

# **Future perspectives for transatlantic relations**

## **Towards a new pragmatism**

Talking about transatlantic relations it's time to face the fact that there is a third scenario or option for its future development that lies between the two most commonly held visions on both sides of the Atlantic – the very optimistic one that the transatlantic relationship will survive regardless because of a shared history of freedom<sup>1</sup> and the rather pessimistic outlook that sees the transatlantic world drifting apart in the medium run. In this case, both sides come to accept that their relationship has definitely changed over the past two decades and begin to renegotiate their political and strategic relationship in light of their common vulnerability in today's world. They agree to a new sort of coalitions-of-the-willing engagement in which they cooperate wherever possible and agree to disagree where not. This new pragmatism in transatlantic relations would have decisive implications for decision making within NATO but also reduce internal disputes, because it frees the United States to take action on contentious issues. At the moment, this outcome seems the only realistic option for the future in light of the EU's introduction of new flexibility clauses. These clauses seek to provide for closer cooperation in defense matters under so-called permanent structured cooperation. This new mechanism was established by the Lisbon Treaty (December 2009) for those member states whose military capabilities meet certain criteria and that have made more binding commitments to one another with regard to the most demanding missions (Art. 28A, § 6, Lisbon Treaty).

A divergence of values across the Atlantic is not in doubt these days. However, disputes on several issues are not simply the result of the Bush administration's mismanagement of allied relations at a time when Europeans were more committed to multilateral solutions. The structural shifts in the relationship since the end of the Cold War have certainly contributed much more to the alleged transatlantic rift than Europe's passing alienation from the Bush administration. Long before the Bush

administration, the spectacular change in America's international posture—that is, the emergence of unchallenged U.S. supremacy (military, economic, and even cultural) and the celebrated “unipolar moment” —had caused discontent, even frustration, among European allies and friends who had to deal with this dominance. Yet, the Europeans coped neither with the American ideas of a rigid market conservatism and the new economy (the economy that developed as a result of Internet business activity) during the 1990s nor with the neoconservative revolution during the Bush administration. The structural shift also contributed to the gradual development of the EU from an economic power to a more or less influential and instrumental actor far beyond the continent of Europe. It took Europeans quite a while to realize that the power they exercised in their neighborhood through EU enlargement derived primarily from the EU's very existence rather than from an active foreign policy. Today, however, the EU has accepted that some areas of concern in its vicinity require a much more active policy (especially where it is no longer possible to wait for the Americans) and that it has to develop at least some kind of strategic vision, either complementing or qualifying U.S. power.<sup>2</sup>

In other words, the weakening of the transatlantic bond was inevitable, as the end of the Cold War reduced Europe's reliance on the United States for security. Without a doubt, the emergence of Europe's new kind of power will have a lasting influence on the transatlantic relationship: it is a power that cannot be measured in military budgets but rather in its long-term transformative impact. The Balkan wars between 1991 and 2001 further obscured the transformation of the transatlantic security alliance, leading the United States to assume that the Europeans would continue to look to the United States to make decisions and that in the end Europe would follow U.S. world leadership.

In addition, in America's long war in the greater Middle East, U.S. administrations for a long time misleadingly characterized the struggle as “ideological,”<sup>3</sup> a struggle in which Europeans were (and to a certain extent still are) reluctant to “fight” alongside the United States and were critical of the United States for addressing the new international security challenges by fighting militant Islam and trying to bring

democracy to the region. Americans, in contrast, had no understanding of what they considered religious discrimination against Muslims in Europe specifically and a malfunctioning integration policy in general; Americans thought such treatment led to the radicalization of extremists, inspiring them to turn against the “West,” including the United States.

Beyond transatlantic policy disagreements, Americans saw a European loss of confidence in itself and an evaporating reservoir of belief in Europe’s “postliberal” as well as postmodern societies as the main reasons for the EU’s ill-preparedness for a war against fervent believers. In other words, Americans increasingly tended to believe that their security was directly affected by how Europeans handled this issue domestically and how they dealt with their own lack of faith—that is, the attenuation of Christianity or other religious practices in Europe specifically and the loss of belief in liberal politics in the West in general.<sup>4</sup> Europeans, however, saw U.S. foreign policy as the main reason for the Islamist upheaval. Although Europeans certainly accepted the U.S. claim that opposition to extremism was not a war of the West against Islam, they believed that it was overstating the value of religion or faith to America’s so-called enemies, while at the same time downplaying the political motivations behind their confrontation with the West.

Nevertheless, one should not underestimate either the willingness of the United States under the Obama presidency to hold onto a foreign and security policy still grounded on the notion that global terrorism remains *the* major threat and that the United States must uphold its global presence or the scepticism of Americans that Europe can become a reliable partner in future missions. The United States has already shifted the debate on Iraq and Afghanistan in particular and the “war against terrorism” in general to a more pragmatic assessment of its future role in counterterrorism policy and the nature and degree of a drawdown of U.S. forces rather than simply a debate over a precipitous withdrawal on a fixed timetable. Whereas there was/is such a timetable for Iraq as well as for Afghanistan, in both cases the Obama administration has indicated that these schedules are not irrevocable. In case of Iraq, the scheduled drawdown applies only to combat forces

and not to the security forces supporting the Iraqi army beyond 2011. In case of Afghanistan, the president explicitly marked July 2011 as only the beginning of the transfer of troops, leaving his people and world with an open-ended commitment to a perhaps unwinnable war. Such withdrawals could seriously call into question the ability of the United States to engage in the very type of sustained low-intensity conflicts the world is likely to see in the future and to handle significant stabilization and reconstruction efforts, something the current administration certainly wants to avoid.

For the very reason that the EU and the United States face the same challenges and problems that raise critical security, political, economic, and social concerns, they need to work together and make use of their comparative advantages in the military and security sphere and in other global issues. Meanwhile, both sides, especially the United States, have accepted that traditional security concerns are increasingly bound up with problems that cannot be addressed by military power alone but that need a common and multilateral approach. That is, there is no way to face challenges arising from weapons of mass destruction (WMD), failing states, halting development, and even climate change as an individual nation-state.<sup>5</sup> In addition, and much more important, no matter how much the two sides may differ on the perception of threat related to these challenges, we cannot change the fact that a shared vulnerability is an unavoidable variable in today's world.

The new pragmatism in transatlantic relations, however, will not necessarily bring the expected results in each case. On the one hand, Europeans may not emphasize all these threats and challenges in the same way as the Americans, but they cannot escape their shared vulnerability, which will work to keep the transatlantic relationship together. On the other hand, America's interventions in Iraq and Afghanistan have convinced no one that the United States can claim control of events there, much less in the greater Middle East in general. Rather, many politicians of both parties in Washington, not to mention European political elites, have been losing confidence that the changes in tactics in Baghdad brought more than a temporary relief and that things in Afghanistan could really take a turn for the better in the near future. What

both sides today agree on, however, is that military power can work only as an adjunct to a political strategy.

In other words, external pressure as a variable in shaping any foreign policy naturally forces the Euro-Atlantic community to react in very similar ways. From time to time, however, Washington and the EU will dissent and have difficulty reaching accommodation, and the coalitions-of-the-willing concept will have to serve as a complementary fallback option. The reason for that difficulty is that in the United States changes in foreign policy are very much driven by what one could call the power variable and a risk-taking propensity—thus making it very proactive in nature— whereas the EU's foreign policy approach is rather reactive and fear driven and is in a constant state of evaluating options in terms of gains and losses. Although America has huge potential for shaping global politics and a prevailing optimism, it faces the inherent danger of overreach. At that point, the U.S. effort can all too easily become subject to abrupt policy changes when the former approach fails repeatedly or catastrophically. For Europe, the tendency has been to suggest that it can continue to profit from the status of a “soft” or “civilian” counterpart to the “hard” U.S. approach—due in part to its fewer capabilities and its orientation toward values and process and in part to the lack of consideration of its international responsibilities and the means to master them.

## **Facing the challenges**

Faced with protracted conflicts in Iraq and Afghanistan, a severe crisis with Iran, emerging rivals in Asia, and challenging problems at home caused by the world financial and economic crisis, Washington is looking for partners. Europeans, by contrast, at least partially seem to have given up their traditional reluctance in favor of a more assertive role in global politics, seeking co-equal leadership. By sharing tasks and decision-making responsibilities within a common NATO-EU frame in the medium run, the United States will certainly have to relinquish some decision-making authority, while the EU and European member states must improve their capabilities.

The ever-increasing problems of failing states, proliferation, energy security, climate change, radical militant Islam, and the financial and economic challenges<sup>6</sup> can be handled only in a multilateral effort; there is no way, not even for the United States, to face these challenges as an individual nation-state.

Although the Obama administration is approaching the transatlantic partnership far more pragmatically than the previous U.S. administration, on a number of issues Europeans have not yet been fully persuaded to align themselves with U.S. priorities. It should be clear that the transatlantic agenda is full of tough trade-offs and does not offer easy choices. While tone and style have certainly changed for the better, differences in national interest and outlook, both across the Atlantic and within Europe, will remain. As the geopolitical framework has shifted dramatically over the past two decades, the transatlantic relationship is challenged to adjust accordingly. Three major challenges stand out regarding the prospects for a more effective and pragmatic transatlantic partnership.

***The common geopolitical challenge of a rising China, a resurgent Russia<sup>7</sup> and eventually an emergent Brazil and India***

The greater economic and political strength of these countries has already shifted the international center of gravity for growth and governance. In this context, the question is not whether the United States is and will remain the largest single aggregation of military, economic, and perhaps even cultural power or whether the EU can really become a power center of comparable potential. As a matter of fact, both in aggregate numbers—GDP, share of global imports and exports, FDI, defense spending, and the like—and in investments in key industries and technologies, higher education, and R&D the United States is still far ahead of the rest of the world.<sup>8</sup> The real issue of concern is whether these figures nevertheless mask the relative decline of the West's position in the world, not only in power but also in influence and independence. Although the United States and the EU together account for half the world's GDP, this percentage will surely decline over time, given the actual and

projected differential between U.S. and EU growth on the one hand and that of China, India, and many other countries on the other, a large number of which are growing at more than two or three times the rate of the West. This development will deeply affect the West's safety and standard of living, and it has already triggered a discussion over the degree to which the rise of these powers can deliver benefits for the United States and the EU.<sup>9</sup>

No doubt, the biggest challenges are China and Russia, both having become natural allies again (despite an ambivalent relationship)<sup>10</sup> by staking out similar ideological political doctrines: authoritarian regimes at home that combine rapid economic growth and nationalism, along with a self-assertive power in world affairs that sees rising economic power as the basis for righting past humiliations and preaches absolute adherence to the Western principles of nonintervention and respect for national sovereignty. America's setbacks in Iraq and Europe's inability to act in the assertive fashion of historical great powers have given Russia and China new confidence in the battle of ideas, with the economy being the real foundation of that new assertiveness. While China has become a manufacturing powerhouse, Russia, although its boom has a more fragile base, has been strengthened by its resource wealth. And the fact that both are doing well and are flush with cash without embracing liberal democracy has led to a rejection of Western political models. In both Russia and China, political elites dismiss liberalization and democratization as a trap that could create social instability and instead have put the official emphasis on stability.

In this context, the role of NATO and the UN as the still predominant organizations in this multipolar world for generating effective collaboration (in case of the UN, with more reliance on Asia and Africa) on conflict prevention and crisis management will be affected in many ways as well.

***The geostrategic challenge of forging a comprehensive approach to the conflicts in the greater Middle East***

The transatlantic community faces a series of challenges in a region that has demanded the urgent attention of the United States and the EU ever since the dissolution of the Soviet Union and the radical changes in the world in 1989–90. Despite the primacy of domestic political issues on both sides of the Atlantic, managing contemporary global challenges such as terrorism, proliferation of weapons of mass destruction, and energy security requires dealing with the Middle East and North Africa.<sup>11</sup> A strategy vis-à-vis the region has to pursue two goals: It has to focus on a regional strategy for Afghanistan and Pakistan and the threat of a nuclear Iran as highest priorities. Other topics include Iraq, the Israeli-Palestinian conflict, and those countries on the African continent that are likely to suffer from large-scale violence in the future and where so far (with the exception of Sudan) there have been no signs of transatlantic cooperation.

Second, it has to realize in the context of the new Arab spring that, as long as stability in the region is seen as synonymous with the existing order, the West will lose its moral authority. In particular, this effort entails attempting to stabilize Iraq after a careful and deliberate drawdown of U.S. forces to avoid undoing progress; engaging with an Iran approaching the nuclear threshold; containing sectarian tensions in Lebanon while convincing Syria, provided the Assad regime will survive, to expel Hizballah leaders and Palestinian rejectionist groups, including Hamas and Palestinian Islamic Jihad, from their safe haven in Damascus; promoting peace agreements between Israel and its Arab neighbors, including, of course, the Palestinians; and projecting stability in Afghanistan, which has become the future test case for transatlantic relations in general and for NATO in particular, beyond withdrawal of troops in 2014.

***The geo-economic challenge as the first and immediate task for the transatlantic partners***



The global economic and financial crisis will shape the common agenda like no other issue over the next few years, as it has shown how interconnected the transatlantic economy has become. Despite many differences, U.S. and EU leaders have to align their positions on global economic governance—that is, on the structures of the International Monetary Fund (IMF) and the World Trade Organization (WTO)—as well as on China and other emerging countries. They must forge common positions on current global imbalances to become effective leaders of the global economy once again. The place to start is by tackling their bilateral trade disputes, which in the American case stem from the U.S. Congress, not the Obama administration.

What is also likely, however, is that global recovery will happen only if either the United States once again, with China, leads the world out of recession or, in case Washington finds itself in a situation similar to that of Japan in the mid-1990s, Asia and Europe replace global demand in the years to come. As both scenarios are full of uncertainties, the cooperative efforts of both Americans and Europeans on the one hand and emerging markets on the other could provide the best answer to the challenges of managing the postcrisis world. In the United States, as in the United Kingdom and some other high-income countries, it is very likely that the highly indebted private households will try to lower their indebtedness and raise their savings over an extended period. Since mid-2007, total liabilities have increased by 2.5 percent, while assets have fallen in value by 16 percent. At the same time, however, public sector borrowing, which has been substituted for private sector borrowing on an unprecedented scale, will continue for some time as well, increasing risks that current domestic balance-sheet problems will remain without global rebalancing. The surplus countries, though, above all China, do not show much interest in making the needed policy changes in the near term to strengthen world demand. Rather, they stay mercantilist, urging the United States to further stimulate the domestic and world economy with continued expansionary policy. In other words: neither the U.S. import-and-consume business model nor the Chinese, German, or Japanese export-and-save strategy will provide the right solution to the current crisis. America's—and the transatlantic—fate is not in its own hands, but although China may be the chief beneficiary of the financial crisis and the latest challenger to U.S. hegemony, its dependence on exports to the United States limits Beijing's room for maneuver as well. What is needed, however, is sustainable demand, no matter

where it comes from, and a functioning financial system, one that is adequately capitalized and transparent enough to reassure investors.

With regard to the former task, there is broad consensus that current account imbalances across major economic areas were integral to the vulnerabilities in many asset markets in recent years and that demand has to come first of all from creditworthy surplus countries, which must willingly accommodate necessary adjustments by deficit countries. Only in this way can deficit countries avoid spending themselves into bankruptcy, and it is misleading in this context to argue that returns on investments are still high enough in the United States to finance even larger current account deficits.<sup>12</sup> Otherwise, the United States would have to promote export-led growth through exchange-rate depreciation in an effort to rebalance the system, or even, if surplus countries allow a collapse in domestic demand and thus export unemployment, resort to protectionist measures.

Plenty of arguments support a scenario in which China, as the biggest surplus country, expands demand faster than its potential output, which is in fact in its long-term interest. China's policy of cheap capital (through cheap credit and low corporate taxes) in combination with an expensive foreign exchange (by currency interventions) has led to income transfers from private households to industry. As a result, exports and capital-intensive industry have surged, but job creation has lagged. In addition, household disposable incomes have decreased, while corporate investments and savings have been huge, allowing current account surpluses to soar. In the long run, such a policy of cheap labor and distorted exchange rates at the expense of domestic demand—together with China's uncomfortable demographic prospects—will end up creating overcapacity and amount to a huge challenge for Chinese policy makers. Unfortunately, Beijing's stimulus package as an immediate answer to the crisis in 2008 did not create self-sustaining growth, as large parts of this package went into the old favorite, fixed investment, and thus reinforced existing problems and imbalances. Moreover, the repegging of the renminbi to the dollar has also done little to shift the Chinese economy to consumer demand.

In all likelihood, China will remain a saving economy in the near future because of the lack of a social safety net. Chinese households save for educational needs, security in case of illness, and caring for their families, and these structural factors will not change quickly, nor will any changes be achieved by simply letting the renminbi rise. In the medium term, however, it is very likely that social pressure to channel savings into such a net will gradually increase; higher wages and unemployment benefits, pensions, health care, reform in the state sector, and the implementation of a green economy are among the economic and political concerns for the development of a sustainable economy—all of which require a balance between savings and consumption.<sup>13</sup> Although according to the OECD China's growth prospects still looks robust, its development path is neither guaranteed nor irreversible.

In other words, what we need, and what is in the interest of both the United States and the EU, is a gradual adjustment process. China's economy, although it is the second largest in the world, cannot take over the role of the lead economy in the short run. Nor can the other BRICs—Brazil, India, and Russia, whose trend growth rate is slower than China's—assume that role. Brazil is a relatively mature economy, with less potential for rapid growth; India has a chronic public finance problem and an even higher household savings rate than China; and Russia, whose economy contracted sharply during the global crisis, remains too dependent on oil prices.

## **Conclusion: What the EU and the US should do**

In light of the geopolitical, geostrategic and geoeconomic challenges, a more pragmatic and sober transatlantic partnership, as indicated in the beginning, is likely to prevail in the future, not least because of the surprising continuity of President Obama's approach with that of his predecessor. The transatlantic partners face a growing mismatch between the global nature of their problems and the need to overhaul their institutions and instruments, on the one hand, and the political willingness to overcome their strategic differences, despite a generally shared threat

perception and belief in core democratic and human values, on the other. Although the United States and the EU may approach each other again in a spirit of cooperation to forge a new partnership, they are still, and will probably remain, far away from the traditional sense of “we-ness,” that shared identity that emerged during World War II and the Cold War. They may be determined to work closely together on a strategic agenda, but both sides will judge the value of this partnership in relation to each other’s willingness and ability to tackle the challenges and make a fair contribution toward more productive and efficient conflict and crisis management.

Such cooperation will be all the more necessary in a post-American world, in which globalization is redistributing power to the the emerging markets and Asia. Both partners need to build a network of strategic partnerships that will guarantee that they remain the “indispensable center” of a rather imperfectly multipolar global system. In this system, the United States is only one of at least four great economic centers of power: China, Europe, and Japan, distantly followed by Brazil, India, and Russia. As of this writing, the U.S. economy is growing again, and economic forecasters even expect substantial acceleration in real GDP growth over the next two years, up to a 4 percent pace by early to mid-2012.

The United States is still the only military superpower, surpassing all others by far; there is no evidence whatsoever of movement toward military-strategic multipolarity. Aside from China, which will have the means in the long run but does not (yet) have the will, and Russia, which has the will but not the means, no other global power aspires to challenge U.S. military dominance. Europeans are still refusing to increase military expenditure, as if they had decided to outsource defense to the United States once and for all. This sort of complacency and “excessive deference” toward the United States undermines the relationship with Washington.<sup>14</sup> And on the political front, no other country has the power instinct and the political will to shape the international order (*Gestaltungswille*). Those countries (like Russia) that undoubtedly have it do not have the means to match their ambitions and so cannot equate power with the necessary show of force; apart from that, Russia is certainly not attractive to most countries in the world. China’s economic success may trigger a good deal of

appeal in many parts in the world, especially in emerging countries challenging Western dominance, but Beijing is not ready yet to lead the world. In other words, although this is not the time for complacency, given the immense economic problems and the deep frustration among the American people, Washington has not abandoned its bid to remain the leading world power. It continues to hold a competitive advantage over other countries at least in military and strategic power. For that reason, it does not embrace the rhetoric of a multipolar world because that would place it on an equal footing with other important world actors.

Washington is also beginning to understand, however, that it can no longer dominate the world as it has done for almost two decades: the gap that separated it from the rest of the world has shrunk. Despite its dynamic and entrepreneurial culture, its flexible capital and labor markets, its relatively favorable demographics, and its other competitive advantages, middle-income wages have lagged over the past thirty years, and the country needs a sound fiscal regime as well as more and smarter public investment and reform in economically critical areas like health care, infrastructure, immigration, and education. In short, the United States needs a more effective political system. At the G-20 summit in Seoul in November 2010, countries almost unanimously rejected Washington's ideas for correcting current account imbalances as well as its second round of quantitative easing. Washington has a bilateral trade deficit not only with China but also with most of its partners. It is not just Chinese currency manipulation that is hurting America but America's own lack of competitiveness. For that reason, the argument about rebalancing is one sided. And for that reason, the United States needs partners to maintain its preeminence and also needs to get serious about the weaknesses in its domestic economy.

### ***What Europe Can Do***

Europe, though, is not yet on the road to becoming a superstate; the Libyan conflict once again has exposed significant shortcomings in Europe's military capacities, as the many contradictory statements from European policymakers on the Greek crisis

revealed the problem of the EU to develop a coherent plan in time. The only influence it really commands beyond the attractiveness of its own institutional setup is a normative one, a capacity for shaping the international order through the diffusion of norms in global regulation from finance to the environment. Although this contribution is not negligible and Europe's "smart power" based on regional networks of nations and Europe's own plan for economic security, environmental sustainability, and global stability may have produced a "Eurosphere" with some 2 billion people,<sup>15</sup> it is far from becoming a strategic power, despite the new arrangements of the Lisbon Treaty. If it stood united, Europe could easily become one of the world's three or four great powers, given that the EU's GDP and population both exceed those of the United States. But recent appointments (full-time president and foreign policy chief) leave the EU's global role and image in the hands of two personalities who are incapable of leading a more effective projection of Europe's collective influence around the world. In an age of renewed great power politics, most member states seem to prefer a low-profile, consensus-building politics that risks European irrelevance on the world stage. Indeed, polls indicate that in at least half the EU member states a majority would have rejected the Lisbon Treaty if given a chance. On the big issues (Afghanistan, China, Russia, Turkey, energy security, and the like), major policy differences therefore still persist among European nations at a time when it is essential that the EU develop new rules for a multipolar European order, centered not only on the EU and NATO but also on Russia and Turkey, as well as on developing policies designed to influence EU's and NATO's respective and overlapping spheres of influence in the Balkans, the Caucasus, Central Asia, and Eastern Europe.

The inherent risk of this half-hearted engagement is that the EU is losing ground in Washington at a time when the United States is attempting to stay at the heart of the global power game by making room for others and when America's willpower alone will not suffice to dominate that game. Indeed, this is a time when Washington needs partners more than ever. The Republican congressional ascendancy after the U.S. midterm elections in November 2010, however, only reinforced the general tendency of Europe's increasing irrelevance in the United States. Europeans —hopeful of cooperation with the United States on arms control, Iran, climate change, and the

global economy, all issues (except maybe the last) on which there is a fair degree of European consensus and thus a better chance for engaging with the United States—are experiencing an even more frustrating and frustrated partner. At this point, it is time to face the facts on both sides of the Atlantic:

The notion that the United States and Europe form a single community that shares core democratic and human values and that face the same global challenges no longer prevails per se and will regain wider acceptance only when the U.S.-EU partnership actually produces concrete results.

The future geopolitical and geostrategic agenda will no longer be dominated by the United States alone. The very existence of the G-20 implies that the global balance of power has changed and that the world will be more divided by economic and political concerns, threat perceptions, emotions, and identities. The divisions over a climate deal at the G-20 in November 2010 revealed the new fragmentation: Brazilians, Chinese, and Indians once again blamed the industrial nations for putting most of the greenhouse gases into the atmosphere. Americans and Europeans responded that there can be no deal unless the developing world cuts back its emissions as well. The acrimony complicates the situation even more when a hesitating U.S. Congress—like China—prefers proceeding on a voluntary basis (to uphold national sovereignty) rather than agreeing to legally binding new agreements, which Europeans would prefer. Moreover, these tensions are reinforced by a democratic-authoritarian divide within this group. Although China and Saudi Arabia are the only two truly undemocratic countries and Russia has a foot in both camps, all three have enough power to block the overwhelming majority of democracies. Fortunately, the G-20 rarely splits along these lines, as its agenda is still predominantly economic.

If the international community, however, strays into the political arena, China and Russia can trump almost any particular issue. For that reason, it is important that Europe no longer be the obedient follower that supplies military or diplomatic auxiliaries for whatever campaigns America embarks on. Instead, it must tell

Washington when it is going astray, as on Iraq. For its own sake and for the sake of the United States, it must overcome its internal fragmentation on issues like Russia, energy security, China, or the Middle East and behave as the power it potentially is. This would be the first step toward forging joint approaches with the United States. Otherwise, a very pragmatic administration in Washington will work with whoever will most effectively help it achieve its policy goals.

Thus, it is up to Europeans to prevent the U.S.-China relationship—which Obama has declared will shape the twenty-first century—from replacing the transatlantic partnership. In many ways, Europeans can bring much more to the table. Although EU member states contributed more troops to ISAF in Afghanistan than the United States in 2008, nevertheless the EU has exerted only minimal influence on the development strategies for the country, leaving the impression in Washington and elsewhere in the world that despite its strategic importance Afghanistan is still an American responsibility. Instead, Europeans should clearly determine what they want and make an effort to ensure that the strategy both sides pursue is modeled to a great extent on their ideas. And although Europeans are deeply committed to the Middle East and North Africa, both because of their strategic interests and because of the domestic impacts of conflicts in the region, they do not proactively shape and advance the political agenda, for example, by using their economic weight independently of the United States to increase pressure on Israel to halt its settlements or on Iran to give up its nuclear weapons ambitions. Similarly, Americans would certainly be more impressed if Europeans would not only offer countries of their Eastern neighborhood a promising alternative to control by Russia but also clearly reiterate that membership in the EU remains open to all European nations. The United States would also welcome European recognition that a common position on energy security could lessen Europe's massive dependence on Russian gas and that the Obama administration's "flexible adaptive approach" to making ballistic missile defense a common project for all of NATO, and possibly for Russia as well, could be an important step to regaining the confidence among many of NATO's, and the EU's, newer members in the solidarity and collective strength both organizations still provide. For both the United States and Europe, however, the "elephant in the room" is that Europe will never be secure until Russia becomes a stakeholder in its



stability. For that to happen, two preconditions are necessary: first, there can be no tough stance without openness; and, second, there can be no sort of constructive engagement without firm principles.

### ***What the United States Can Do***

Blaming a reluctant EU for all the difficulties and tension among Europeans and Americans, however, distorts the truth. All too often in the past, American activism did not bring the expected results. Nor is it always the United States that is the driving global force. Apart from the general questions about whether the United States and the EU must address all threats originating from outside the Euro-Atlantic area and whether NATO should be an expeditionary alliance, Afghanistan, Iran, or Middle East peace mediation efforts are not success stories at this point. Iran is still in pursuit of nuclear weapons, Iraq is at best an unfinished project, and Israelis and Palestinians are no nearer to peace. The majority of the people in the United States, meanwhile, would like to see the mission in Afghanistan brought to an end. As of this writing, the government in Washington is debating whether a massive military presence is sustainable and makes strategic sense at all, given the transnational presence of international terrorism in general and al Qaeda in particular. Afghanistan holds several lessons for NATO, but first of all it holds lessons for the United States on the limits of military-backed nation building and asymmetric warfare. For that reason, the argument that NATO's very survival is at stake in Afghanistan sounds somehow cynical. NATO will survive even if the mission in Afghanistan does not achieve the desired results. Moreover, budget constraints will cause massive defense cuts in the United States as well, perhaps leading to serious internal reforms of the alliance and a more balanced relationship between power and burden sharing. In this context, Europeans and Americans should acknowledge that a realignment is needed to eradicate unnecessary duplication in defense spending.

In other areas like climate change and energy security, it is more up to Americans than Europeans to forge strategic cooperation. The U.S.-EU summit decision to

launch an Energy Council, for example, could potentially be a major step forward, especially if the United States becomes more serious about having diversified, reliable access to increasingly green sources of energy and overcoming years of divided efforts. The EU has been showing how cost effective it can be to move away from high-carbon and high-dependency fuels. In these areas, the “indispensable nation” has become the “insufficient power” that needs to ground its leadership in networks of alliances and institutions, whenever possible with the EU in a mutually enabling partnership.<sup>16</sup>

The geoeconomic agenda is even more widely distributed. Not only did the economic and financial crisis shatter the belief that there was no alternative to the West’s brand of liberal capitalism, but China, India, and other emerging markets continued to grow through the crisis, while America and part of Europe are experiencing fiscal drag just when they need a further boost. At the same time, the world is witnessing an intense dispute between surplus and deficit countries. Countries like the United States argue for deficit spending, countries like Germany favor an “austerity now” path, and other countries accuse each other of manipulating their currencies by either undervaluation (China) or printing dollars (United States). In this situation, nobody can escape from painful adjustments. The United States may have the ability to issue the world’s principal reserve currency, and, of course, most countries, including China, are frightened of the consequences of further quantitative easing. The United States, however, should not overestimate the impact of the Federal Reserve’s policy of quantitative easing on U.S. growth and instead let fiscal policy do some of the lifting, not only to prevent a double-dip recession but also to rebalance the global macroeconomy and avoid a series of competitive devaluations. U.S. debt is projected to grow to about 100 percent of GDP by 2020 under the present policies, and the deficit is projected to exceed 10 percent of GDP every year in that period, according to the Congressional Budget Office. That massive debt burden will not make the United States stronger over the long run relative to the EU, where the push is very strong to cut all deficits to less than 3 percent of GDP in the next several years. What is needed in Washington is a sensible combination of tax increases and reduction of entitlement spending (as proposed by the Bowles-Simpson budget plans),<sup>17</sup> which the stalemate in Washington may make unlikely.

Within the Euro Area, Germany should become more cooperative to avoid leaving the core of any global adjustment to the United States and China. That would be a positive signal to Washington as well as to Berlin's partners in the Euro Area who have to live with Germany's combination of external competitiveness and domestic restraint, under an irrevocable fixed exchange rate. For Euro-Area countries such as Greece, Ireland, Portugal, and Spain that run counterpart deficits to Germany's surplus, the lesson will be tough: as there is no provision for exit from the European Monetary Union (EMU) and external devaluation is ruled out, they are forced to deflate as long as EU rules prevent internal devaluations to include a debt write-down.

Germany's obsession with the financial and stability pact, however, is the consequence of a fundamental lesson from the recent crisis: the value created by currency-pooling arrangements tends to be distributed disproportionately in favor of the financially less reliable members. For that reason, any such arrangement requires adherence to the rules that sustain it. Similarly, it is important at this stage in the EMU that if a permanent rescue mechanism is established in 2013, Europeans should also include a restructuring regime for sovereign debt that allows losses for private investors, to make default a credible threat. Without such a debt-restructuring clause, markets will be invited again to speculate on future bailouts.

What is needed at this point in the Euro Area (and worldwide) is a gradual adjustment process allowing indebted nations to develop reasonable budgets and work toward higher growth, more employment, reduced social transfers, and higher tax revenues. And while European institutions and national governments reform the Stability and Growth Pact by eliminating past bailout shortcomings, Germany and other net payers, whether they like it or not, will have to save ailing Euro-Area countries with their own tax money. The alternative, breaking away from the euro, would lead not only to the economic implosion of the peripheral EU countries but also to tremendous political and economic costs for Europe. For Europe and the United States (heavily intertwined with European markets), economic recovery will be even more decisive

than rebalancing the global macroeconomy and avoiding further competitive devaluations. While emerging countries are booming, peripheral Europe and the United States must both grow faster and start working on fiscal solidity. At the same time, core European countries need to stabilize healthy growth, while also working on the monetary stimulus front.

In addition, more transatlantic attention should be paid to banking policy beyond the G-20 Seoul agreements of November 2010. Basel III was only a small (though decisive) step toward a safer banking sector in the future. It has not done away with the risk of big cross-border bank failures, which could occur if growth does not accelerate or if house prices fall farther. And here, transatlantic partners together should push emerging countries to realize that while problem banks may be based predominately in the West, they are also vulnerable to the fortunes of these banks because their savings are invested in the banks' home countries. Too often, those countries, although asking for increased inclusion in the institutional framework, do not take an equal part in shaping deals that all parties stand behind. If Europe and the United States are ready to take on this kind of multilateral problem solving themselves, they also sound more convincing when arguing that emerging powers are not ready for full participation in global governance. Indeed, the real danger is not that these countries may have more influence in the global institutions (whenever the West itself is divided on certain issues) but rather that these countries increasingly prefer to act outside these institutions. If transatlantic partners could project their mutually reinforcing bilateral economic relationship onto the global scale by acting through inclusive leadership, they would certainly contribute to more unity in the G-20.

This does not necessarily mean that the United States and the EU always have to agree. On the contrary, in this disordered and unclear world, a transatlantic partnership has to withstand discords and different opinions and interests more than ever, while at the same time developing a more sober and effective relationship beyond traditional NATO or bilateral ties. For Americans, this approach will require accepting that the days of undisputed leadership are gone. For Europeans, it will

require accepting a more contentious and uncomfortable relationship with the United States. To make this partnership an “indispensable” one again, America has announced that it will “do [things] more” in the “European” way—which is good news; but “the bad news is that it will ask for more from [its] partners, as well.”<sup>18</sup> One step in each other’s direction could certainly help translate the “Obama bounce” into a more pragmatic and effective transatlantic cooperation.

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- <sup>17</sup> Named for Erskine Bowles and Alan Simpson, cochairmen of the bipartisan commission appointed by Obama to suggest ways of curbing the U.S. deficit in 2010.
- <sup>18</sup> U.S. Vice President Joseph Biden (Remarks at the 45<sup>th</sup> Munich Conference on Security Policy, February 7, 2009), [http://www.whitehouse.gov/the\\_press\\_office/RemarksbyVicePresidentBidenat45thMunichConferenceonSecurityPolicy](http://www.whitehouse.gov/the_press_office/RemarksbyVicePresidentBidenat45thMunichConferenceonSecurityPolicy).