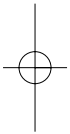
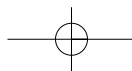


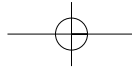
Bridging the Atlantic

**Domestic Politics and
Euro-American Relations**



Mark Nelson





ABOUT THE AUTHOR

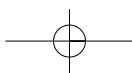
Mark Nelson is senior communications strategist at the World Bank's Economic Development Institute, where he is designing a training programme for economic and business journalists from developing and former communist countries. From 1985 to 1996, as a Wall Street Journal correspondent based in Brussels, Berlin and then Paris, he covered the negotiation of the Maastricht Treaty, the fall of the Berlin Wall and the war in Bosnia. From 1992 to 1993, during a stint as senior associate at the Carnegie Endowment for International Peace, he co-directed a major study on US-European relations. He began his career as a researcher on international affairs at the Kennedy School of Government at Harvard University. A native of South Carolina, he is a graduate of Oberlin College in Ohio and the College of Europe in Bruges, Belgium.

ACKNOWLEDGEMENTS

The author would like to thank Steven Everts, Philip Gordon, Charles Grant and Ben Hall for their comments on drafts. The views expressed in this report are those of the author, and do not necessarily reflect policies or positions of the World Bank.



The views expressed in this publication are those of the author himself and do not necessarily reflect the opinions of the CER or of its advisory board.



Contents

About the author

Acknowledgements

Introduction: a relationship under domestic attack 3

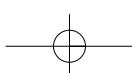
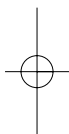
Domestic politics and the Atlantic divide 8

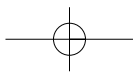
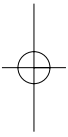
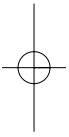
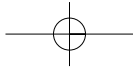
The spur for change: the advent of the Euro 17

Atlantic ideas: core values for joint action 26

Security: the enemy within 37

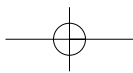
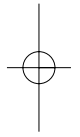
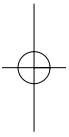
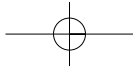
Conclusion: a new partnership 43

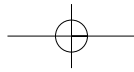




*“Why this bewilderment?
This sudden confusion?
Why are the streets and squares emptying
so rapidly, everyone going home lost in thoughts?
Because night has fallen,
and the Barbarians have not come.
And some of our men, just in from the border,
say there are no Barbarians any longer!
Now, what is going to happen to us without
the Barbarians? They were, those people, after all,
a kind of solution.”*

Greek poet CP Cavafy, in a poem about Ancient Alexandria





Introduction: a relationship under domestic attack

The dawn of a new millennium will be a defining moment for relations between the United States and Europe. Thrown into a new strategic and economic landscape by the demise of the Soviet bloc, the leading Atlantic powers now find themselves struggling to maintain public support for this old and reliable alliance. The North Atlantic Treaty Organisation (NATO) faces opposition to its plan to expand its membership and scepticism about its ambiguous future role. Transatlantic differences in economic philosophy and performance are giving birth to new and more serious trade and economic disputes. The European Union is again stumbling over its efforts to untangle its institutional structures and respond to the flock of nations knocking at its doors. As the Cold War fades into history, the Atlantic Alliance—that complex web of institutions, trade agreements and security arrangements that has provided the backbone for the wider international system since the end of World War II—has lost its guiding *raison d'être*.

The threats to the Atlantic relationship are coming from a variety of domestic political fronts. A growing group of high-profile politicians, scholars and security experts argue that the privileged link between Europe and America is not only unnecessary in the new circumstances after the Cold War, but is actually hampering important reforms on both sides of the Atlantic. Some members of the American Congress who are overseeing brutal cutbacks in social, environmental and educational programmes are asking why the US continues to send troops and treasure to a Europe that is rich enough to pay its own way. Europeans who would like to see further steps towards a united Europe wonder if the process wouldn't move quicker if the Europeans could no longer count on America coming to their aid at the first signs of crisis.

“The days of deference by allies to American military power are over. Indeed, the days of allies are over,” wrote Ronald Steel, a leading critic

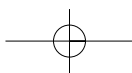
of “Eurocentrism” in American foreign policy. “In a world without a single menacing enemy, alliances are deprived of meaning. And in trade wars, unlike military confrontations, there are no allies, only rivals.”¹

¹ *Atlantic Monthly*, June 1995

While such comments may not reflect the mainstream of foreign policy professionals in the US, they have a wide appeal to an American public increasingly unwilling to support what they see as vague international commitments that have no immediate impact on their daily lives. We are currently witnessing a dramatic decline in American public and Congressional interest in foreign affairs in general and a turn away from Europe in particular. Highly committed activists—on issues like abortion, the Middle East and China—have shown their ability to influence and at times take control of America’s foreign policy agenda. New communities of immigrants and a younger generation of leaders have replaced the Euro-Atlantic elite—the European-descended, East-Coast educated foreign policy community that looked to Europe as America’s natural partner. Geographical priorities have changed: Latin America, Asia and Africa are vying to take Europe’s place. The perception of European failure in Bosnia, combined with differences over everything from Iran to China, have convinced many Americans that Europe’s foreign policy values are based more on naked self-interest than a shared commitment to peace and stability.

Europeans are likewise growing irritated with the US and what many see as its attempts to establish world-wide hegemony. Irritation with American efforts to enforce global laws over investment in Cuba and over policy towards Iran, Libya, Iraq and other US-defined “rogue nations” has given rise to a growing chorus of demands for Europe to go its own way. Some American commentators see the emergence of “a new organising principle” in post-Cold War global politics, orchestrated by France, Russia and others, of trying “to diminish or diffuse American power whenever and wherever they can.”² In France, the domestic debate about economic reform is so centred on hostility to “the American model” that politicians who favour privatisation, labour-market flexibility and lower taxes on employees have resorted to renaming these *libéralisme à la française* and to stressing their disagreements with America’s economic system.

Jim Hoagland,
“Chipping
Away at
America’s
Perceived
Hegemony”
International
Herald
Tribune,
11 Nov 1997



Indeed, influential voices on both sides of the Atlantic now describe the relationship in negative terms. Neither views the other as a model. Seen from the prism of American politics, the European Union is a rich but economically ossified set of nations that are incapable of reforming their economies or playing a role in global leadership. Partly because Americans pay for much of the cost of European defence, these critics argue, Europeans can afford to maintain a set of outdated and outrageously expensive social policies and protectionist measures. From Europe's standpoint, America is a schizophrenic bully, alternating between isolationism and hegemonic attempts to impose its economic system and moralistic foreign policy on the rest of the world. While both visions may be little more than caricatures, they are nonetheless influencing opinion and, increasingly, policy. If the atmosphere doesn't change, and soon, what used to be the Atlantic Alliance will surely begin to fade.

Storms in the Atlantic

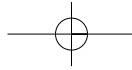
Recent private sector efforts such as the Transatlantic Business Dialogue and official ones such as the New Transatlantic Agenda (both launched in 1995 to deepen US-EU co-operation) have made progress in dealing with many specific trade and economic problems. Closer ties between officials in Washington and Brussels have resulted in quicker and more effective efforts to head off some of the more technical trade disputes. EU officials in Brussels and European experts in Washington say that, on the working level, the two sides have never been closer.

But these stronger working ties have failed to alter public perceptions. Politicians have continued to emphasise transatlantic differences over high-profile political issues such as Iraq, Iran and Cuba as reasons for attacking the feckless allies "over there." And such rivalries are likely to worsen over the next few years. The seeds of coming tensions—over economic, security and "burden-sharing" issues—have already been planted.

While such disputes are nothing new, they are now happening in an environment where neither side feels constrained from pursuing its own case vigorously. Europe is set to become a more formidable competitor to the US at the very moment that America's co-operative instincts are waning. Forthcoming battles will likely centre on a variety of trade and political issues:

- ★ The creation of a common European currency will change the world's financial system and capital markets more than anything since the creation of the Bretton Woods system after World War II. This will set off new struggles over the leadership of the international financial system and its institutions.
- ★ Emboldened American pressure groups, such as those pursuing the overthrow of Castro's Cuba, will continue using their muscle to try to impose extra-territorial laws on America's trading partners.
- ★ Extending the North American Free Trade Agreement to several new Latin American states will require a huge investment of time and political capital from the Clinton administration. That could further re-focus America's priorities away from Europe.
- ★ The expansion of NATO into Eastern Europe will spawn new arguments over the balance of power within the organisation and over who should pay the multi-billion dollar costs of expansion.
- ★ Domestic pressures from American blacks, women and human rights groups will force the US to pay more attention to new issues and to areas where non-European Americans have ties. This has led to new charges of American power-grabbing, especially in areas like sub-Saharan Africa where European countries traditionally have close ties.

At a time when Europe is poised to become a more influential player on the world stage with the introduction of the euro, and when controversy surrounds the ways America uses its global power, this pamphlet will examine the emerging challenges to the Euro-American relationship. It will look at the more sceptical domestic political environment that has emerged since the collapse of the Soviet Union, and ask what can be done to maintain the close co-operation between Europe and America as the centrepiece of broader multilateral arrangements. It will attempt to show that strong Euro-American relations are as vital today as during the Cold War, but that maintaining and adapting these ties to new common challenges will require more determined efforts to explain their aims and purposes, to communicate their value to the American and European people and to show the dangers of letting disputes get out of hand.



The underlying theme is that the transatlantic relationship will have to be understood and defended by a wider group than the policy gurus and military experts who have been its traditional advocates. Rapid preparations will be needed to ward off the shocks that will stem from the introduction of European monetary union in January 1999. And both sides of the Atlantic will have to accept something that they now find hard to swallow: steps toward a common European foreign policy and a more capable European defence.

Indeed, saving the relationship may now depend more on Europe than America. That might seem like an exaggeration, especially at a time of nearly unchallenged American dominance of international affairs. But after years in which Americans were the principle creators and defenders of 'the West' as a community defined by common approaches to foreign policy, Europeans are now in a position where they can have a dramatic impact on the continuity of that community as an effective player on the world stage. Europeans need to use their growing power not to pull free of the US and establish independent positions, but to help keep the US involved in building stronger multilateral trade, economic and security systems that enjoy wider public support on both sides of the Atlantic and in the world at large.

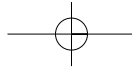
In order to create a more positive perception of their continent, Europeans will not only have to do a better job explaining themselves to the American public, but also take on a more equitable share of the burdens of coping with international instability. One lingering lesson of the Bosnia imbroglio is that Americans (as much as Europeans) will quickly turn hostile to a Europe that appears unwilling or unable to solve a crisis in its own backyard. Indeed, as will be argued in more detail later, unless the European Union is able to demonstrate—both to Americans and to its own citizens—that it is capable of carrying a heavier international load, Europe's own sense of purpose is likely to fade along with America's commitment to defending it.

Domestic politics and the Atlantic divide

Long after the Soviet Union had begun to disintegrate from within, former President Ronald Reagan discovered the almost limitless potential of 'The Evil Empire' as a means motivating Americans to support his foreign policy goals. He went on television and showed charts of the growth of Russia missile systems and warheads. He started the publication of an annual, cartoon-like booklet on Soviet weaponry. And despite the fact that the Soviet Union was on its last legs, he produced the longest string of real annual increases in the US defence budget in American history. What's more, he did this while simultaneously draining domestic programmes and running up a mountain of debt.

Convincing Americans to go along with ambitious foreign policy initiatives—especially after the collapse of a common foreign threat—has become a new game altogether. Foreign policy is no longer seen as a matter of life and death. Americans have demonstrated in public opinion surveys and elections that they care much more about domestic economic issues, crime, drug trafficking and other local problems than about anything on the other side of the ocean, across the border or in some indefinite future. A carefully negotiated plan to repay close to \$1 billion in American arrears to the United Nations was scuttled during the final Congressional session of 1997 because President Clinton refused to endorse controversial restrictions on abortion.

Returning to themes that run deep in US history, many Americans are once more highly sceptical about overseas commitments, especially—to use Thomas Jefferson's words—in 'entangling alliances' with foreign powers. Congress approves multilateral foreign interventions, such as those in Somalia or Bosnia, only after the administration promises that American troops will leave by a certain date and that they will serve only under American command. As of late 1997, it was far from certain that Congress would allow President Clinton to keep US troops in Bosnia,



as part of a NATO-led force, after June 1998. As for Senate ratification of NATO's embrace of Poland, Hungary and the Czech Republic, well-organised domestic communities like Polish Americans may help, but it will still prove a major test of Mr Clinton's powers of persuasion.

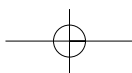
These trends have been confirmed in public opinion surveys. Americans say they want both to remain a global superpower and be less actively involved in foreign affairs. When asked what role the US should play in the world, 72 per cent of Americans in one poll said the country should "reduce its involvement in world affairs", compared to 21 per cent who thought it should "use its leadership position to help settle international disputes and promote democracy." Yet another poll found that 61 per cent thought the US "should remain a world superpower even if the costs and risks are high."³

³ *The Roper Center for Public Opinion Research, The Public Perspective, Aug/Sept 1997*

Politicians have interpreted these seemingly contradictory messages to mean that Americans are sceptical about any sort of foreign involvement except those in which Americans are seen as leading and showing muscle. This has opened the gates to challenging the wisdom of many multilateral engagements. The Right has targeted the United Nations, the World Trade Organisation and other global forums in which US power seems diluted. For the Left, the new enemies are NATO and the perceived 'Eurocentric' elitism of America's foreign policy, education and culture. Both sides of the political spectrum are questioning American free trade policies.

Congressional approval of the North American Free Trade Agreement, which allowed free flows of goods, services and capital between the US, Canada and Mexico, was a skin-of-the-teeth affair for President Clinton; expanding it to new members, as he now advocates, will prove even harder. In yet another late 1997 setback, President Clinton's attempt to win renewed 'fast-track' authority from Congress—enabling him to negotiate trade pacts that could be ratified with a simple yes or no vote in the Senate—was delayed indefinitely when it became clear that it did not enjoy sufficient support. Lack of such authority will not only make extending NAFTA more difficult, it could also make it harder to embark on new trade initiatives with the EU.

All of these domestic constraints in America have their European



equivalents. European foreign policy goals such as stabilising Africa, the Middle East or Eastern Europe have been hampered by domestic audiences such as farmers and textile workers who see deeper economic ties with low-wage countries as a threat to their livelihoods.

The faltering commitment to European integration has also created problems for the transatlantic relationship. Neither the Maastricht treaty, which was finally signed in February 1992, nor the Amsterdam treaty, signed in October 1997, has done a great deal to give the EU the means to organise coherent foreign policies. While European leaders seem to talk constantly about the need to develop their own capabilities to handle crises without relying on Americans, they have not only continued to compete among themselves for power and influence but have also overseen defence cuts that make the creation of an effective European military organisation impossible. A Europe that is weak and divided not only fails to defend the interests of Europeans, but is also a liability for the Americans.

Blame the foreigners

Underlying these difficulties on both sides of Atlantic is the failure of domestic politicians to convince citizens of the relevance of international affairs to their daily lives. In an environment of relatively slow growth, tight monetary policy and ballooning welfare costs, politicians are left with frustratingly few opportunities for changing economic policies. National politicians can point to the global currency market and other “hostile” outside factors as explanations and excuses for things they “would like to change but can’t”. Foreign policy is therefore left as an arena in which politicians can take radical positions and exaggerate. The irony is that in this era of ‘globalisation’, people are turning inward, to their national governments. Remote and puzzling international ties and institutions seem more like the problem than the answer.

Europeans, some searching for a new pan-European identity and all of them trying to preserve their national ones, are increasingly inclined to blame globalisation and international integration—which are both often seen as blatant ‘Americanisation’—for a loss of cherished European ways of living. They fear that proposed solutions to unemployment will lead to an American-style working poor and to a withering of the cherished European welfare state. Everything from obesity to the loss of the flavour

in cheese is put down the relentless advance of the Big Mac culture. When Bill Clinton lectured the Europeans at the Denver Group of Eight summit in July 1997 about their high unemployment, gleefully pointing out America's better record, the French daily *Libération* mocked his speech with the dismissive front-page headline: "Why can't you just be American?"

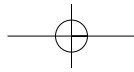
Provoking a dispute with America is a sure-fire way for French politicians to get headlines and obfuscate some of the unsavoury choices that France now faces if it is to tackle its 12 per cent unemployment. Some French analysts believe that Jacques Chirac, the embattled French President, did everything he could to pick a fight with the US over Boeing's merger with McDonnell Douglas by preventing the European Commission from approving the deal. His strategy may have been to re-establish his authority over international affairs and to draw attention away from his defeat in June's parliamentary elections.

"In economic and trade terms, Europe can only be Europe through a mixture of co-operation and rivalry with the US," writes Dominique Moïsi, deputy director of the Institut Français des Relations Internationales. "Here lies the problem: France's dream of speeding up the difficult process of creating a more integrated Europe by provoking a crisis with Washington remains a nightmare for most Europeans. They do not want to have to choose between Paris and Washington, even though they may be frustrated by US behaviour."⁴

⁴ Financial Times, 25 July 1997

Many continental Europeans are also extremely suspicious of Britain, which they see as a pupil of the American economic model and as a guardian of American interests inside Europe. Some of these attitudes have persisted even after the election of a Labour government headed by Prime Minister Tony Blair. He has criticised the "tax and regulate" policies of many continental states and extolled the virtues of privatisation, flexible labour markets and fiscal conservatism.

This negative view of Anglo-Saxon capitalism has made the economic reforms that the continent needs all the more difficult to accomplish. Opponents of policies such as privatisation and lower payroll taxes need only to call them 'Anglo-American' in order to ruin their reputation with



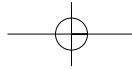
the public. Such branding of the programme of Alain Juppé, the former French Prime Minister, is one reason why a government rhetorically committed to economic reform achieved so little before being thrown out of office.

The last Eurocentric generation

For their part, Americans are not blaming Europe so much as trying to forget it. Universities are closing down European language and history programmes and substituting subjects that are seen more in touch with the multi-cultural complexion of modern America. The Modern Language Association and other such groups have commented on falling foreign—including European—language abilities. On top of that, American schools, colleges and universities have for the past two decades been turning out students who are decreasingly well informed about Europe and international affairs. “There is a palpable gap in the European presence in American universities today,” a 1993 study for the Social Science Research Council states. “It is overwhelmingly evident to anyone who analyses the subject that American students know substantially less about Europe than Europeans know about America.”

Europe today is decidedly out of fashion in America. A spate of sit-ins on campuses in the early 1990s resulted in substantial changes in the standard curriculum, ‘cleansing’ history and literature of its focus on European authors and the classical tradition. Europe was portrayed as source of America’s racial divide and of a sort of intellectual class system that excluded other cultures and traditions. The rhetoric grew so combative and politically charged that an exasperated Arthur Schlesinger asked in his book, *The Disuniting of America*, “Is Europe really the root of all evil?”

At the same time, new ethnic lobbies have begun to demand that attention be paid to “their” foreign policy issues. America’s intervention in Haiti in 1994 showed the growing influence of the Congressional Black Caucus on US policy. Latin American and Asian Americans are also demanding a focus on other parts of the map. A resurgent California—the fastest growing state in the US and an increasingly important centre of political power—focuses on Pacific and South American horizons. Though Secretary of State Madeleine Albright is professionally expert in European affairs, her first official trip was to Latin America, where “non-traditional



diplomacy” was the watchword. Among the top issues, for example, as the Washington Post quipped, was “a menace that hits Americans more directly than the threat of communism in Central America ever did: car theft.” She signed a bilateral treaty with Guatemala over car theft and took up the issue in other capitals as well.

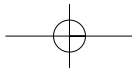
Many women’s groups, ethnic communities, gays and lesbians tend to see European ties as an aspect of the old establishment that needs to be opened up and forced to change more dramatically and visibly now that the Cold War is over. “We want to unveil some of the lies and show students how being taught this Eurocentric way has brought us to deny our own culture and history, how it has helped divide America,” said Andrea Higgins, president of the Black Student Union at California State University at Long Beach during a December 1995 debate.

It has not occurred to most of these so-called “new issue” groups that they have allies in the more multi-cultured Europe that is now emerging. Nor have they begun to use transatlantic networks to build stronger international movements or pressure groups. Although the internet is gradually connecting such groups across borders, there is little evidence that they have learned to build the kind of powerful cross-border coalitions that change multilateral decisions and policies. While trade groups, industry associations, arms salesmen and the world’s military establishments are champions of such cross-border pressure, many of the “new issue” groups are still outsiders in transatlantic power circles.

The role of the press

The press has reflected the general decline in international consciousness and the confrontational atmosphere of transatlantic relations. Most members of the press would argue that it is not their role to advocate particular positions, but most would accept that they should point out exaggerated, intolerant or inaccurate statements from politicians about other parts of the world. Just as the press in former Yugoslavia fed the frenzy of accusations and ethnic hatred that led to war, the Western press has often failed to question the simplistic explanations of leaders who gain power by blaming problems on outsiders.

Coverage of the EU institutions in Brussels, for example, has gone through some particularly ugly phases. The spreading of rumours in the press about

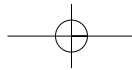


Brussels' alleged attempts to ban French cheeses and British crisps got so bad that the European Commission created a "Euro-myths" web site just to counter the false stories. Even serious newspapers have tended to exaggerate the lack of democratic controls on the EU institutions. They blame 'Eurocrats' for unpopular EU policies and for the excruciatingly slow and complex decision-making regimes; the national leaders who actually create the convoluted mess and decide and vote on measures often escape untouched. Part of the problem is that too much of the EU's business is done behind closed doors. Yet journalists have a responsibility to get the story even when politicians try to conceal it or are inept at explaining it.

The press has also underestimated the resolve and durability of the EU's projects. The euro has been declared dead so many times that many Britons—and even continental Europeans—still don't realise that monetary union is likely to start in January 1999. The ignorance and negative attitudes have washed across the Atlantic, leaving many American policy and opinion makers convinced that the EU institutions are hopelessly flawed and unworkable.

Transatlantic reporting—both by American and European journalists—has become not only more superficial but also more infrequent. American newspapers and network news programmes have drastically reduced coverage of international issues, though the death of Diana, Princess of Wales, has blown the statistics off the map this year. According to the Center for Media and Public Affairs, foreign news coverage on the American television networks declined to about 20 per cent of the evening news time last year, from nearly a third in 1990 (not including coverage of the Persian Gulf crisis). Reader surveys by newspapers indicate that foreign news is among the least read. The foreign pages are the location where advertisers are the least willing to be seen. Thus the foreign sections are increasingly the place where marginal voices can vent their rage, rather than the home of reporting and debates over policy.

Part of the problem is that journalists often fail to apply the same journalistic standards to international stories that they apply to national ones. While European journalists often report friction between the EU and Washington DC, few seek out an articulate spokesperson for the other side of the story. They also fail to explain why the international story matters to readers. In an age of globalisation, the international story may



be much more important for the reader's economic livelihood and a lot closer to home than many people—and editors—realise. But those connections need to be explained and highlighted.

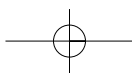
Close, yet so far

Another of the ironies of the current climate is that at a time when Western cohesion seems to be declining, Europe and America are more alike in fundamental ways than they have probably ever been. Movements in favour of the environment, women's rights and homosexual rights are making parallel advances on both sides of the Atlantic. Music, style and fashion from Europe and America dominate the world. Both Europe and the US face common challenges as their wealthy, mature economies face slower growth. With rapidly ageing populations, both are looking for sustainable ways to pay the ballooning costs of the welfare state. Both are struggling to integrate religious and ethnic minorities into mainstream society, to meet the pressing demands of the world's poor and to hold on to traditions, careers and ways of life—and all that in the midst of a relentlessly competitive global market.

The fact is that the Atlantic co-operation is at the heart of the very peace and prosperity that both sides of the ocean have enjoyed in the last five decades. Improved and expanded co-operative mechanisms offer the cheapest and most enduring solutions to many of the world's problems. While the Euro-American relationship should not be an exclusive arrangement, it should be an important tool for expanding global multilateral arrangements to less integrated world powers like China and Russia.

A growing number of European and American experts argue that the US and Europe should now concentrate less on building ties with each other than with other parts of the world where contacts are less developed. Why should the EU engage in another round of trade negotiations with the US when China beckons? The answer is that the transatlantic path is more likely to result in agreements that will be open to all, and to stave off destructive competition between the two world trade superpowers, the US and Europe.

The recent financial turmoil in Asia has served as a reminder that a strong and coherent transatlantic relationship remains the backbone not just of global stability but also the bedrock of the world's financial markets.



Thanks to well-established and efficient financial market regulation, transparency and openness to outsiders, the transatlantic marketplace stood out as a model that Asian countries needed to follow as they sought ways to reassure rattled international investors. Close co-ordination between Europe and the United States in their response to the crisis, moreover, will be crucial to designing effective packages to get the financially troubled region back on track and limit the impact of the turmoil on world-wide economic growth.

Indeed, the transatlantic partnership has been the means through which most of the ambitious advances in multilateral trade negotiations, global environmental pacts and arms control agreements have been engineered. While NAFTA and Europe's eastward expansion may appear to be attempts to cordon off the globe into US and EU zones, the fact remains that multilateral organisations—such as NATO, the EU, the WTO and the Group of Eight—have ensured that such regional groupings remain firmly grounded in an open international system where competition remains for the most part healthy and self-regulating.

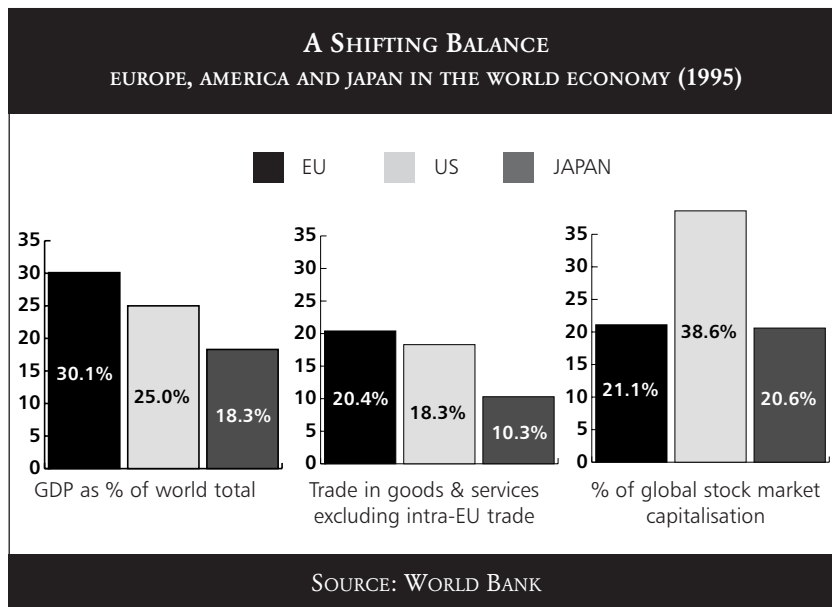
If the Atlantic Alliance ceases to play a central role in the global policies of Europe or America, there is a risk of the same kind of global instability that the Great Power system created in Europe for much of the last three centuries. If the US and Europe engaged in truly unfriendly competition with each other—for example over policy regarding Middle East or Central Asian oil supplies—the US would come under enormous pressure to confront Europe in both political and military affairs around the globe. That could mean not only a refusal to protect Europe in a crisis, but also active attempts to undermine Europe's interests. If such a confrontational relationship were to develop, both the US and Europe would seek to develop competing alliances with other world powers like Russia, China, or Japan. And Europe would risk splitting along its age-old fault lines.

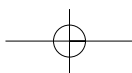
No such catastrophe is on the horizon. In the future, increasingly progressive, democratic and wealthy nations in Asia or Latin America may be able to take over some of the role now played by America and Europe in defending global multilateralism. But for now and in the foreseeable future, the EU and the US are each other's best guarantee that the international order is maintained in a way that is open and accessible to the world community at large.

The spur for change: the advent of the euro

The introduction of a single European currency, the euro, will send shockwaves through transatlantic relations. Its effects, already evident as European countries get ready for the 1999 launch date, will extend not just to economic and financial ties, but to the overall balance of power between the US and Europe. If any overriding reason is needed to re-examine the state of transatlantic relations, this is it and the time is now. Just what kind of power will this new single-currency Europe be?

Much as when the dollar replaced sterling as the world's leading reserve currency in the early part of this century, the euro could deeply affect international currency markets as we know them. It will be the first global currency that stands a chance of competing with the dollar, not just





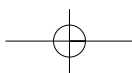
on equal terms, but perhaps even of eventually surpassing its role in international commerce. Although not all the 15 EU members will participate in the euro's first phase, the European currency area will ultimately represent a population and an economy that is significantly larger than that of the US. Both sides of the Atlantic need to prepare seriously for its advent and consider the effects it might have on their overall relations.

A common European currency will be a powerful symbol of a shared European political commitment. No matter how many countries participate in the currency at the onset, the euro will force the Europeans into a level of unprecedented internal policy co-ordination and deeper political integration. This new EU will be able to demand a stronger voice in the management of global financial and political institutions and may be less willing than now to submit to American leadership.

This event could also have potentially profound consequences for the transatlantic market. The more than \$1 trillion in goods, services and investment that cross the Atlantic every year is the core of the world trading system and also one of the most venerable legacies of transatlantic co-operation. But the post-World War II international economic system and the Bretton Woods institutions will have to adjust to this new global currency. A new set of economic talks—covering trade, investment and monetary co-ordination between the EU and the US—would be a useful forum to deal with the trade and investment issues that are raised by the introduction of the euro.

Despite the exaggerated perception that America has solved all its economic problems and left Europe far behind, the long-term challenges faced by both sides of the ocean are deeply similar. With America's high external deficits and low savings rates, and Europe's deep-seated structural problems and high unemployment, the Atlantic cannot afford a euro-inspired economic conflict. The euro will expose some of the transatlantic relationship's greatest weaknesses and could easily make them worse.

Yet the arrival of the euro also offers enormous possibilities. It is already forcing through much-needed reforms in Europe's budgetary and financial management, as well as encouraging the banking and financial industry to consolidate. American financial service firms, multinational enterprises



and investors will all be able to benefit—along with their European competitors—from the greater efficiency, the predictable investment climate and the more transparent competition that that the euro should bring about.

The euro's impact

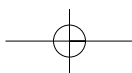
In his excellent analysis of the global and transatlantic effects of the euro, C Fred Bergsten estimates that between \$500 million and \$1 trillion of international investment could shift from dollars into euros in the years following the currency's introduction⁵. Even if only the core countries of Germany, France, the Benelux trio and Austria are included in the first phase of the euro, he predicts that 20 per cent to 30 per cent of world finance could shift from other currencies into euros; and between 25 per cent and 50 per cent if all EU countries took part in EMU. The aftershocks of this earthquake could be amplified by major exchange-rate fluctuations between the dollar and the euro, larger than has generally been the case between the dollar and the principle EU currencies over the past decades. Such fluctuations, he predicts, will lead to new protectionist pressures on both sides of the Atlantic.

⁵ *The Dollar and the Euro*, Foreign Affairs, July/Aug 1997

Alessandro Prati and Garry J Schinasi come to similar conclusions⁶. They predict that monetary union will increase the liquidity and depth of European securities markets by removing currency risks and forcing the improvement of financial infrastructures. In addition, reforms of tax and welfare systems, if carried out as planned, will lead to a large pool of investment funds moving out of government hands into private pension and health insurance schemes. The role of the euro, they conclude, "could be greater than the combined roles of the former currencies of EMU members."

⁶ *What Impact will EMU have on European Securities Markets?* Finance & Development, Sept 1997

The effects on the US are not uniformly favourable. As the world's largest debtor nation, the US could experience important constraints on its ability to finance its budget deficit, especially if international savers become less interested in holding US treasury bonds. This could place important constraints on US fiscal policies. While current commitments to balance the federal budget will help, America's continuing trade deficit, and its net foreign debt of over \$1 trillion—and rising rapidly—will need to be addressed in the context of the euro.

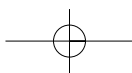


America is not prepared for the post-euro environment. The US Treasury has traditionally treated a European currency with scepticism, and did little during the negotiation of the Maastricht Treaty to express American interests in and concerns about the project. The two sides need to discuss the options now, to prevent the euro's arrival from becoming a major source of international uncertainty and tension. The EU still has plenty of details to settle before the currency is launched. For example the dollar rate at which the euro is introduced could have a major impact on Europe's competitiveness. Numerous economists have argued that the Europeans will seek to devalue their currencies between now and the introduction of the euro in order to start the euro on a competitive footing.

Perhaps the most important detail still to be settled, however, is how the EU will organise the single currency's representation to the outside world, especially in multilateral forums such as the Group of Eight (the recently renamed G-7 plus Russia). The process of making this decision presents both sides with further opportunities for transatlantic consultation.

The question of how foreign monetary relations will be managed is also a potentially divisive debate within Europe. While German insistence on the independence of the European central bank will dictate that a key role be given to its governor, the role of the EU finance ministers in the euro's external relations has yet to be decided. France wants the euro to have a strong political representation on the world stage. As things stand now, key decisions on macroeconomic co-ordination in bodies like the Group of Eight could require a unanimous decision by the 15 finance ministers. That requirement that could throw attempts at international financial co-ordination into chaos or deadlock. The EU needs clear, understandable procedures to govern how it will deal with the euro's external relations.

In fact, it is in the American interest that the EU's external monetary representation be fully empowered to act with authority and flexibility. Even in trade, where the EU has a clear mandate, dealing with the EU can be a frustrating and time-consuming experience for the US and other foreign partners. The requirement that national ministers agree on the EU's negotiating position in advance means that delicate EU compromises are so brittle and fragile that they can't be altered when confronted with positions of other partners. The US should press the Europeans to create more open and flexible decision-making procedures for the euro, so that



The spur for change: the advent of the euro

21

international monetary co-ordination becomes easier rather than more cumbersome and time-consuming. This means both a strong role for the European central bank and majority voting among the finance ministers.

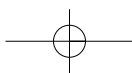
Unfortunately, the US has remained resolutely on the sidelines of the monetary union debate, giving the impression that it either continues to wish it would go away or that it is outright, though quietly, hostile to the euro. American monetary officials seem to think that, even if the Europeans were to succeed in creating the euro, it will be a short-lived and unmanageable experiment. France's justification of the euro, as a challenge to the dollar, should serve as a wake-up call for the US.

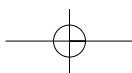
But European officials say the American disinterest in the euro goes all the way to the top. In a recent meeting between Commission President Jacques Santer and President Clinton, for example, Mr Santer briefed Mr Clinton on the progress towards EMU. President Clinton listened but neither he nor his aides asked questions, according to an official who was present. Such apathy from the Americans is dangerous for both sides of the Atlantic. The prospect of a delay or collapse of the euro is dwindling by the day, and the US should proceed in the expectation that the timetable will be maintained.

Transatlantic marketplace, anyone?

The best way to respond to the challenge of both the euro and the strained cohesion after the Cold War is to act to preserve and expand Euro-Atlantic economic ties. The gains from such an effort are potentially substantial. The US and Europe do more business more profitably with each other than they do with any other region including Asia. In a 1995 study, Alan Tonelson and Robin Gaster found that US-European trade was not only more evenly balanced than that with Asia, but that this trade was less disruptive to established American economic structures. "European companies create many more high-quality jobs in America, use more local content and pay, proportionately, much more in US taxes than do Asian companies," they wrote⁷. If the two sides of the Atlantic are to put their relationship on a new footing, it is stronger ties in investment and trade that will have the most meaningful and immediate impact. Just as the nations of Europe banished war among themselves by creating an ever more integrated Europe, the Atlantic partners need to attack their faltering cohesion with

⁷ Atlantic Monthly, August 1995





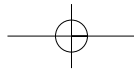
a determined effort to maintain and build the transatlantic economic community.

Deeper economic ties could take a similar shape to the trade accord between the US, Canada and Mexico, the North American Free Trade Agreement, which President Clinton wants to expand into a Western hemisphere-wide Free Trade Area of the Americas. His failure so far to win fast-track negotiating authority from Congress should not be used as an excuse for failing to press forward with the free trade agenda or for ignoring the EU during this crucial moment in European economic history.

The obstacles to opening such talks are not only in Washington, however. The EU is absorbed in the single currency and the expansion of its membership to the East. Most European leaders have made it clear that they are not ready for detailed economic negotiations with the US. Because both the US and the EU have highly similar economic structures, and matching problems in industries like agriculture and textiles, some experts consider that such a deal would be highly complex and controversial. Its technical complexity could match the negotiations of the 1992 European single market. But a failure to tackle the many remaining barriers to transatlantic flows of trade and investment could have costly consequences. The introduction of the EU's new currency presents a perfect opportunity for addressing the underlying causes of trade disputes and uncertainties for investors.

The European Commission and some US officials, working under the framework of the 1995 New Transatlantic Agenda, are preparing the ground for an ambitious agreement known as the Transatlantic Marketplace, that would remove most of the remaining trade and investment barriers between the two sides. While the effort is still in its early stages, and it is unclear whether it could win support on either side of the Atlantic, it is a valiant undertaking that deserves support. It would deal not only with remaining barriers to trade in goods, but also tackle the fastest-growing areas of Euro-American economic relations, trade in services and investment.

Such talks would also provide a new context for sorting out disputes such as the one that exploded over the Helms-Burton Act, signed by President



Clinton on March 12, 1996. This legislation not only tightens the US embargo against Cuba but also allows the US to penalise companies of other nations who—despite the fact they are complying with all their own laws—invest in Cuba in defiance of American laws. The extra-territorial reach of the Helms-Burton Act infuriated America's trading partners on both sides of the Atlantic, but seems to have had little impact on Castro's hold on power.

With so many such acrimonious economic disputes, an agreement setting out clearer rules for transatlantic investment—and the conditions under which either side could impose unilateral sanctions on the other—is, without a doubt, one of the most urgent tasks facing the transatlantic partnership. Trans-national investment in high profile industries nearly always runs into obstacles that are not posed by mergers or acquisitions by national firms. Many of the problems that arise—whether anti-trust concerns, worries about national security or pure politics—could be reduced by an agreement on a well-defined principle of “national treatment”. Thus investment from the US or Europe should be treated exactly as it would be treated if made by a local firms.

Anti-trust and competition rules also generate undue tensions. In the summer of 1997, when aircraft maker Boeing announced a merger with its rival McDonnell Douglas, American anti-trust regulators approved the deal. But the EU Commission claimed that this affected competition for civil aircraft in Europe and declared that, without substantial concessions, it would outlaw the merger. President Clinton and French President Chirac both entered the fray before, at the last minute, Boeing blinked. It agreed to EU demands to end a series of long-term exclusivity arrangements with a number of airlines. One of the most serious transatlantic spats in recent years, this had the potential to turn into a fully-fledged trade war. The argument not only showed the growing power of the Commission in trade relations, and its willingness to exercise its muscle, but also that the old American trick of running to Britain for a friendly hearing—pleading ‘special relationship’—was no longer an option.

The Boeing-McDonnell Douglas affair could have been avoided with a clearer set of ground rules for anti-trust practices. The US and the EU need to lay out clearly in advance how they will approach such mergers. They

should co-ordinate rules on the percentages of world and regional markets that any one company can control. This would help to take such mergers out of the political arena and leave the approval to competition authorities.

Europeans and Americans already share many common ideas about what constitutes unfair competition. For example the EU's competition rules set out limits on state subsidies and indicate how to define research and development programmes so that they do not create unfair conditions for competitors. The EU has also been a major force for privatising inefficient state-owned telephone companies, airlines and banks.

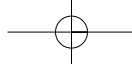
Closer transatlantic co-ordination of competition rules could encourage investment in both directions. In the run-up to monetary union, such investment appears to be increasing. European banks and insurance companies have been moving into the US, partly to develop the size and

⁸ Mark M
Nelson &
G John Ikenberry,
*Atlantic
Frontiers: A
New Agenda for
US-EC
Relations*,
Carnegie
Endowment for
International
Peace, 1993

competitive profile they think they will need in the deeper single European market that will arrive with the euro. European airlines and telecommunications firms are likewise throwing themselves into transatlantic partnerships, mergers and joint-ventures. Just as European purchases of American firms helped fuel the global take-over frenzy in the 1980s, so transatlantic investment has also been a major feature of the soaring stock markets of the late 1990s. Both sides of the Atlantic have an interest in making sure that this investment is not only tolerated but also encouraged.

An agenda for a protocol or treaty on foreign investment was outlined by a Carnegie Endowment Study Group on US-EC Relations in 1993⁸. Among its key recommendations are the following:

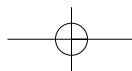
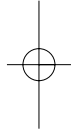
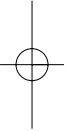
- ★ reaffirmation of the principle of national treatment;
- ★ predictable tax treatment and ending of double taxation of profits by different levels of government and jurisdictions;
- ★ limiting the uses of “national security” for preventing cross-border investment;
- ★ better co-ordinated technical regimes on rules of origin, local content



regulations, standards and other technical specifications;

- ★ clearer guidelines on federalism, ie which level of government—EU, national, state, federal and local—has the potential to intervene in transatlantic transactions.

The coming of the euro makes the pursuit of such an agenda all the more urgent. The shifts that the new currency may bring in the balance of global economic power will threaten powerful interest groups on both sides of the Atlantic, creating uncertainties for the millions of Americans and Europeans who depend on transatlantic trade for their livelihoods. The transition needs to be managed deliberately and intelligently. Preventing this process from deepening the current, tense climate may be the most important task that now faces the transatlantic partners.

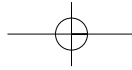


Atlantic ideas: core values for joint action

The outbreak of the Balkans crisis was a trial by fire for the EU's attempts to create a joint foreign policy. Confronted with the break-up of the Yugoslav federation along lines that revived historical spheres of influence in the region, the main European powers seemed to be taking their policy straight out of the nineteenth century. While the EU powers could congratulate themselves for not starting World War III, this was not the Europe the public had come to expect.

Germany sided openly with Croatia from the outbreak of the hostilities. France and Britain balanced this with a reluctance to apply real and meaningful pressure on Serbia. At each step along the path to and through the war, Europe's effectiveness was diminished by its fragile consensus over policy and its unwillingness to allow any European power to be seen leading or gaining advantage over the others. While the level of military and foreign policy co-operation between countries such as France and Britain advanced to levels never witnessed before, the crisis showed just how far the Europeans had to go before they would be prepared to take on a complex and violent foreign policy task. For those journalists like myself who watched the reactions from both European capitals and from within the battle zone, the Bosnian crisis was first and foremost a failure of European diplomacy.

It was also a failure of the transatlantic relationship. The US seemed to get its policy from a different chapter of the history books. Secretary of State, Warren Christopher, called Bosnia "a European problem". As with the two world wars which began in Europe, America tried to wash its hands of the country. The US justified its reluctance to get involved with the false assessment that the EU—although it had neither a European military command structure nor the means for shifting large bodies of troops to a foreign war zone—could head off the crisis on its own. Serbian leader Slobodan Milosevic and Croatian President Franjo Tudjman could

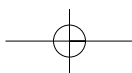


simply keep their dials on CNN and be certain that no meaningful foreign intervention was in store. The end result was to prolong and deepen a war that might not have become much worse if the Western powers had simply refused to get involved.

The Bosnian crisis ended all the high-minded rhetoric about a United States of Europe that followed the fall of the Berlin Wall. It also has deeply complicated Europe's search for workable foreign policy mechanisms. In areas where what are perceived as fundamental national interests are at stake, European countries are today—as through much of their modern history—first and foremost concerned about the internal balance within Europe, and the need to prevent any one European power, especially Germany, from building advantages over the others. It is this concern that prevents any major reform of the EU's decision-making structures.

The Amsterdam treaty, negotiated in June 1997, showed that EU governments were not yet prepared to adopt effective decision-making procedures for matters of foreign policy. Britain shows no sign of changing its traditional wait-and-see approach to the EU's foreign and security policy and is seen by some other members as trying to slow the integration process. And the more the EU shifts further east into areas viewed as Germany's backyard, the more difficult it will be to convince France, the Benelux countries, Italy and Spain to support the transfer of power to EU institutions. France, in particular, prefers a UN-style 'security council' in which the bigger EU powers would have permanent seats and veto rights on all EU foreign policy decisions.

This continuing distrust inside Europe—perhaps even more than uncertainty over Russia and its potentially unstable hinterland—is why an active US presence in Europe is and will remain crucial. Of course, the EU has successfully moderated the reactions of European powers and made progress towards forging joint approaches to common problems. But the solution of crises often requires a prominent American role, especially in a crisis such as Bosnia where the balance of power among the Europeans seems to be threatened. On any given foreign policy crisis in Europe or its immediate periphery, no one can ever be certain that the big European powers will end up on the same side.

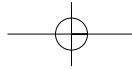


Creating a more effective pan-European foreign policy will require real changes in the behaviour of Europe's national governments. Even more than American administrators, they are inclined to deploy their foreign representatives in the way that big companies use salesmen. When Jacques Chirac or Helmut Kohl head off to China with their case of product samples, the bargaining over human rights, nuclear proliferation and other issues gets diluted or ignored altogether. In areas like arms sales or negotiations over the release of hostages, European foreign policies are competitive, secretive and often in conflict with larger, longer-term European or Atlantic goals. Intra-European and transatlantic bickering over such issues helps to feed the public's scepticism over foreign policy in general.

France continued to support the former Zairian leader Mobutu Sese Seko long after he was despised by most of his fellow countrymen. This was not understood by most French people and ridiculed viciously in the French and international press. The policy, which was described by some French officials as an attempt to save French-speaking Africa from American clutches, ignored the corruption of the regime, its lack of democratic legitimacy and the economic disaster that had resulted from past western financial support of the country. An editorial in *Le Figaro* sensibly urged France to stop "crying about Yankee plots" in Africa and get serious about encouraging the kind of open economy and foreign investment that could perhaps save the African continent⁹.

⁹Le Figaro
29 July 1997

Much of this behaviour is as old as the nations themselves, however, and won't be changed overnight. Cardinal de Richelieu, chief minister of Louis XIII, justified such shenanigans with the doctrine of *raison d'état*: foreign policy should advance the interests of the state by any means that was convenient and successful without regard to bothersome concepts of morality. That doctrine, later re-christened *Realpolitik* on the other side of the Rhine, helped to justify the unending attempts by European states to shift the balance of power in their favour—and the wars that those shifts continually produced. In the years since World War II, European foreign policy has turned away from acquiring territory and more towards winning clients, but the diplomatic game is still played in much the same way, as a search for balance and short-term national self-interest. That is not the kind of base upon which common European foreign policy can be built.

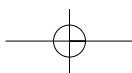


Many Europeans may be loath to admit it, but a European foreign policy would probably have to adopt some of the attributes of the more idealistic, values-based diplomacy that has at times been propounded on the other side of the Atlantic. As European leaders try to find ways of pulling Europeans together in common cause, they will need to concentrate on a set of basic, core values and goals, and find a clear message that cuts across the continent's national and cultural communities. These goals must be stated openly, in discussion with citizens and foreign partners, unlike the back-room bargaining that still characterises much European diplomacy and decision-making.

For many Americans, it was Woodrow Wilson and the lessons of the failure of the post-World War I settlements that convinced them of the need to take morality into account in foreign policy, and to turn America away from isolationism. Wilsonianism was a doctrine that defined a set of core beliefs that could be used to explain and justify the actions of a big, disparate nation in foreign adventures. Wilson held that a global order should be based on the spread of democracy and the creation of systems of collective security, rules and laws—rather than on the exercise of power. The attraction of these ideas was not immediate: the American Senate refused to ratify the League of Nations and set the stage for another period of American withdrawal from Europe. And today, many strong voices in the US are again urging the abandonment of these principles for a more commercially-based foreign policy¹⁰. But Wilson's ideas influenced almost all subsequent American practitioners of foreign policy and are considered by many historians as the intellectual foundation of the post-World War II settlements: NATO, the United Nations, the Bretton Woods institutions, and the re-integration of the defeated powers.

¹⁰ Jeffrey E Garten, "Business & Foreign Policy," *Foreign Affairs*, May-June 1997

Though few Europeans are aware of it, Europe appears to be slowly defining a set of concepts to govern its own external foreign policy. From the series of transatlantic declarations and documents that ended the Cold War, to the more recent EU treaties and policy documents setting out future goals, Europe's foreign policy is becoming more conceptual and, on paper at least, concrete. Basic agreed principles—democracy, free markets and the rule of law—have been laid down to replace the balance of power in governing Europe's external relations. At the EU level, at



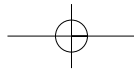
least, such principles have been used to set a framework for how the EU will expand to take in new members, how it will manage relations with neighbours who will not be joining anytime soon, and how it will deal with other large powers like the US and Japan.

The Maastricht and Amsterdam treaties are the EU's most comprehensive attempts yet to define the objectives of its foreign policy. They provide for the combination of safeguarding the "fundamental interests" of the Union with the promotion of principles such as the consolidation of "democracy and the rule of law, and respect for human rights and fundamental freedoms." European states are, in theory, to define their relations with outside powers not in a competition for power and influence, but on a set of widely-accepted criteria that all 15 member states are to apply evenly.

The EU's "Agenda 2000", the most recent document setting out EU policies on its future development, seeks to apply the above principles to its future enlargement. Among the criteria set down for would-be members are standards for democracy and the rule of law, respect for human rights and established rights for minorities. Applicants will also have to demonstrate a well-established and functioning market economy, an open trading system and legal structures that ensure fair competition among private and public players in the economy. Moreover, these countries will have to show that they have established a durable national consensus for maintaining a democracy and market economy.

Europeans should not underestimate the appeal of such ideas and language. Anyone who visited Portugal during the exciting years after its 1986 accession to the then-European Community will remember how the entire nation was thrilled with a sense of achievement at having reached the elevated democratic status of a full EC member. In a 1992 interview, Luis Mira Amaral, then the Portuguese industry minister, told me that it was "a European vision—democracy, stability and a free market economy" that had most helped guide Portugal out of its history of dictatorship and isolation. "Europeans may take these ideas for granted," he said, "but for us, they were like a beacon in the fog."

The EU states have made some progress towards applying the foreign policy goals laid down in EU treaties and documents. Germany has made the most progress of the major powers in defining its foreign policy within



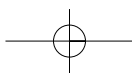
an agreed EU or NATO framework; France and Britain play along when convenient. French Foreign Minister Hubert Védrine and Mr Chirac defined the basic features of a more conceptual, value-based foreign policy at the annual meeting of French ambassadors at the end of August 1997. While nothing so far suggests that France's "let's-make-a-deal" approach is dead, Mr Chirac said that new criteria would have to be applied in France's foreign relations. In France's new relations with Africa, for example, he said the goal should be "to reinforce the rule of law and good governance."

British foreign secretary Robin Cook, in one of his first pronouncements after the Labour Party's May 1997 election victory, made an even stronger endorsement of what he called an "ethical dimension" to foreign policy. The UK will publish an annual report on its work in promoting human rights, and will seek to put human rights and arms control at the centre of British diplomacy. Britain's foreign policy "must have an ethical dimension and must support the demands of other peoples for the democratic rights on which we insist for ourselves," he said.

The creation of a clearer intellectual foundation for EU foreign policy will help to keep its members on a common path—and make it easier for the Union to communicate its goals to its citizens and to the rest of the world. The EU's strongly held and well-defended positions in recent global negotiations on land mines and global warming were not supported by the US government. However, the EU's well co-ordinated diplomacy on these issues impressed many Americans. If the EU can continue to take a common line on such issues, it will help to convince the Americans—even when they disagree with the European stance—that the EU is a partner America can do business with.

Speaking to Harvard University's 1997 graduating class, Secretary of State Albright said that the US had to recommit itself to preserving the western ideas and principles which had helped to spread stability in Europe and elsewhere in the world. Speaking on the 50th anniversary of George C Marshall's announcement—at the same podium—of a plan to rebuild Europe with massive American aid, she said:

"Today, the greatest danger to America is not some foreign enemy; it is the possibility that we will fail to heed the example



of that (post-World War II) generation; that we will allow the momentum towards democracy to stall, take for granted the institutions and principles upon which our own freedom is based, and forget what the history of this century reminds us—that problems abroad, if left unattended, will all too often come home to America.”¹¹

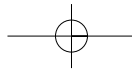
¹¹ New York Times,
6 June 1997

Bureaucrats and policy

When the EU sets out to “speak with one voice” on the world stage, its governments usually start with a visit to the Tower of Babel. The lack of a high-profile system of joint foreign policy research and threat analysis is a major shortcoming. Currently, European nations look at each issue nationally and then try to hammer out their differences in ministerial-level meetings—a system that virtually guarantees not only disagreements but that those disagreements are expressed along national lines. Joint consideration and analysis of foreign policy issues would not and should not eliminate opposing points of view from being aired publicly, but it could help to prevent competing national approaches which so often weaken Europe’s hand. It would also allow European nations to engage in more flexible bargaining with the US and other partners, before policies had been set in stone by hard intra-European bargaining.

Bosnia is not the only part of the world where the Europeans have failed to resolve crucial differences among themselves. A decision to expand NATO to three countries with strong German ties—Hungary, Poland and the Czech Republic—was resisted by France and Italy, who wanted to balance the list with “their” countries, Romania and Slovenia.

The divided island of Cyprus has also revealed such internal splits. Long-standing indecision over EU policy on Turkey and on the Eastern Mediterranean in general has ensured that it remains a hesitant, lowest-common-denominator affair. In this case, it is Greece—an EU member with veto rights over EU foreign policy—that effectively sets the agenda. Over the past decade, the EU has signed three financial protocols with the Greek side of the island and decided to open membership negotiations with Cyprus (the EU, like most other nations, recognises only the Greek-controlled government in Nicosia; only Turkey recognises Turkish Republic of Northern Cyprus). This means that the EU cannot be seen as a neutral mediator. Both British and American special envoys are



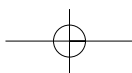
attempting to find a new approach, but the chances of solving the Cyprus problem look dim.

Similar tensions surface in relations with other world powers like China. During the United Nations Human Rights Commission's annual debate on China in April, 1997, France and Germany refused to endorse a resolution criticising China's human rights record, saying it undermined the EU's policy of 'critical engagement'. Meanwhile, Denmark joined the US as a co-sponsor of the resolution. The collapse of a common EU line was an embarrassment. Then in May President Chirac visited China, declared America's approach to human rights in China flawed, and witnessed the signing of a \$1.5 billion contract for 30 Airbus airliners.

Despite the problems caused by their uncoordinated approaches, few EU governments seem prepared to give the European Commission the same role in foreign policy that it has in areas such as trade. As far as trade policy is concerned, the Commission—in consultation with the Council of Ministers—works out the basic policy lines and negotiating positions. It then represents the EU member states in world trade talks and in dealings with the EU's principle trading partners.

While this system has many cracks and inefficiencies, it has successfully increased the EU's standing on the world's stage. In foreign affairs, however, the small member-states are still too sensitive about being bossed around by the big ones; and the big ones are still too attached to perks like membership on the UN Security Council and groups like the Group of Eight. In those forums, where a handful of EU members get to claim Big Power status, the European Commission is relegated to what is effectively an observer.

Nuclear powers Britain and France, in particular, have resisted giving the Commission a central role in foreign policy. Instead, the EU agreed in the Amsterdam Treaty to create a 'High Representative' who would act as an agent for the member states alongside the rotating Union Presidency, as well as a modest policy-planning cell in the Council of Ministers. This system is still too messy and hidden from public scrutiny. The envoy will probably cross paths and policies with the national foreign ministers, the EU Commission, and the Presidency. But the appointment of a high-level and gifted diplomat, supported by an effective policy-planning cell, could be the first step on the road towards a European foreign ministry.



Progress towards a more organised foreign and defence policy will not automatically ensure better relations with the Americans, however. In fact it may make some issues even harder to manage. The Europeans may be less willing to follow the American lead, yet still incapable of acting with all the attributes of a unified political power. But with the EU expanding its membership, the status quo is not a viable option. The larger and more cumbersome the EU institutions become, the more a streamlining of policy will be necessary. The US should accept and encourage such a development. A weak, divided Europe, unable to play an equal role in a partnership with the US, is in nobody's interest.

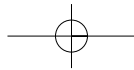
Policies for the future

As the EU and US seek to reinvigorate the existing transatlantic institutions and policies, the two sides also need to deepen co-operation on a new set of issues of common concern. The object should be to bring a wider range of participants into the transatlantic relationship, so that it appeals to the powerful new groups of players in the politics of both sides of the ocean. These issues should include not only the traditional questions of European and global stability—the Middle East, Russia and China—but also questions of global economic and environmental security. These include:

Integrating environmental policy into the core relationship

The US and EU need to establish a high-level dialogue on global environmental issues and include this topic at the highest levels of their joint institutions. Environmental aspects of economic, security and trade policies are too often dealt with in a side room rather than the main hall. Joint aims could include searching for ways of shifting the costs of pollution to the polluters, and devising new economic policies with built-in, self-regulating disincentives for environmental degradation.

The EU's joint approach in two key global environmental negotiations in 1997—over a global treaty to outlaw land mines and over reductions in so-called greenhouse emissions—won admiration among activists in the US. But Europe might have been more effective in influencing the final US position if such environmental questions had been tackled within on-going transatlantic consultations. A high-level US-EU environmental effort could explore potential trade-offs with other areas of the transatlantic relationship, such as commerce, as a means of advancing the environmental agenda.



Sustainable development and jobs

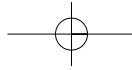
The US and Europe need to come up with a series of more co-ordinated approaches to bringing the poorer countries into the global economy. More than 3.3 billion of the world's 5.7 billion people live in poverty, a population that is continuing to grow more rapidly than that of the developed world. The EU and US need to agree on policies aimed at giving these countries broader access to markets, and other incentives to environmentally sustainable economic change. Only economic growth will convince less-developed countries that they can afford to participate in global environmental efforts; only through open markets will the developed countries avoid new battles over access to the emerging markets' abundant supplies of raw materials.

The effects of the global economy on European and American workers is another issue that needs to be more deeply understood. The boom in British and American employment over the past few years is proof that low-cost labour in emerging markets does not necessarily destroy jobs in the developed world. But more flexible labour practices, stagnant wages and never-ending threats of layoffs are creating new tensions between ordinary workers and the more prosperous "knowledge professionals" like computer scientists, financial advisers and other highly-trained specialists who benefit most from globalisation. There are signs that American workers may already be demanding a larger share of the nation's revived prosperity. Europe and America need to set up an on-going consultation on labour-market issues and try to ensure that popular resentment of globalisation does not create new international tensions and protectionist pressures.

Stabilising Africa

Substantial opportunities have arisen as a result of the collapse of communism and the growing pressure in the US to take a stronger role in Africa. France's decision to remove troops from the Central African Republic and other former colonies will force Europe and the US to develop new programmes for the economic stabilisation of these countries. This should not turn into a competition between the French language and English, but a joint economic and political development programme, with shared goals and responsibilities.

The Democratic Republic of the Congo, formerly Zaire, should be

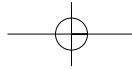


declared a common priority. As one of the largest and potentially richest nations of the African continent, its success or failure will affect the 11 other nations of southern Africa. Managed properly, its huge hydroelectric capacity and rich copper belt could turn the whole of the region into a world-class economic zone. But this means ending the Western competition for exclusionary economic advantages, which often feeds the local atmosphere of corruption and influence-peddling. It means, in particular, a truce between France and the US over African policy, a clear effort to keep Congo from breaking apart into warring factions and the involvement of countries like South Africa and Ethiopia, which also have an interest in seeing Congo succeed.

Nuclear proliferation and 'rogue states'

The US and Europe need to tackle the 'rogue states' question first by agreeing on a framework for future problems, and then by trying to resolve their differences on existing ones. Policies toward Iran, Libya, Iraq, Cuba and China, for example, are moving further and further apart as both sides defend their own individual approaches to unco-operative states. The end result is much like the situation in former Yugoslavia: unacceptable behaviour is neither severely sanctioned, as America would like, nor changed by Europe's so-called method of 'constructive engagement'. Because of lack of co-ordination, both methods fail.

Europe and America cannot afford such failures, especially when it comes to the life-threatening question of weapons proliferation. The Atlantic partners need urgently to define the rules by which they will react to states that pursue nuclear, chemical or biological weapons programmes. They need to be prepared to use coercive diplomacy to show that new powers equipped with such weapons will not be permitted to emerge. They also need to share intelligence and make determined military preparations to head off any attempt—by terrorist groups or countries—to use weapons of mass destruction to resolve contentious issues such as Israeli-Arab relations, or control of the world's energy resources.



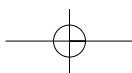
Security: the enemy within

NATO, the military alliance without an enemy, is in the throes of fundamental change. Now that nuclear confrontation between two superpowers is off the agenda, and its members' defence budgets are locked into decline, NATO has to search for a new role for itself in the post Cold War world. For now, at least, the collapse of the Soviet Union has given NATO a longer lease of life, a mission that is more political than military. Europe and America need to seize the opportunities afforded by NATO enlargement to prepare a future in which Europe will play a stronger leadership role in the alliance.

From the very beginning, NATO functioned as much as a political insurance policy as a military alliance. It was the alliance that secured the creation of democratic societies, providing psychological cover so that economic and political development in war-torn Western Europe could take place in a climate of confidence, without excessive attention to security. NATO now has to offer this same cover to the countries of Central and Eastern Europe.

The transition, now underway, may take years or even decades, but the result will also be to transfer a greater share of the responsibility for defending Europe to the Europeans. The US has no interest in preventing this re-balancing, but only to make sure that it maintains an effective partnership with the Europeans that can come into play when one or the other is threatened.

This game has to be played carefully, however. A sudden American withdrawal from Europe, unmatched by stronger military integration among Europeans, would lead to a renationalisation of European armies and a weakening of Western security in general. It is also important that NATO's transformation is not directed against Russia, but rather pursued alongside parallel attempts to incorporate Russia in pan-European defence mechanisms. This re-balancing, towards a more Europe-led Alliance, requires a strong American presence and guidance—but also American



concessions to see that the Europeans end up with a structure that they can defend before their voters and taxpayers.

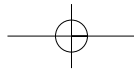
Replacing NATO with some other pan-European structure, to include Russia and other parts of the former Soviet Union, is not yet realistic, given the highly uneven progress of Central and Eastern European countries towards democratic free market societies. Keeping Poland, Hungary or the Czech Republic in the same waiting room as Belarus would be to deny the remarkable progress of the first three. So the compromise now underway, of gradually extending NATO to countries that meet clearly established criteria for membership, may be the only realistic and workable solution at the moment. It may also be the best way for Europe to start taking on a leadership role, stabilising the countries to its east much as it has already done with Spain, Portugal and, to a lesser extent, Greece.

The US has vacillated over how to deal with the desire of some Europeans to have their own defence capability. While the Eisenhower and Kennedy Administrations pushed in the 1950s and 1960s for a stronger Europe, including a European Defence Community, subsequent administrations have had cold feet. Ronald Reagan and George Bush, cajoled in part by Margaret Thatcher, argued that such an independent capability would challenge American leadership, and thus America's commitment to supporting NATO. Those arguments persist. Brent Scowcroft, former US National Security Advisor, worries that the emergence of a more independent Europe will undermine American support for the alliance. "In a real crisis, the EU and the US are the only world powers that could stick together and manage a major event," he said in an interview last year. "There is no such crisis on the horizon, but there will be, and a joint US-Europe enterprise may be the only way to handle it. But it is the

Atlantic Alliance, not an independent Europe, that needs to be beefed up to deal with this."¹²

¹² *Interview with the author, 25 Sept 1996*

But such attitudes failed to recognise the effect that European weakness would have on American public opinion, a weakness exposed in dramatic detail in the early stages of the Bosnia crisis. There have been numerous efforts in America to legislate for a re-balancing of costs and responsibilities within the alliance. One of the potentially most damaging attempts has been the so-called 'burden-sharing amendment',

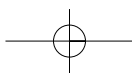


a legislative initiative in Congress, which would, if passed almost certainly spell the end of NATO. Based on agreements between the US and its allies in Japan and Korea, the legislation would require Europeans to pay 75 per cent of the non-personnel costs of keeping American troops in Europe. This is a requirement which military officials say would have no chance of ever being accepted in Europe.

Barney Frank, the Democratic Party congressman who is one of the most outspoken critics of America's spending on NATO, has co-sponsored this amendment—and it has twice passed the House of Representatives by large majorities. He says he wants to “end the welfare programme for the European allies”. Pointing out that America spends \$1153 per capita on defence compared with \$419 among the European NATO members, he says the burden is unfairly distributed. Japan, he points out, pays more than 80 per cent of the non-personnel costs of stationing US troops in Japan. Congressional advocates of the legislation claim that if a similar effort were made by Europe, it would save American tax payers \$11.5 billion over six years.

The Europeans are dismayed by these Congressional bean-counters. They point out the major differences between the situation in Europe and the Japanese model on which the burden-sharing amendment has been based. The Europeans not only pay for about three quarters of NATO's infrastructure budgets, and maintain the largest group of ground forces dedicated to NATO, but have also played prominent and active combat roles in conflicts such as the Gulf War and Bosnia. Even American military officials argue against the amendment, pointing out that it would be unlikely to gain support in Europe, could force the US to withdraw its forces from the European theatre and would therefore rob the US of one of the key components of its national security policy: a strong forward presence backed by real allies, close to areas of potential conflict.

EU officials also argue that plans to extend Union membership to countries in Central and Eastern Europe should be considered part of the EU's contribution to Western security. The European Commission, which has identified five countries as ready for EU membership negotiations, plans to help the applicants to prepare by helping to finance structural reforms and improvements in administrative practices, among other things. Those policies are expected to require about \$50 billion in



financial transfers from the EU to the applicant countries over the period from 2000 to 2006. Just as admitting Greece, Spain and Portugal helped nurture democratic governments in Europe's south, the European Commission argues that letting in Hungary, Poland, the Czech Republic, Estonia and Slovenia will help stabilise Europe's east. Moreover, EU enlargement will expand Europe's effective security zone beyond the three countries offered NATO membership—Hungary, Poland and the Czech Republic—to two countries not yet eligible for NATO, Estonia and Slovenia.

Such arguments have done little to persuade the doubters, however. While the burden-sharing amendment has never made it past the Senate, Mr

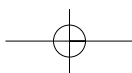
¹² *Interview
with the author,
12 Dec 1996*

Frank believes that a reduced American contribution to NATO is inevitable and that efforts to force Europe to pay more of NATO's costs will continue to garner support. "It's just a matter of time," he said in an interview: "The political currents are moving our way".¹²

A European Europe

Earlier in this decade, France seemed to have recognised the opportunities that the climate presented for the 'Europeanisation' of European security. Former French President François Mitterrand began the process of quietly shuffling closer to the military wing of the alliance, which France had left in 1966. French President Chirac went even further. Starting in late 1995, his defence ministers and top generals started to take part in NATO meetings. He indicated that France would re-enter the military wing and turn its efforts towards making NATO more European—or as French Foreign Minister Hervé de Charette said at the time, "creating a European defence identity with the US, not against it".

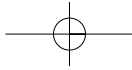
Mr. Chirac also ordered a far-reaching transformation of the French military, including the abolition of conscription. The army would shift its orientation away from defence of French territory, towards more mobile and sophisticated forces that it needed to project power in places like Bosnia. These moves took place as France was playing a leading role in helping to break the deadlock in the Bosnian War. When Bosnian Serbs overran the United Nations-declared "safe haven" of Srebrenica in July 1995, Mr Chirac was the first to cry "Enough!" His backbone seemed to stiffen President Clinton's resolve to join Europe in a more activist Bosnian policy.



While the IFOR and SFOR operations in Bosnia have helped to heal some of the sores opened in the early days of the war, the future of NATO is still up for grabs. The process of creating a European pillar of NATO is again in turmoil; France's full integration in NATO is again on hold. Mr Chirac put new conditions on French membership that were impossible for President Clinton to accept—namely, European control of NATO's southern regional command. The commander of the southern region, an American, is 'double hatted' so that he is also commander of the US Sixth Fleet. The US military establishment was deeply opposed to any arrangement that would de-couple that 20,000-strong branch of the American navy from its direct link to NATO through the American commander.

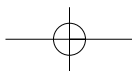
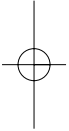
While several compromises have been suggested, the US and France still haven't found any way out of the deadlock. The most promising proposal would change NATO command structures so that the Sixth Fleet would fall directly under the Supreme Commander of Allied Forces in Europe (also an American) rather than under the subordinate southern command. Thus the southern command could be headed by a European while the Sixth Fleet remained linked to NATO through an American general. America's and France's inability to find a solution to this impasse is a defeat for them both. France, which like Britain has shown itself both willing and capable of conducting military missions abroad, would be a major asset to a more European NATO. Regrettably, France's current military reforms are taking place independently of NATO's military organisation, and that may create future obstacles to European defence integration.

France's aloofness from NATO also overshadows the real progress made in bringing Germany back into full participation in international military affairs. Pushed into action by the Bosnia crisis, Germany's armed forces overcame 40 years of post-World War II non-interventionism and sent troops into a war zone. It has also begun to implement far-reaching plans to build an elite formation of 'crisis reaction forces', suitable for future multilateral peacekeeping missions. These plans have run into budgetary constraints, yet Germany seems set to play a more important role in NATO, especially as its neighbours—the Poles, Hungarians and Czechs—join the alliance.



However, the NATO expansion plan is creating a new division between the US and Europe over who will pick up the bill. A Pentagon study suggests a cost of \$27 billion to \$35 billion, to be spread over a dozen years and to be borne mainly by the Europeans. Most European governments expect the costs to be much more modest; a recent NATO study suggested a price tag of less than \$2 billion over the next decade. The Europeans nevertheless continue to worry that President Clinton, under pressure from Congress, will use the matter of paying for NATO enlargement as an excuse for reopening the more general debate on burden-sharing within the alliance.

No matter how these arguments progress, the Europeans should try to seize this moment to reform NATO in ways that both give it more responsibility for Europe's defence and help to reintegrate France. Europeans should be prepared to take on a larger share of the costs, and, in return, they should gain a stronger leadership role. Such changes would take some of the wind, at least, out of Barney Frank's sails.



Conclusion: a new partnership

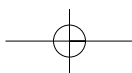
This is a moment of stunning opportunity and extraordinary promise. The underlying foundations of transatlantic co-operation are deeply ingrained in the fabric of our societies. The end of a monolithic military threat means that resources can be funnelled to problems long ignored. The American economy has renewed itself and is beginning to tackle its underlying social inequalities. Europe stands on the threshold of a new era, pulled together by a common currency and a peaceful unification of the continent.

Yet Europeans and Americans risk squandering this moment of triumph. Petty domestic squabbles and short-term politics are driving a wedge into the Atlantic partnership. Both sides are showing tendencies of fatigue of working with the other: an America with isolationist and hegemonic tendencies, a Europe desperate to show off new wings.

The US and Europe need to take determined steps to make sure that the transatlantic partnership survives, and is indeed strengthened in this new era. No other country or group of countries is yet capable of assuming the role that the US and Europe have played: creating and maintaining the global systems that have fostered trade, economic development, international security and the spreading of democracy. Japan, Canada and other major partners look to the transatlantic relationship to lead the way in handling global issues. And the problems that we now face—world-wide environmental degradation, the spread of weapons of mass destruction, exploding populations and worsening poverty—are too big for any one country or region to tackle. Solutions will require not only committed international co-operation, but also urgent changes in all the major Atlantic countries.

Educating Americans

Americans have to learn to live with a new, more robust but probably somewhat more chaotic European Union. The euro will, at least in the short-term, expose the EU's fault lines: the national differences in

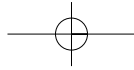


tolerance for inflation; the gaps between the countries in the north that have strong and decisive financial administrations and those, mostly in the south that struggle to stay on budget, to provide timely statistics and make efficient changes in economic management. Expansion towards the East will challenge the EU's decision-making systems and drain its budgets. The EU will continue to be absorbed in its own internal problems and the constant flux to its east. At the same time, the EU will be a stronger power on the world's economic stage, and may be more willing and capable of challenging American leadership.

Why should the US support the seemingly ambiguous goal of helping to develop a potentially powerful competitor, one that is capable of challenging its global role? Because over time, America will get a more like-minded partner, more capable of carrying the growing burdens of leadership. And on the big questions of defending democracy, the rule of law and an open global trading system, the disagreements between Europe and America are over details rather than fundamentals. In a serious global military confrontation, they will usually—in the end—stand shoulder to shoulder, as they have done during the Gulf War and in Bosnia. Moreover, the competition between the US and Europe has for the most part remained positive, putting pressure on both sides to improve the efficiency of their governments and economic systems.

The US also needs to consider how to educate a new generation of Americans that is capable of managing America's increasingly complex but vital role in the world economy. The American education system is failing to produce a population with an adequate understanding of international affairs and the role it plays in contemporary American life. A recommitment to teaching history and economics in both schools and universities, and to maintaining foreign educational exchange programmes is vital to America's future.

The press also needs to play a role in helping Americans to understand their involvement in a working international economic system. Stronger explanations of the importance of international affairs—and reminders of the disasters that have ensued when America has turned its back on the rest of the world—are legitimate themes for newspaper coverage. Journalists, editors and publishers need to fight to make the foreign pages vital and interesting. Foreign news, analysis and coverage should be more



Conclusion: a new partnership

45

relevant than ever in our inter-connected global economy. Further development of an internet that is globally accessible, easy and cheap to use will also play an important role in helping people realise the stakes they have in effective global connections.

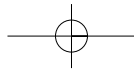
Deeper knowledge of the international scene will help Americans to realise that Europeans are struggling to create a working multi-cultural society that faces many of the same centrifugal forces that often tear at the fabric of American society. Through stronger and more meaningful international contacts, groups that have traditionally been hostile to the Euro-American relationship could instead begin to give it new energy and relevance. Environmentalists and human rights groups, in particular, need to be brought into the mainstream of transatlantic dialogue.

Integrating France

France, like most of its European partners, faces a series of difficult economic and political challenges for which the French people show little stomach. French Prime Minister Lionel Jospin has so far proven to be rather pragmatic, pushing ahead with limited privatisation plans and a strict budgetary policy, despite the fact that he was elected by railing against those very policies. He is, however, still advocating reducing France's 12.5 per cent unemployment rate by measures such as the creation of 350,000 public sector jobs and the reduction of the statutory working week to 35 hours—measures that have long been discredited and abandoned in most other advanced countries.

France needs to find a way of burying its paranoia over the “Anglo-Saxon model”, so that it can think about embracing those of its features that would help it to deal with unemployment. This does not mean that France has to develop what it seems to think is a brutal “hire and fire” mentality. But it cannot continue to maintain huge taxes and costly regulations on labour and at the same time expect businesses to hire more people. If the current government, like its predecessor, fails to deliver on promises of lower unemployment, French citizens will be driven towards greater frustration and demands for radical solutions such as protectionism. The apparently inexorable rise of the far right is based largely upon such sentiments.

Failure to embrace a full role in the Atlantic Alliance is also a serious

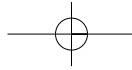


weakness at a time when NATO badly needs more cohesion. The creation of a more European NATO requires France's full energies and attention. France is a country with the kind of global ambition that is needed to rally both French people and other Europeans to a stronger European defence role. The only practical and economically feasible way to do this is through NATO. The US and France need to find a way to give France the kind of higher profile role that it needs in order for it to swallow reintegration into NATO's military structure. This needs to be done before NATO's expansion to the east shifts the centre of gravity even further away from France, perhaps creating new obstacles to re-entry on terms favourable to it.

France's Socialist government probably does not see this as a priority. Nevertheless Foreign Minister Védrine has shown that he, like Prime Minister Jospin, is a pragmatist, and one keen to have a better relationship with America. Speaking at a gathering of French ambassadors in August, he said that France has to learn to live with the new world order that had emerged after the Cold War, in which the US had no real "counterweight". This gives the US a tendency towards "hegemony, and a temptation to act unilaterally, notably on the part of its legislative bodies". But while France had to be prepared to say no to the US, he continued, it had to accept the reality of American power and work in tandem with it.

Working with Germany

As the EU develops a single currency, Germany will also take on a more central role inside the EU and within the transatlantic relationship. The US should continue with its efforts to deepen its relations with Germany, especially if Britain declines to become part of the core group at the centre of the EU. Thanks to Germany's experience of the Bundesbank, and its central role in creating and managing the euro, the EU will inherit confident and experienced monetary advisors who enjoy the respect of their partners in America, Japan and other countries. The European central bank seat in Frankfurt will become a major international financial capital, even if London manages to retain its role as the dominant centre for commercial transactions. While the German public's ambivalence towards the single currency is genuine, a successful euro will undoubtedly strengthen Germany's already deep-seated commitment to building a more unified and democratic Europe, and one that is co-operative towards the US.



Conclusion: a new partnership

47

Germany's central role will also grow as the EU and NATO reach eastward. While the paranoia that sometimes surfaces in France and Britain about Germany's growing power is misplaced, the US may have to learn to live with a more assertive Germany that will gradually grow even closer to its European neighbours. "The US must understand that in the next century Germany will not automatically take its side in disputes between Washington and Paris", former German Chancellor Helmut Schmidt wrote earlier this year. "Germany's interests dictate that it not become isolated or insulated from its European neighbours and France is the most important."¹³

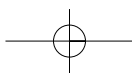
¹³ Foreign
Affairs,
May/June
1997

Yet Germany faces many of the same difficult economic choices as France. Modernising and invigorating its economy will be crucial to making sure that the EU's development remains on course. Germany's unemployment problem needs to be tackled by reforming its labour markets and by deepening its integration into European and global economies. Cutbacks in the costs and role of the state in the economy, including privatisations, are needed in order to revive the German economy.

The US and its European allies should continue to work with Germany, both to give it a role commensurate with its size and importance, and to ensure that its leadership is directed towards the overall interests of European and global stability. Germany should be able to help ensure that the EU's eastward shift leads to a more prosperous Eastern Europe and Russia. That would allow the US and the rest of the world to benefit both from new markets and reduced spending on security.

Leading Britain and Europe

Perhaps no country faces a more tantalising opportunity than Britain, and no leader a more important role than British Prime Minister Tony Blair. With political ties that give him credibility in France, and a charisma that endears him to Americans, he is in a position to play not only a strong leadership role in the Atlantic Alliance, but also in Europe itself. The lack of progress in many continental European countries on unemployment gives Mr Blair an opportunity to lead Europeans towards more workable and internationally competitive economic policies. His defence of a flexible labour market, as the best means of creating jobs, is forcing continental Europeans to reconsider ideas that have too often

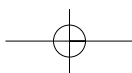


been dismissed out of hand. Britain's strong democratic traditions and habits of open political discussion, moreover, need to be firmly embedded in the new EU institutions and policies—on foreign affairs, defence, economics and money—that are emerging.

And despite Mr Blair's decision not to join EMU in the lifetime of the current Parliament, Britain has a crucial role to play in the launching and management of the single currency. It should turn its substantial experience in international financial affairs towards making the euro a success, for example by helping to establish formal consultations with the US on issues raised by the euro. It has no interest in seeing the euro fail, with the economic turmoil that would ensue in the continental economies, or in transatlantic discord over the euro. A well-managed euro will create a more stable environment for business planning; help British firms to compete more efficiently; and allow the British financial industry to maintain its leading global role. Britain's more flexible labour market can serve as a model for other Europeans as they seek not only to reduce stifling levels of unemployment, but also to create a single currency zone that is capable of adjusting to the inevitable economic shifts that the euro will bring.

According to a recent poll of 400 committee and regional council members of the Confederation of British Industry, only 6 per cent are opposed to British entry into a European single currency, and 42 per cent of those polled want Britain to join as of 1999, rather than at a later date. Mr Blair should start the difficult work of educating British public opinion in the potential benefits of the euro, so that he is in a position, after the next general election, to put it to the people in a referendum. In the meantime, Britain needs to embrace economic policies that will bring inflation, interest rates and growth into line with those of the continent so that economic divergence does not leave Britain on the sidelines.

A Britain that is firmly integrated and involved in Europe's future will be a stronger partner for the US. For too long, American opinions of the EU have been influenced by the anti-EU voices in Britain, leading to misgivings about American support for further European integration. A Britain with a stronger role in Europe could play an important role in explaining the EU to America and in helping the two sides to resolve their differences.



Conclusion: a new partnership

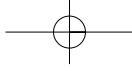
49

Mr Blair has already proved his skills at reaching highly effective working relationships with a wide variety of European and world leaders. His close rapport with President Clinton has reopened the close, personal dialogue at the top of governments that has often been central to the Anglo-American “special relationship”, a dialogue that had been largely missing in the first years of the Clinton Administration. This renewal of close ties has been credited by some US officials as having helped create a new determination to maintain European and US troops in Bosnia after the expiry of the current mandate in mid-1998.

Mr Blair has also shown his skills as a leader at EU level, a development that could have an impact on transatlantic relations. His vigorous input into the November 1997 jobs summit in Luxembourg, for example, helped ensure that some of the more unrealistic proposals to address Europe’s jobs crisis—such as France’s proposed reduction in working hours—were replaced with more market-sensitive approaches. Indeed, he is emerging as the one European who may be capable of helping smooth some of the frictions in Franco-American relations, a position that could prove crucial as the two sides of the Atlantic confront a period of growing complexity and policy drift.

Finally, both the US and Europe need to turn a greater part of their diplomatic efforts to making sure that further steps toward European integration stay on track and that these steps do not create new global tensions. The best way of doing this will be to ensure that Europe has a stronger and more independent role both in foreign and military affairs. While such a development may at times increase transatlantic rivalries, the creation of a more coherent European voice may be the only way to demonstrate Europe’s contribution to the alliance. Such a demonstration is necessary not only to convince Americans that Europe is indeed sharing the burdens of maintaining international stability, but also to demonstrate to Europeans themselves the advantages of pooling their power through EU institutions.

Unless domestic publics on both sides of the Atlantic can begin to see concrete reasons for supporting Europe’s role in the world, the transatlantic partnership is likely in the long term to dissolve. And that would leave us with the competing national interests and balance-of-power politics that have so often led thze world to disaster. Indeed, as the



global confrontation with Communism fades into history, Europeans and Americans need each other as much to help keep themselves from drifting back into their old patterns of isolationism and nationalism, as they do to tackle the baffling challenges of the new millennium.

