greater Middle East and China plus forms of technical cooperation on missile defence.

Europe's weaknesses are well known, and few concessions will be obtained from Russia without getting our own acts together, first and foremost on energy issues. Diversification of energy sources is prudent in any case. Timing is tight: the issue of Ukraine and Georgia will be again on the NATO agenda next December – procrastination cannot become a strategy.

Making the best of a window of opportunity

Recent opinion polls strongly suggest that threat perceptions across the Atlantic are converging – not diverging – and that mutual mistrust across the Atlantic is slowly declining after the crisis years 2003-2005. According to a BBC poll released in early April, for instance, at least one key country, i.e. France, is showing strong signs of a shifting public attitude in a positive direction. Looking beyond the EU, it is equally interesting to note that two important actors display a similar trend, i.e. Turkey and China (a more positive view of the US). Thus, the Transatlantic relationship should be viewed in the wider context of an almost worldwide window of opportunity for the US.

At the Euro-American level, this marked improvement in political climate is largely due to the combination of new leaderships in key European countries and a course correction in Washington.

The change in France's stance has of course been most evident, but it seems to reflect a truly new approach to the extent that Paris, Washington and other capitals are now focusing on specific interests rather than "positioning". More generally, we are witnessing a shift away from recriminations and toward efforts to identify common goals. Precisely because of widespread fears of a large-scale economic crisis, all members of the Transatlantic club may have finally realized the sheer magnitude of the forces that will shape the international system in the next decades; when seen through these systemic lenses, traditional inter-allied squabbles look much smaller and manageable.

Encouraging trends have emerged with respect to all the most recent potentially divisive decisions: keeping the pressure on the Iranian leadership over the nuclear program, the launch of UNIFIL II in the aftermath of the Israeli-Hezbollah clashes of Summer 2006, the first reluctant attempts to act in Darfur and Chad, Kosovo's declaration of independence at the end of 2007. In other words, there has been no shortage of controversial issues. Yet, even with respect to the continuing (and still very serious) inter-allied frictions over military commitments in Afghanistan, or to the delicate question of anti-missile defence, pragmatic compromises have proved more likely today than at any time since 2003. This may turn out to be a short lived situation, but in the meantime we need to make the best of it, by locking in some of the practical gains, solidifying the existing consensus, and improving the consultation mechanisms.

There is a paradoxical danger in Transatlantic relations over the next six months or so: the "rebound" in the Euro-American dialogue has come sooner than expected, under GW Bush's own presidency. In a sense, the post-Bush era has already begun without waiting for his successor. Thus, the honeymoon that the next President might enjoy with Europe risks becoming brief and shallow. We need to make sure this will be remembered as a wrong prediction, but between now and November the ball is in Europe's court.