



*Preparing for the
multipolar world:
European foreign and
security policy
in 2020*



*Charles Grant
with Tomas Valasek*



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Foreword



High performance. Delivered.

Globalisation, a force that has been shaping the political and commercial world for most of our working lives, is entering a new and more complex phase. The balance in the global economy is shifting: with the rise of developing countries – spearheaded by China and India – a ‘multipolar world’ is emerging. Whilst the pace of economic change has long been acknowledged by business, this CER essay explores how these changes are impacting on Europe’s institutions and politics; and how Europe will need new policies and attitudes if it is to take advantage of the opportunities presented by the multipolar world.

As a global management consulting and technology services company with 170,000 employees around the world, Accenture recognises the need to understand this evolving landscape. Our clients are being challenged to determine how best to organise themselves in a world of global supply chains and local customer service.

This essay explores the risks and uncertainties inherent in the various policies that the EU could adopt towards China, the Middle East and Russia, and as such helps us understand what the future may look like. The challenge will be to achieve greater freedom of trade, maximise the possibilities of new technologies, and enable the promotion of education and skills training on a vast scale – accessible to all. What is clear is that Europe will need to engage other powers to persuade them that a multilateral approach is indispensable, if the benefits of the multipolar world are to reach as many people as possible.

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1 Europe in a multipolar world

For the past 500 years, the Europeans, and then the Europeans and the Americans, have dominated much of world history. The 21st century will be different. The relative economic and diplomatic decline of the West becomes more apparent every year. Take the world's financial and trading systems. Developing countries now hold three quarters of global foreign exchange reserves (China alone, with about \$1.4 trillion, has more than a quarter of the total). 'Sovereign wealth funds' – investment vehicles mostly managed by authoritarian states such as China, Russia and Saudi Arabia – control around \$2.5 trillion and are starting to invest in well-known western companies. In the Doha round of world trade liberalisation – in contrast to earlier rounds – an EU-US accord is not enough to ensure a deal: Brazil and India have caused much of the deadlock.

The same trend is visible in the diplomatic world. At the last United Nations conference to review the nuclear non-proliferation treaty (NPT) in May 2005, western governments sought to strengthen the NPT regime; but Iran and its allies blocked them, winning the public relations battle by claiming that the hypocritical West was hanging on to its own nuclear technology while trying to withhold it from poor countries. At the United Nations itself, initiatives from the western powers seldom succeed without a big effort to win over the leading countries from the South. On problems such as Burma, Kosovo and Sudan, the West quite often fails to get what it wants. It cannot prevent countries with poor records on human rights sitting on the new UN Human Rights Council. And so on.

The rise of new powers is making the world increasingly multipolar. On current trends, in 2020, the US, China and the EU will each have a little under 20 per cent of global GDP, while India will have almost

¹ *Economist Intelligence Unit (figures based on purchasing power parity). Quoted in Mark Leonard, 'Divided world: the struggle for primacy in 2020', CER essay, January 2007. The Asian Development Bank recently said that China's economy was 40 per cent smaller than previously thought. Others question the new figures. Either way, China's economy is large and growing fast.*

10 per cent and Japan about 5 per cent.¹ Militarily, the US will remain the preponderant super-power, but its relative political influence will be weaker than today. China plans to use its growing economic strength and diplomatic clout to check American power. Russia has already returned as a significant geopolitical actor and is likely to remain one. Countries such as Brazil and South Africa wield increasing diplomatic influence.

Should Europeans worry about the relative decline of the West? Not necessarily. Defined as the countries that embrace liberal democracy, the West has extended far beyond the North Atlantic over the past half-century (Timothy Garton Ash describes this broader entity as the 'post-West').² Some of the emerging poles, such as Brazil, India and Japan, are broadly democratic. Furthermore, the soft power of Europeans and Americans should not be written off. CNN and the BBC may face competition from news channels based in Moscow, Beijing and Doha, but western universities, welfare states and parliamentary systems still offer an attractive model to many.

² *Timothy Garton Ash, 'Free World', Penguin Allen Lane, 2004.*

Another reason why Europeans may not have to fear multipolarity is that the multipolar world could evolve in two ways – only one of which is undesirable from a European point of view.

In the undesirable model, the various poles will coalesce into two hostile alliances, rather like in the Cold War. In one version of this model, suggested by Robert Kagan, the western powers, proponents of democracy, would line up against an axis of autocracies (such as

Russia and China) that oppose political liberalism.³ In another version (popular with some Russian analysts), a western attack on Iran would spark off a long-running war between the West and Islam, with the other poles doing their best to keep out of it.

³ *Robert Kagan, 'End of dreams, return of history', Policy Review, August-September 2007, Hoover Institution. Like many American analysts, Kagan dislikes the concept of multipolarity. He believes that the US will remain the dominant power for a long time to come.*

This kind of multipolarity, based on great power rivalry, would be uncomfortable for most Europeans. It would remind them of the balance-of-power diplomacy of 19th century Europe. In any global system riven with ideological fault-lines, Europeans would find it much harder to tackle the problems they consider most urgent – climate change, the economic development of the poorest countries, the proliferation of dangerous weapons, and so on.

The desirable model of multipolarity, by contrast, would be multilateral. The more democratic powers would have a natural affinity to work together, but there would be shifting coalitions among the poles, depending on the issue. All the poles would be committed to the rule of law and play an active role in international institutions and treaties. As the 2003 European security strategy (ESS) put it: "In a world of global threats, global markets and global media, our security and prosperity increasingly depend on an effective multilateral system. The development of a stronger international society, well-functioning international institutions and a rule-based international order is our objective."

It is not at all clear which of these models will emerge. The US, China and Russia are all currently capable of both multilateral and unilateral behaviour. A rational analysis of their own long-term interests would, in my view, incline them towards multilateralism: few modern security challenges can be tackled easily by one country alone – even if it is as strong as the US or China – or by an alliance of a few powers. But countries do not always behave rationally, especially when politicians seek to strengthen their position by

whipping up nationalist sentiment. The more nationalist a country becomes, the less it is likely to work through multilateral processes.

Of the major powers and potential powers, only the EU starts from the assumption that multilateralism is desirable. Faith in the rule of international law, and in the potential of international institutions, runs deep in the DNA of Europe's political elite.

The EU must not be a passive observer of the new international order that is emerging. The EU's own attitudes, policies and actions will have a big impact on how the multipolar world develops. An EU that is stronger will be better able to persuade the US, China, Russia and other powers to think multilaterally. An EU that is economically stagnant, divided over key policy questions and inward-looking will have little hope of shaping the international system.

This essay starts by suggesting what Europe needs to do to reinforce its strength. It then proposes an agenda for European defence. Finally, the essay examines policy towards three places that will be crucial for shaping EU foreign policy in the years to 2020 – the Middle East, Russia and China.

2 Recipes for a stronger Europe

The necessary building blocks of a stronger and more influential Europe include:

- ★ **A successful European economy.** The EU comprises many successful economies, that the less successful can and should emulate. It leads the world in many areas, such as international finance, precision engineering and luxury goods. But much of the world regards Europe as over-regulated and undynamic. This perception undermines the EU's soft power. Most of the ingredients required for dynamic European economies are well known: an economic reform agenda that prioritises innovation and a stronger competition policy; new schemes to attract skilled migrants to the EU; the liberalisation of energy and services markets; and the reform of higher education, leading to more autonomous and better-funded centres of excellence.⁴ *Katinka Barysch, Simon Tilford and Aurore Wanlin, 'The Lisbon scorecard VII', CER pamphlet, February 2007.*
- ★ **An EU that leads the world on climate change.** Europe's determination to tackle carbon emissions contributes to its soft power. But climate change has the potential to create huge rifts in the multipolar world – for example, between powers that back an international system for limiting carbon emissions, and those that spurn it. Such divisions could damage the openness of the global economy. Suppose that India and Brazil refused to join the post-Kyoto system for limiting greenhouse gas emissions: the countries taking part might impose tariffs on Indian and Brazilian goods, to prevent unfair competition. If the Europeans can make a success of their own carbon-trading scheme, persuade the Americans to sign up to a global system,

and offer their best environmental technologies to developing countries, they may convince most of the world to join them in a new system after the Kyoto protocol expires in 2012.⁵

⁵ Simon Tilford, 'How to make EU emissions trading a success', CER pamphlet, October 2007.

★ **Continued EU enlargement.** A Union that takes in more countries in South Eastern and Eastern Europe, extending its market, would not only benefit economically. A truly continental Union that included predominantly Muslim countries would have more influence, and be treated with more respect, in many parts of the world. The EU should make a clear statement of intent to keep its doors open to newcomers. But because enlargement is likely to move slowly, and because there are limits to how far EU frontiers can expand, the Union needs a much stronger neighbourhood policy than it has today. The more politically and economically advanced the neighbour, the more it should be integrated into EU programmes and policies. The political geography of Europe and its environs will become more complex: some EU members will opt out of several EU policies, while some non-members will take part in others.

★ **A greater capacity for delivering common foreign and security policies.** This objective requires, more than anything, a unity of purpose among national governments. They need to understand that where they have common interests, they will often achieve more by acting together. But the EU's institutions also have the potential to make a positive impact on foreign and security policy. In 2020 the EU will still be living with the institutional landscape established by the Treaty of Lisbon. The external action service (EAS) should produce the kinds of analysis that help governments to recognise their common interests, and it should enable them to pursue those interests in a more focused and strategic manner. The European security and defence policy (ESDP) will need more beef than it has today (see box on page 9). EU diplomacy will have greater credibility if it is underpinned by the potential to deploy force.

★ **More efficient co-operation on justice and home affairs.** The EU will become much more involved in issues such as counter-terrorism, illegal immigration and organised crime, because there is a limit to what individual member-states can achieve on their own. Although these problems count as 'justice and home affairs', to a large extent they originate outside the EU, and they have big implications for its external relations. By 2020 the EU will be thinking about creating an Internal Action Service, modelled on the EAS. The logic for an 'IAS' will be the same as that for the EAS. Many member-states will not trust the Commission to handle some of the more sensitive aspects of justice and home affairs, such as judicial co-operation and counter-terrorism. But they will recognise that the EU institutional system adds value, notably by helping to join up the Union's various policies. So they will favour a body that, like the EAS, blends the *communautaire* and the inter-governmental. The IAS would take in the plethora of existing EU bodies active in these fields, such as Europol, Eurojust, Frontex (the new border agency) and Atlas (an embryonic counter-terrorism network). The work of these inter-governmental agencies often overlaps. Forging them into a single organisation would improve efficiency.

★ **Strong EU support for international law, and for renewing the institutions of global governance.** Europeans sometimes forget that an important source of their soft power is their respect for international law. One reason for the decline in America's soft power in recent years has been its disregard for international law, especially in the first term of President George W Bush. The cause of multilateralism has suffered setbacks since the European Security Strategy was approved four years ago. The nuclear non-proliferation treaty has been undermined by the North Korean and Iranian nuclear programmes. Russia has pulled out of the conventional armed forces in Europe treaty. There has been no progress on negotiating the fissile material cut-off or the prevention of

arms race in outer space treaties. While many smaller countries support such treaties as a way of limiting the power of large countries, they are also a useful tool for reducing the risk of war. The EU needs to highlight its attachment to the framework of international law and institutions, and to lead efforts to revitalise it. As a priority, the EU should pick up an idea floated by Tony Blair and Mohamed El-Baradei (director general of the International Atomic Energy Agency) for the creation of a uranium bank. Under the auspices of the IAEA, this bank would supply fuel to all countries with a nuclear energy programme, removing the need for each to operate its own enrichment cycle. The EU could offer to meet the start-up costs of this new institution, which, if successful, would greatly strengthen the non-proliferation regime.

- ★ **The EU must engage constructively with other global powers.** The Union's most important relationship will remain the transatlantic link. The EU's close ties to the US, and its potential to influence American policy, are a source of its strength in other parts of the world. If the EU can show itself to be a useful and effective partner, the US is more likely to choose a multilateral path. But the same applies to the other poles, which the EU will find much more difficult to deal with. If the EU can find the right policies for Russia and China, it will increase the chances of them supporting a multilateral system. And if it can find the right policies for the Middle East, it will reduce the risk of that region erupting into violence – and quite likely creating new great-power rivalries. Russia, China and the Middle East are existential for the EU's development in the coming decades. How, and how well, the EU deals with them will determine whether the Union becomes an influential international actor.

A more capable European defence

For most of the time between now and 2020, the US will be suffering the aftereffects of the Iraq trauma. Europeans should not expect Americans to be enthusiastic about sorting out the world's trouble spots, especially when they are close to Europe. In the Balkans, Africa and, increasingly, the broader Middle East, Americans will expect Europeans to provide not only money, aid and civilian personnel (as they already do), but also soldiers and military equipment.

One key task for Europeans will therefore be to convince Americans not to turn in on themselves. US forces are still necessary for European security: a massive crisis in Kosovo or Bosnia could prove beyond the ability of Europeans to handle alone. One useful way to keep the US engaged would be for Europeans to suggest joint strategies for two particularly difficult and expensive tasks: post-conflict reconstruction, and counter-terrorism. In both areas, the EU can offer some expertise. It has learned – although sometimes very imperfectly – to co-ordinate the civilian and military sides of reconstruction in the Balkans. And when it comes to fighting terrorism, the European emphasis on policing and internal law-enforcement, as opposed to military action, could be a useful contribution to a joint strategy.

Ultimately, the best way for the EU to demonstrate to the Americans that it is an effective partner, and to ensure it can look after its own interests if the US decides not to get involved, is to develop more useful military capabilities. The EU has managed about 20 European security and defence policy (ESDP) missions, generally with success (although the scope of most of them has been modest). However, the ESDP has not fulfilled expectations, notably in terms of boosting the capabilities of the Europeans. The world will not take the EU seriously as a foreign policy actor unless it strengthens its capacity in defence.

In terms of equipment, Europe's armed forces should be much better endowed by 2020. They will have the A-400M transport plane, refuelling aircraft, Typhoon and F-35 jets, unmanned reconnaissance aircraft, precision-

guided missiles, and much else. But on current trends they will not have enough of the right kinds of soldier to fulfil the likely demand. In recent years the EU has placed too much emphasis on the non-military side of security, as opposed to hard power, and too much emphasis on military reform, as opposed to larger defence budgets. That is not to say that the ability to deploy policemen, judges and aid workers is unimportant; one great strength of the EU is that it can offer a package of skilled personnel, aid programmes and trade opportunities to a zone recovering from conflict. However, any civilians that the EU deploys will need to work in reasonably secure conditions, which will often mean military boots on the ground.

The numbers of troops that EU countries are able to deploy, and their defence budgets, have continued to decline in recent years.⁶ If today Europe faced the

⁶ *The number of troops that EU countries can deploy may be about 150,000. However, because of the need to rotate them, the number available at any one moment is about 50,000, or a little higher.*

need to mount a major combat operation, it might not have the troops. NATO's response force (NRF), made up mainly of Europeans, is short of 25 per cent of the soldiers it is supposed to have. The EU is preparing its own battle groups – much smaller forces than the NRF and, in theory, easier to assemble. But it seems likely that some

governments will not be able to deliver what they have promised on battle groups: the troops earmarked will lack crucial equipment (such as helicopters) and be ill-prepared to act in a dangerous conflict zone.

Money is a large part of the problem. Many EU countries do not meet NATO's 2 per cent of GDP requirement for defence spending. At the same time the cost of defence equipment is rising by 6-8 per cent a year, while current missions are consuming money that had been set aside for armaments. To help to meet the likely demand for troops and equipment, the EU should itself adopt a target for its member-states' defence budgets of 2 per cent of GDP.

The cause of European defence suffers not only from inadequate money, but also the lack of a common and robust strategic culture. "We need to develop a strategic culture that fosters early, rapid, and when necessary, robust intervention," said the 2003 European security strategy. "We need to be able to act before countries around us deteriorate, when signs of proliferation are detected, and before humanitarian emergencies arise." Too often that message has been forgotten. NATO's inability to persuade many European governments to send soldiers to the south of Afghanistan, where there is a serious war to be fought against the Taliban, is one indicator of the problem.

The more that EU countries work together on defence, the more the relatively robust strategic cultures of the British and the French should percolate among their partners.⁷ But cultures cannot change and defence budgets cannot rise unless politicians make an effort to explain to their publics that the world is dangerous, and that it would be safer if

⁷ *See essays by Lawrence Freedman and Charles Grant in 'A European way of war', CER pamphlet, May 2004.*

Europeans gave themselves the means to tackle those dangers. In recent years very few leaders have made that effort. Yet strategic cultures can evolve. Thus Germany over the past dozen years – under gentle prodding from allies and strong leadership from its government – has abandoned the idea that it should not deploy force beyond its borders. At one point a German even commanded NATO's forces in Afghanistan.

Military reform should not be forgotten: for any given level of spending, much more can be achieved by militaries and ministries that have been modernised. Those countries that have not abolished conscription should do so: what Europe needs are professional, mobile troops who are ready and able to go anywhere in the world. The liberalisation of defence procurement markets would allow governments to improve capabilities without spending more money. So would more role specialisation, and the pooling of military assets, particularly in non-sensitive areas (such as maintenance, transport, medical and catering operations).

The EU also needs to do a better job of integrating the work of civilians and soldiers in a conflict zone. One big lesson of Afghanistan and Iraq is that if military victories are not swiftly followed by civilian reconstruction, the local population begins to turn against the intervening force. However, the national bureaucracies of the member-states too often impede effective civil-military co-ordination. Agencies charged with development protect their turf against defence ministries, and vice versa. The EU governments need to break down these barriers to co-operation. Some have made a start. The 2008 French white paper on defence will probably recommend a new institutional framework to encourage civil-military co-operation. And at the end of 2007 there was growing support in EU capitals for Lord Ashdown to take on a new 'double-hatted' role in Afghanistan: that of UN special representative and NATO civilian representative.

The same shift is needed at EU level, where the relevant parts of the Commission and the Council of Ministers secretariat sometimes work at cross purposes. The Treaty of Lisbon should help to improve co-operation between

the Council and the Commission directorates-general: the external action service, under the authority of the new 'High Representative', is likely to merge parts of the Council's secretariat with the Commission's external relations directorate. But the Commission needs to ensure that other key directorates-general – such as those responsible for humanitarian aid, development, enlargement and trade – also contribute to fulfilling the EU's strategic goals.

The Treaty of Lisbon's provisions for 'structured co-operation' may lead to a group of EU member-states setting up a defence *avant-garde*, with the entry criteria based on capabilities. This should be supported, so long as the criteria encourage European governments to do some of the things they have been reluctant to do (spend more money, provide more troops who can deploy at short notice to a distant place, accept common rules on procurement, and so on). When those outside the defence group see its leaders holding regular summits, they might make an extra effort to raise their capabilities so that they can join the club. As with the euro, the defence core should act as a pole of attraction to other member-states.

The ESDP will not become more effective unless the EU and NATO work much more closely together. President Nicolas Sarkozy's offer to make France a full participant in NATO's military structures promises to set the two organisations on the path to a more constructive relationship.

⁸ Daniel Keohane, 'Unblocking EU-NATO co-operation', CER bulletin 48, June/July 2006.

The fact that the two organisations currently have little formal contact is damaging to both, as well as to Europe's ability to project power.⁸ Smaller

and middle-sized member-states take nearly all their guidance on the size, roles and structure of their armed forces from EU and NATO military planners. Yet the EU and NATO have a poor record of co-ordinating their requirements for their members' forces. If the various militaries try to follow different – and in some cases incompatible – requirements and standards, Europe's overall capability to deploy force may be damaged.

⁹ European Parliament policy department, 'EU and NATO: Co-operation or competition?' October 2006.

Therefore, the EU and NATO urgently need to harmonise their military standards and their guidance to member-states. The NATO response force and the EU battle groups should undertake

more joint scenario and contingency work.⁹ The battle groups should accept NATO military standards. The EU and NATO should reach agreements on sharing critical military assets such as heavy airlift.

The EU and NATO should also start co-operating at the earliest planning stage of each operation, on the assumption that they might both have to become involved. Each would focus on its core areas of strength – civilian and smaller-scale military contributions for the EU, larger scale military actions for NATO. Arrangements could be made for NATO to have access to the EU's expertise and tools in civilian crisis management, just like the EU can now draw on NATO assets for its ESDP missions.

If France's price for full reintegration with NATO is a beefed up EU planning capability, its partners should pay that price, so long as the EU planners have close links to their opposite numbers in NATO. The two organisations should co-operate in other ways, too. The European Defence Agency and NATO are both concerned with boosting capabilities, harmonising procurement and promoting joint R&D. They should work together, not separately. NATO and the EU should do all they can to harmonise their procedures and soften the differences in their cultures. They will sink or swim together.

Tomas Valasek

3 The Middle East

In today's Middle East, the US is the pre-eminent external power, because of its intimate diplomatic ties with, and considerable assistance to, Israel and the moderate Arab regimes. The EU – despite being Israel's largest trading partner, and the biggest provider of aid to the Palestinians – is regarded as a minor player.

Yet the EU arguably has a greater interest than the US in resolving the region's problems. It is geographically closer and, with its sizeable Muslim communities, more likely to be harmed by the extremism that is rooted in Middle Eastern conflicts. By 2020, the EU could and should be as influential in the region as the US. These two significant outside forces, working together, would stand a better chance of cajoling the various parties to make peace. But the EU and the US should not assume that they alone will drive the peace process – assuming that there still is some such thing – in 2020. Russia, China and others (including, conceivably, Iran, if its regime changes) could become seriously involved.

One may speculate how countries such as Russia and China will evolve over the next dozen years. But in the broader Middle East, the future of many countries and struggles – such as Afghanistan, Iran, Iraq, Lebanon, Pakistan and Saudi Arabia, as well as Sunni-Shia rivalry and jihadist terrorism – is so uncertain that predictions would be meaningless. The ability of an outside force such as the EU to bring about peace is limited. The best possible policies may not have much effect. However, even if the EU's main task in the coming years is to help prevent things getting worse, that is a noble cause.

The EU's objectives should be to foster peace, prosperity and, where feasible, democracy. It should talk to all parties that renounce

violence, however unsavoury they may be. The over-riding priority must be the establishment of a viable Palestinian state, since the lack of one exacerbates all the other problems.

But the Europeans also need to pay more attention to Iraq than they (or most of them) have done. If Iraq spends the next dozen years as a failed state, riven by ethnic conflict, its problems will spill over to the entire region and damage the cause of peace. The UN will need to take on a much larger role in Iraq, because it is the only outside force that has the legitimacy to lead reconstruction efforts. It should act as a channel for the many disparate sources of external aid, so that they all contribute to a single strategy. The UN's political priority should be to encourage the Iraqi people to form and then back an effective government of national unity, and to persuade Iraq's neighbours to support that effort.

The European Commission alone is the second biggest provider of aid to Iraq, after the US. But the EU institutions and governments should be ready to step up their contribution to reconstructing the country (assuming that conditions are peaceful enough to allow rebuilding). The Europeans' Balkan experience should allow them to make a significant contribution – not only of money, but also of skilled personnel and technical assistance in areas such as governance. The EU should appoint a senior political figure as a special representative in Baghdad, to co-ordinate European aid and support the UN strategy. In Iraq, a larger and more focused European presence has the potential to make a difference.

One precondition for an effective EU policy in the region, of course, is a united European position. Beyond that, the EU should enhance its influence in the Middle East by:

★ **Pressing ahead with Turkish accession.** This should be feasible by about 2020, and would give the EU great credibility in the eyes of many Muslims. Turkey is also a model that many – if not all – Arabs find interesting. “If Turkey can combine moderate

Islamism, democracy and a thriving economy, why cannot other Muslim states?” some ask. If the EU rejected Turkey, it would greatly damage its standing in the Muslim world.

★ **Building a stronger European neighbourhood policy (ENP).** The ENP should bring Arab countries into many of the EU's policies, programmes and markets. The EU should offer not only large amounts of aid to the Arab states, but also advice on governance and economic reform. A key principle of the ENP should be ‘positive conditionality’ – those countries that satisfy EU criteria on governance and human rights would receive extra aid. Universities in the Middle East should be linked to those in the EU through bigger exchange programmes. The EU should also remove the most egregious restrictions and difficulties encountered by those seeking entry visas. These kinds of policy would improve the EU's image with Arab governments. If Iraq and Iran take steps towards becoming well-governed and prosperous, they should join the ENP. Both countries border Turkey and would benefit from closer ties to the EU.

★ **Encouraging regional co-operation in the Middle East.** For countries that share much in common, in terms of language, culture and history, it is astonishing how little the states of the Middle East have integrated. For example, there is currently very little trade between many of the Arab states, or between them and Israel. There are no cheap flights between Middle Eastern cities. The EU should not focus only on its bilateral ties with the governments concerned. If and when Israel and its neighbours agree to some sort of peace settlement, they would all benefit from the establishment of a regional economic club. An initiative that focused on very basic objectives – such as reducing tariffs, cutting delays at the border and developing transport infrastructure – could do much to boost the region's prosperity. Given its own history of building economic interdependence among formerly warring

nations, the EU would be well-placed to offer guidance and expertise on such a project.

- ★ **Investing in the future of a Palestinian state.** In 2007, the Commission and the EU member-states spent about €1 billion on aid for the Palestinians – more than anybody else. So long as there is no peace settlement to support, there may not be much point in raising that sum substantially. In the past, some of the infrastructure built with EU money – for example, a new port – has been destroyed by Israel. But if Israelis and Palestinians can reach an accord, the EU should offer the full range of the state-building expertise that it has already deployed in many parts of the world.
- ★ **Finding ways of winning the trust and confidence of the Israeli people.** Many Israelis believe that Europeans dislike them and care little for their security. If Israel reaches a settlement with the Palestinians, the EU should offer it a similar status to that enjoyed by two other advanced economies, Norway and Switzerland: full participation in the single market, without full membership of EU institutions. Such an offer would help to show the Israelis that the EU is not hostile.
- ★ **Being willing to deliver hard security.** Any peace settlement in the Israeli-Palestinian conflict will need to be policed by peacekeepers. The Unifil 2 mission on the Lebanon-Israel border, consisting mainly of European troops, is a good signpost for the future. If the Europeans can provide as many peacekeepers as are required, all parties in the region will be grateful.

4 Russia

Neither the rapid growth of Russia's economy, nor the continued strength and stability of the current political regime, is guaranteed in the period to 2020. A decline in hydrocarbon production would create problems, as would a prolonged period of cheap oil and gas. If the state interferes too much in the economy, allows corruption to worsen, or undermines property rights, economic growth will suffer. And the uncertainty surrounding the succession of President Vladimir Putin may at some point lead to political instability.

However, in my view the most likely scenario for Russia in the next dozen years is that the economy will perform well, and not only in the energy sector; and that the group of people running Russia today is likely to remain in charge. This group controls the security services, the media, the political system and the commanding heights of the economy. It has set aside hundreds of billions of dollars in funds that can be thrown at any future problem, such as those that may follow a slump in the oil price. Russia is perhaps unique in the intermeshing of its business and political elites. For now, many of those in positions of power are happy to focus on extracting short-term profits from the assets they control. But in the long term, self-interest is likely to push Russia's rulers to create the conditions in which capitalism flourishes. They may revive the economic reform agenda that President Putin promoted in his first term of office.

In this scenario, the Russian economy will continue to attract much foreign investment, while Russian firms and funds will invest substantial sums outside Russia. Slowly, the legal system will improve, and companies will find the rule of law more dependable. The government will not interfere a great deal in the economy,

except in 'strategic' sectors. The regime will display the trappings of democracy, but will not be seen as democratic by the rest of Europe. Most Russians will support the regime.

Russia's armed forces will grow stronger. Helped by the abolition of conscription, new equipment and lots of money, as well as a clamp-down on the corruption that currently wastes much of the procurement budget, the Russian military will become a serious fighting force. Russian foreign policy will be hard-nosed, realist, and focused on boosting Russian power. This nationalist Russia will not be a natural proponent of multilateralism. But because it will understand that America and China are stronger economically, and (at least as far as the US is concerned) more influential politically, Russia will sometimes look to global institutions and alliances to constrain them. Russia will see itself as competing against China in Central Asia, and against the EU and the US in the Southern Caucasus and in the countries that lie between itself and the EU.

The EU must stay united in dealing with Russia, in order to maximise its leverage; the Russians will always exploit divisions among other Europeans to their advantage. Faced with a hyper-realist Russia, the EU will have no choice but to respond with its own policy of realism. The EU should recognise that it has little ability to make the Russian political system more democratic. However, it should always speak out in favour of human rights, and it should urge the government to strengthen the rule of law – on the latter point, it would be hard for any Russian to disagree. The EU should focus its relations with Russia on four areas where they share common interests.

Energy

The EU and Russia need to strengthen their dialogue on energy, where they are – despite some competing interests – mutually dependent.¹⁰ Russia's gas pipelines all run westwards, and that will not have changed much by 2020, so it will need good

¹⁰ Katinka Barysch, 'Russia, realism and EU unity' CER policy brief, July 2007.

relations with its European customers. And in order to develop new gas fields that are offshore, a liquefied natural gas (LNG) industry, and untapped oil reserves, Russia will need western capital, expertise and technology. It will also want assurances that the liberalisation of the EU internal energy market will be compatible with the long-term supply contracts that Gazprom likes to make with the dominant gas companies in Western Europe.¹¹

¹¹ The Commission says that such contracts need not be incompatible with a liberalised EU energy market, so long as they do not prevent or discourage the likes of E.ON or Gaz de France from selling gas on to other suppliers.

By 2020, Europe is likely to have a single market for electricity and gas. The building of more connections between national markets, and the 'unbundling' of the supply and distribution of energy, will erode the quasi-monopolistic position of national energy champions. This will diminish variations in price between different member-states, and reduce the risk of one country suffering supply problems. It will also lead to some convergence of the perceived national interests of the member-states when they deal with Russia on energy. Gazprom will have to accept the EU's rules on market liberalisation, which means that, as a supplier, it will not be allowed to own distribution networks in the EU.

By 2020, the EU will have made some progress on diversifying its supplies of energy. The Union will import more gas from Africa and, perhaps, Central Asia, and will have put in place much of the infrastructure for importing LNG. The introduction of carbon capture and storage technology will be giving coal-fired power generation a new lease of life. Many EU countries will be building or planning to build nuclear plants. The post-Kyoto international framework for limiting carbon emissions will be encouraging more investment in energy-saving technologies. Stringent EU rules on energy efficiency, and much greater use of renewable sources, will help to limit Europe's dependence on gas imports. Both diversification of sources of supply, and efforts to reduce reliance on imported hydrocarbons, will strengthen the EU's hand in dealing with Russia.

The EU and Russia will have every incentive to bargain and strike deals on energy. But unless Europe learns to speak with a single voice, those deals will be unequal.

Integration into the global financial system

Already, Russian companies and sovereign funds have hundreds of billions of dollars that they wish to invest overseas, and these sums will grow. The biggest and best Russian firms want to emulate multinationals from other parts of the world – companies that raise capital in the leading financial centres, purchase firms in several continents, and hire the best talent. They know that they can only become modern multinationals by applying the highest standards of corporate governance and transparency.

This gives the West leverage over Russia. If its sovereign funds want to buy western firms, they will have to be run on a transparent basis, at arm's length from politicians. If Rosneft wants to take a major stake in a western oil company, it will have to act and behave like a western multinational. And Russia will have to keep its markets open if its firms want to be able to acquire companies in the EU. The most nationalist and security-focused elements of the Russian elite will be reluctant to see foreigners involved in strategic industries such as energy. But ultimately, commercial logic will gain the upper hand over nationalist sentiment: Russian capitalism will become stronger and richer if it integrates with global capitalism, according to the West's rules.

The common neighbourhood

The region that Russians call their near abroad may become the most contentious issue in Russia-EU relations: some Russians do not accept that the EU has a legitimate interest in Ukraine, Moldova and Belarus, let alone in the Southern Caucasus. By 2020 it is unlikely that any of these countries will have joined the EU, though if Ukraine tries hard and gets it act together, it could be making a strong case for membership. Russia regards western

support for democratic movements in these places as an attempt to subvert its own position in them. It has therefore tended to support anti-democratic forces, undermining its moral authority with the younger and more modern elements in these countries.

The EU must try to convince the Russians that this zero-sum mentality is counter-productive. The EU cares more about the integrity of the political system in these countries than whether a particular leader is 'pro-' or 'anti-' western. Both Russia and the EU would benefit from the countries in their neighbourhood becoming peaceful, prosperous and stable. The EU should offer to work with Russia to ensure a peaceful transition in Belarus, stability and unity in Ukraine, and a resolution of the frozen conflicts in Transnistria and the Southern Caucasus. But if Russia refuses to co-operate, the EU must be ready to persevere in these efforts.

Given Russia's hostility to western involvement in this region – which occasionally verges on the paranoid – the EU will not find it easy to gain the confidence of the Kremlin. The EU should respect Russian sensitivities, particularly in Ukraine, which has played a central role in Russia's history, culture and identity, and is still intimately linked to the Russian economy. European leaders should tell the Russians that, as sovereign states, Ukraine and Georgia have the right to join NATO one day; but that they will not encourage them to do so in the short and medium term. On missile defence, the EU has been right to argue that the US should involve NATO and consult the Russians on any system located in its member-states. The US has now adopted this line and offered the Russians not to deploy missile defences until such time as verifiable threats have appeared. The EU should welcome this new and constructive approach from the US.

However, having made an effort to win the Russians' trust, the EU should not accept any Russian claims to a 'sphere of influence' in the region. The EU should roll out its new and stronger neighbourhood policy to the countries concerned. It should do much more than it does today to support democratic forces and the cause of human

rights in the common neighbourhood. And it should make clear to the Russians that if they attempted to limit the independence of any of these states, the EU would freeze relations.

The big strategic questions

In many parts of the world, Russia will be a force that cannot be ignored, because of its global diplomacy, potentially powerful armed forces, and seat on the UN Security Council. The EU's goal of making the UN the key arbiter of matters of war and peace depends on its ability to secure Russia's co-operation. When Russia refuses to co-operate, the UN itself becomes sidelined (as happened over the Kosovo/Serbia crisis in 1999) – forcing the West to seek other and inferior sources of legitimacy, such as NATO. Whether the subject is Iran, Afghanistan or the Middle East peace process, Russia will have views, and sometimes influence, and must be engaged. On such issues the EU will often want to work with the US. The EU's approach will sometimes involve pushing Russia towards multilateral frameworks and solutions.

By 2020, the EU and Russia should have built a new political structure to allow them to discuss matters of common concern – not only the subjects just mentioned, but also others, such as terrorism. This organisation would develop out of the work of the current EU-Russia summits, but would need its own secretariat. It would allow the Russians to feel that they have a role to play in the governance of Europe. But the EU would only want to take part if Russia behaved in a predictable and moderate way, notably in the common neighbourhood.

5 China

The focus of China between now and 2020, one may suppose, will be on preserving internal political stability; maintaining friendly relations with the US; encouraging the international system to develop in ways that check US power but allow China to build its economic strength peacefully; and enhancing its military prowess, notably so that China reinforces its position as the pre-eminent power in Asia.

None of these objectives need clash with Europe's wishes for the next dozen years. Europe has an interest in China's continued economic success, and in it becoming a "responsible global stakeholder", to quote former US deputy secretary of state Robert Zoellick. On almost any question of international security that the EU considers – whether climate change, Africa, non-proliferation or energy diplomacy – it finds that China is a factor. The EU needs China's co-operation to help tackle the security challenges of the 21st century.

Should the EU assume that China's progress towards greater wealth and global influence will be linear? China's future success is not guaranteed. One risk for the Chinese leadership is that economic problems – such as inflation or resource bottlenecks – could prevent the economy from growing fast enough to keep a majority of the population satisfied. Discontent over pollution or corruption, or the poor state of public services, could trigger unrest. The Taiwan problem, if badly handled, could lead to a military conflict with the US.

However, the leadership of the Communist Party has a successful track record of combining economic growth with political order. A good working assumption for the EU would be that China's leaders will be skilled enough to prevent major economic or political crises, but that growth rates are likely to slow, and that there will probably be more disorder than in the past.

Even if the EU assumes that China will remain a success story, it is not clear what kind of power it will become. Europeans will hope that China takes its place in the multilateral sort of world that they would prefer. But China may not want a rules-based international system with strong multilateral institutions. After all, Robert Kagan has argued that Europe's support for multilateralism

¹² Robert Kagan, 'Power and weakness', *Policy Review*, June-July 2002.

is a symptom of its weakness.¹² When George W Bush, Dick Cheney and Donald Rumsfeld took office in the US in 2001,

they saw international alliances, treaties and institutions as a constraint on America's freedom of manoeuvre. They thought they could best achieve their objectives by acting unilaterally, when necessary supported by 'coalitions of the willing'.

As Chinese power grows, its leaders could be tempted to follow such principles. China displays some signs of preparing for a more muscular approach to international relations: people linked to China's military establishment seem to have carried out cyber-attacks on the British, French and German governments;¹³ China's defence

¹³ 'China's cyber attacks: casting a wider intelligence net', *IISS Strategic Comments*, September 2007.

budget grows at a much faster pace than its economy; and it has a thousand missiles pointed at Taiwan.

At the moment, however, China's actions on the world stage generally fit the multilateral model. On problems such as North Korea, Iran, Burma and Sudan, China has, some of the time, helped European and American diplomacy. It has increased its contribution to UN peacekeeping operations, for example by sending a thousand soldiers to Lebanon. It has also taken a much

greater interest in regional organisations such as the Shanghai Co-operation Organisation¹⁴ and 'ASEAN plus three'. It supports the UN system, seeing it as a potential constraint on US power.

¹⁴ Oksana Antonenko, 'The EU should not ignore the Shanghai Co-operation Organisation', *CER policy brief*, May 2007.

Most European leaders believe that the best way to steer China towards multilateralism is to engage it in a constructive spirit. They are right to do so. But they also need to transform the nature of the relationship so that it becomes more strategic. 'Strategic' implies a number of concepts: an emphasis on the long term, as opposed to the short term; a concern with high politics and questions of security, rather than 'softer' subjects and economics; and an attempt to deal with a small number of priorities, rather than a broad range of subjects.

By all these definitions, the EU's current approach to China is far from strategic.¹⁵ The various European institutions and member-states do far too little to coordinate their approaches to China. The European nations have very similar interests in China – they all want it to evolve towards economic and political liberalism – and would stand a better chance of pursuing those interests if they concerted their efforts. But they do not. Each of the leading member-states runs after the chimera of a special bilateral relationship, at the expense of supporting common policies. The EU's new foreign policy institutions, created by the Treaty of Lisbon, should help it to become more focused when it deals with China. But they are no substitute for the political will to forge and pursue common policies.

¹⁵ See the forthcoming *CER pamphlet on EU-China relations* by Charles Grant and Katinka Barysch.

When the EU as a whole deals with China, it will need to be prepared to be confrontational. If the EU criticises China, for example over barriers to imports, it usually speaks very softly. The result is that the Chinese often ignore what the EU says. The US is more inclined to talk tough, and probably has a better record of

getting what it wants. For example, in November 2007 US pressure – channelled through its ‘strategic economic dialogue’ with China – persuaded the government to stop 12 sorts of subsidy that encourage Chinese exports and discourage imports. If the EU were able to assert itself, it would be in a strong position vis-à-vis the Chinese, because it has so much to offer. It runs a single market of nearly 500 million prosperous citizens. It has much of the technology that China needs to address its environmental and energy security challenges. It can also offer much expertise on governance – for the time being not on multi-party democracy, for which Chinese leaders display little appetite, but in areas like welfare reform, competition policy, and improving the judicial system.

For Europe, the key subjects of a strategic dialogue with China should include:

Ensuring stability and openness in the global economic system.

Economics has strategic implications when the problems in an economic relationship start to spill over into other areas. This is now the case for the EU and China. The EU’s trade deficit with China is around \$250 billion a year and could soon surpass that of the US. One of the principal causes of China’s export boom is the undervaluation of the renminbi. China is aggravating the situation by maintaining obstacles to imports and investments from abroad. China’s unwillingness to enforce intellectual property rights, and its insistence that foreign investors hand over technology, are incompatible with its commitments as a WTO member.

EU trade commissioner Peter Mandelson is right to say that unless China removes some of these barriers, he and other economic liberals will not be able to resist the rising tide of China-focused protectionism in Europe. But the EU’s armoury is limited. Restrictions on imports from China end up hurting many businesses in Europe. Ultimately, these economic tensions need to be resolved politically. China’s leaders should remove barriers and change their currency policy. That was the message of Jean-Claude Trichet, the governor of the European Central

Bank, Jean-Claude Juncker, chairman of the Euro Group, and Joaquin Almunia, the economics commissioner, when they visited Beijing in November 2007. It was repeated a few days later by European leaders at the EU-China summit. Encouragingly, the Chinese have now agreed to the establishment of an EU-China working group to discuss economic relations. That is a very modest step in the right direction. The EU will often find that if it works with the US on these issues, it will achieve more.

Integrating China into the new global architecture for tackling climate change.

China is the world’s biggest emitter of greenhouse gases, which means that any EU-led attempt to tackle climate change is doomed without China’s participation. Neither other developing countries such as India, nor rich countries such as the US will want to take part in the post-Kyoto system unless China is involved.

This puts China in a strong position. But the EU cannot accept China’s current line, which is to say that it will not commit to international targets to limit carbon emissions. The EU must be blunt in telling China that if it shuns the post-Kyoto system, it could face economic sanctions. Energy-intensive firms covered by the scheme would demand that their authorities tax imports from countries outside it, to prevent unfair competition. France’s president, Nicolas Sarkozy, made that threat when in China in November 2007.

The EU should also offer cash to encourage the Chinese to adopt low-carbon technologies, and it should transfer many of these technologies at low or zero cost. Such offers may help those Chinese leaders who worry about climate change to win the argument for joining a global scheme.

Co-operating in Africa to encourage the continent to become prosperous, stable and well-governed.

China and the EU should encourage each other to transfer more aid and capital to Africa. Europeans should acknowledge that China’s

involvement is in many ways good for Africa. But they should urge China to use its clout to encourage better governance. Within China there is currently a debate over whether to maintain the traditional policy of non-interference, with the emphasis on maximising exports and gaining control of oil and mineral resources; or to shift policy towards promoting good governance in Africa.

¹⁶ *Chinese aid for Africa, mostly in the form of soft loans, is not in fact unconditional. The money must be spent on Chinese contractors, and the governments concerned must not recognise Taiwan.*

China will not adopt western-style conditionality in its dealings with African governments.¹⁶ But in the coming years, as the value of China's investments in the continent increases, and it becomes aware of the need to strengthen its soft power among Africans, it is likely to place a

greater emphasis on governance. China will want its people, factories, mines and oil wells to be safe and secure, and it will probably withhold favours from the worst regimes.

Encouraging China to take on greater responsibilities for global governance.

Europeans want China to play a constructive role in international institutions, clubs and treaties. They should encourage China to be more proactive in the UN, World Bank, International Monetary Fund and World Trade Organisation (in the current Doha round of trade talks, China has, bizarrely, allowed Brazil and India to speak for the developing world). Hitherto it has held back from an active role, partly because it sees itself as a poor developing country. China's leaders think that many international institutions are run by the West for the West's benefit – and not without reason, given that the EU and the US carve up the top jobs at the World Bank and the IMF between them.

The EU should push China to take on greater responsibilities, including in the future global environmental institutions. China should join the G-8, or whatever replaces that club of the world's leading economies. The Europeans may need to persuade the

Americans to welcome a bigger Chinese role in some forums. The more that China feels a sense of ownership over global institutions, the more it will become a supporter of multilateralism, and less likely it will be to veer off in unilateral directions.

Over the past ten years or so, China has taken on a larger global role. For example, it has appointed envoys to the Middle East and to Sudan. It also signed up to the principle of 'the responsibility to protect' in the UN reform package of 2005 – the idea that national sovereignty is not absolutely sacrosanct if a government abuses its own people. The Chinese will not become enthusiasts for the principle of humanitarian intervention; they worry about outside interference in Tibet and Xinjiang. But if the EU, other powers and global institutions are to become more effective at tackling humanitarian crises, stabilising failing states, preventing atrocities and ending civil wars, they will need to develop the theory and the practice of the responsibility to protect. Europe's message to China should be that global powers take on responsibilities for the well-being of the planet.

The institutions of global governance

By 2020 the world will need new institutions, both formal and informal, to manage the stresses and strains of globalisation, especially in the spheres of economics, the environment and security; and to accommodate the rise of new powers. The post-Kyoto framework for tackling climate change will certainly require permanent institutions to make it effective. Similarly, attempts to control the proliferation and numbers of dangerous weapons generally require treaties and organisations that most governments sign up to.

But many other challenges would be better served by small, informal groups of the most relevant countries. For example, the world will want a smooth and stable energy market – one that avoids sudden fluctuations of price, or breaks of supply. A group consisting of the most important suppliers and consumers – say the US, the EU, China, Russia, India, Brazil and Saudi Arabia (and perhaps Iran, one day) – could co-operate to ensure a benign and predictable energy market. Most other countries would be happy to follow the guidelines set by such a group. The same principle could apply to global capital markets, which are dominated by just a few financial centres (the Financial Action Task Force, a group of governments that tackles money laundering and terrorist financing, has established a good reputation). The interlinked problems of international terrorism, organised crime and illegal immigration are also probably best tackled in informal forums. Perhaps the grandest of the smaller groups will be that which replaces the G-8: by 2020 the club of the world's leading economies will surely include Brazil, China, India and South Africa.

So long as the smaller, informal groups set guidelines and benchmarks for others to follow, rather than rules and regulations, they will not undermine the formal institutions of global governance. The EU should lead the way in establishing new bodies, whether formal or informal. One of its special contributions to the multipolar world is that it understands – better than any conventional power – the benefits of international co-operation, institutions and rules.

6 Conclusion

One of the first western writers to consider the rise of non-western powers was Timothy Garton Ash. He wrote in 2004:

So the old Atlantic-centred West, which has been shaping the world since about 1500, probably has no more than 20 years left in which it will still be the main world-shaper. That's another reason why it's so stupid for Europeans and Americans to waste any more time squabbling with each other. In a longer historical perspective, this may be our last chance to set the agenda of world politics.¹⁷

¹⁷ Timothy Garton Ash, 'Free world', Penguin Allen Lane, 2004.

Garton Ash is right that, for all their differences, the US and the EU still have a huge amount in common, notably their political values. They should of course work together in tackling common challenges. And I hope, like Garton Ash, that the zone of freedom he describes as the 'post-West' extends over the entire globe.

But this may take a very long time. I am not at all confident that Russia and China, let alone many Arab countries, will be liberal democracies in 2020. Nor is it self-evident that India and South Africa will allow their democratic systems of government to influence their foreign policy.¹⁸ In the meantime, there is a broad range of global problems and challenges – such as the health of the world financial and trading systems, the proliferation of dangerous weapons, the under-development of Africa, climate change and international terrorism – that Europeans and Americans cannot solve on their own.

¹⁸ In 2007, both these democracies offered strong diplomatic support to the very undemocratic regime in Burma.

The US and the EU will need to work with every power, including those that are not particularly democratic. If the leading powers act unilaterally, or focus on alliances with a few others, or practice balance-of-power diplomacy, they will be poorly placed to tackle the challenges just mentioned. The Europeans, like people on every continent, would then face a very bleak 21st century.

Today, many Europeans regard the US as irredeemably unilateral. Stung by the experience of the George W Bush presidency, they see little chance of the Americans joining the EU in building multilateral institutions. To be sure, the US will always consider whether unilateral or multilateral actions and policies best serve its purposes. However, if this essay is correct in forecasting that the relative power of the US will decline, the balance of the argument should tilt in favour of the Americans choosing multilateralism. Unilateralism is the temptation of the hegemon.

At the moment, very few Americans believe that they are moving into a multipolar world. But if and when more Americans recognise the reality of multipolarity, they are likely to take a greater interest in global governance, as a means of constraining other powers.

The priority for European governments is clear. They must reform and improve their institutions and capabilities, so that the EU can be more effective as a force for good. They must work to strengthen multilateral bodies, and the international rule of law. And they must engage the other powers, including those that are undemocratic, to persuade them of the benefits of multilateralism.

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Preparing for the multipolar world

European foreign and security policy in 2020

Charles Grant with Tomas Valasek

The world is becoming increasingly multipolar. Will that mean democratic poles lining up against autocracies, in two competing camps? Or will all the leading powers support multilateral institutions? The authors argue that a strong and successful EU can help to ensure that multilateralism prevails over balance-of-power politics. They set out a plan for a stronger European defence policy. And they outline EU strategies for the Middle East, Russia and China.

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