THREE
Europe, Mercosul and Transatlantic Relations: A British Perspective

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Discussions of transatlantic relations have, until now, always concerned the links between one large and powerful country, the United States (US), and one group of middle and small-sized less powerful countries, those of the European Union (EU). The transatlantic game has had two players. However, it is not inconceivable that, in the very long run, the focus of transatlantic relations could be the ties between three geostrategic entities, the third one being built upon the countries of Mercosul.

Many of the Europeans who think about foreign policy—admittedly, not a large number—would be happy to see a more coherent regional grouping emerge in Latin America. One reason for this is that they would be flattered to see that continent imitate aspects of Europe's own political development. The relations among the states of Latin America today may resemble those among the West European states circa 1955.

The other, and more important reason, is that some Europeans—and even some Britons—are, like some Latin Americans, concerned by America's hegemonistic tendencies. These Europeans would welcome a more solid Mercosul that could, alongside the EU, constrain the exercise of American power and steer the US towards working within multinational institutions. If Mercosul can build strong institutions, take in more countries, and develop common foreign policies, then, a few decades hence, transatlantic relations could be a game with three players.

This chapter examines the current difficult state of transatlantic relations. Then it looks at the evolution in British attitudes towards the EU's role in foreign policy. Next, it considers British views on Mercosul, and concludes by discussing how the evolution of Mercosul could help to promote a more multipolar world.

THE TROUBLED STATE OF TRANSATLANTIC RELATIONS

The view in London, as in many other European capitals, is that the two sides of the North Atlantic seem to be growing further apart. The arguments on defence are one indication of the current strains in transatlantic relations. The Europeans

are developing their own defence capability, which few Americans understand or see the point of. Meanwhile, the Americans plan to develop a missile defence system, which few Europeans understand or see the point of. Each side fears that the new development on the other side of the Atlantic will create rifts in the alliance.

Of course, security issues are not the only ones that matter in transatlantic relations. Arguments over bananas, genetically modified organisms, hormone-treated beef, and agricultural subsidies, have dragged on for years.

The root of the problem, as far as many Europeans are concerned, is that the US has become the world's sole superpower. The result is that the US has started to see the rest of the globe as less threatening and therefore as less important. The evaporation of the Soviet menace probably made it inevitable that the US would begin a slow disengagement from Europe. America cut the number of its troops in Europe from 300,000 to 100,000 during the 1990s.

The US has become increasingly reluctant to commit itself to international treaties, conventions and organisations. The saga of money owed by the US to the United Nations (UN) continues. The US has failed to sign up to the International Criminal Court, to the convention limiting the use of land mines and to the recent agreement on genetically modified organisms. Congress has ratified neither the Comprehensive Test Ban Treaty nor the Kyoto Treaty on climate change.

The one international organisation that remains generally popular with American politicians is NATO. But US support for NATO is not necessarily eternal. During the Kosovo conflict, when it appeared that an air campaign would not suffice to expel the Serbs from Kosovo, the British government argued that America had to be ready to commit ground troops to Kosovo. If Milosevic defeated NATO, said the British, that would more or less be the end of the Atlantic alliance. This argument appeared to make little impact in Washington, where there was minimal support for committing troops to a ground war.

The countries of the EU, being much smaller than the US, have a natural interest in subjecting states to the norms and rules of international law. Furthermore, because of their own experience of working within the multilateral framework of the EU, they find it much easier to accept the authority of international organisations (though it should not be forgotten that it is the EU, rather than the US, which has most often flouted the rulings of WTO panels). The different stance taken by the US is a natural consequence of its size: a superpower stands a better chance of getting its way without resorting to the help of international bodies.

Americans pointed to the fact that their four principal presidential contenders—Bill Bradley, George Bush, Al Gore and John McCain—were solid internationalists. And that is true, to the extent that all of them want America to engage in world affairs. Both Bush and Gore believe that America needs to work with its allies. However, none of them argues that America should allow international organisations or treaties to constrain its ability to pursue its own

self-interest. The view in European capitals, London included, is that little by little, America is becoming more unilateralist. One manifestation of this trend is the enthusiasm of America's political classes for a system of National Missile Defence (NMD). Republicans and Democrats alike have been unmoved by the objections of European allies and Russia, or by the prospect of the system breaching the Anti-Ballistic Missile treaty. The subject of missile defence has the potential to create huge rifts in the Atlantic alliance.

There is no longer much doubt that the US will proceed with plans for a ground-based missile defence system, designed to deal with the threat of ballistic missiles from rogue states. Reports from American intelligence agencies have convinced policy-makers in Washington that, within a few years, North Korea and Iran may develop the capacity to strike at North America.

The Europeans worry that NMD could lead to a 'decoupling' of US and European security interests: if a rogue state threatened the NATO allies, and if the US knew that NMD made its homeland secure, US policy might diverge from that of the Europeans. The Europeans also tend to be more relaxed about the potential threat of ballistic missiles. They also have many doubts about the efficacy of US anti-missile technology. Britain and France have a special concern of their own: America's NMD system may provoke the Russians to build a similar system, and that could then neutralise the British and French nuclear deterrents.

The likely decision of the US to proceed with NMD will create awkward choices for EU countries. Should they ignore the missile threat of ballistic missiles, or try to develop their own missile defence systems, together with the Americans? Many Americans believe that, once the Europeans understand the nature of the threat, they will want their own missile defence systems.

However, even if the Europeans were to share the Americans' analysis of the risk, it is not clear that they would wish to develop their own missile defence systems. They are trying to find the money to develop their own power projection capabilities (see below) and would be hard-pressed to come up with extra billions of dollars for missile defence. They also worry about the reactions of the Russians and the Chinese to NATO countries developing missile defence. Furthermore, many senior French policy-makers would have political objections to participating in a missile defence system that would, inevitably, be dominated by the US.

THE GLOBAL REACH OF THE EURO

Meanwhile, Europe is becoming more unified, and in ways that may disturb some Americans. The movement towards European integration is slow, faltering and often confused—but the direction is clear. Until a year or so before the launch of the euro, many American commentators believed that the Europeans would never create a single currency. Now that it is a fact, many commentators assume that the euro will not challenge the global role of the dollar, and that it

therefore will not require the US to re-examine its own policies. They are probably wrong. Once the euro has established a track record as a solid currency, institutional investors and central banks will want to balance their dollar holdings with euro investments. Fred Bergsten, of the International Institute for Economics, is probably right to argue that in the long term between $500 billion and $1 trillion of assets will switch from dollars into euro. The establishment of a bipolar global financial system, with most of the Americas tied to the dollar, and most of Europe and parts of Africa tied to the euro, may well prove awkward for the US. It will no longer be so easy for the US to disregard the international ramifications of its economic policy. In the past, US administrations have often been relaxed to see the dollar sink and the current account deficit balloon. There have always been enough foreign institutions to buy dollar securities, even when the dollar was weak, for it was the only international currency of note. When the euro presents a viable alternative, however, America may not be able to finance its current account deficit so easily. It may have to run an interest rate policy and an exchange rate policy that appeals to foreign investors.

The dollar-euro exchange rate may well prove volatile, and that could in itself create transatlantic tensions. A persistently weak euro could provoke American complaints of Europe's 'unfair' competitive advantage, and protectionist sentiment in the US. A prolonged period of dollar weakness could have the reverse effect. In the long run, the US and the EU may have to agree on some system of target zones, in order to stabilise the link between their currencies.

At the moment, the US dominates international financial diplomacy. When the South East Asian economies suffered severe crises in 1997, the US led the international efforts to restore financial stability—although the Europeans, collectively, had lent more money to the region. The Americans tend to dominate meetings of the International Monetary Fund (IMF), the World Bank and the G-7 finance ministers, for they have just a few representatives, while the Europeans have many and are divided. Over time, this may change. There is some debate in European capitals over the merits of creating a 'Mr Euroland', who would represent the euro-zone countries to the rest of the world. He or she would take instructions from the euro-zone finance ministers and negotiate with third parties on, for example, financial crises, exchange rate targets or reform of the international financial institutions.[1] France and Germany have already discussed the possibility of merging their quotas at the IMF. Thus, on questions of currency and financial diplomacy, the US may be obliged to listen more carefully to European views.

THE CHALLENGE OF EUROPEAN DEFENCE

Europe is integrating not only economically, but also in the field of defence. Since the British and French governments unveiled their plan for a European defence capability at St Malo in December 1998, the Europeans have moved a long way The principal motivation of the EU governments is their belief that

they need a more coherent and effective Common Foreign and Security Policy (CFSP), and in order to achieve it they will need to be able to back up their diplomatic pronouncements with the threat of force.

The EU's 15 governments have agreed that the Western European Union (WEU), a little-used defence organisation, be merged with the EU. If, for whatever reason, the Americans do not want to take part, the EU itself will be able to organise military missions. Such missions would normally involve the Europeans borrowing command structures and equipment from NATO or the US, but in theory, the EU would be able to run 'autonomous' missions that did not involve NATO.

The Europeans have also agreed, at the insistence of the British, to focus on improving their military capabilities. The EU governments between them spend about two-thirds of what the US spends on defence. However, their ability to deploy force outside the NATO area is probably only 10 per cent of that in the US. The British believe that the best way of getting the US to support European defence is to show that it is about Europe being capable of doing more. The war in Kosovo exposed the Europeans' weakness in command, control, communication and intelligence systems, and in their ability to move equipment by sea or air. The EU governments have now committed themselves to be able to put into the field, by 2003, a Reaction Force of 50,000 to 60,000 men.

The EU's military ambitions have caused much anxiety in the US. Few Americans see the point of a European defence entity, given that NATO works well. Many Americans worry that the French, always ambivalent over NATO, have persuaded the other Europeans to join them in a scheme that will undermine it. Will the EU try to duplicate what NATO does by establishing a planning staff of the sort that NATO has at SHAPE? What if the Europeans assume that they would normally act through the EU, resorting to NATO only if a major war came along? Might the Europeans exclude non-EU NATO members (notably Turkey) from the new arrangements?

Most of these fears about the new institutional arrangements are probably misplaced. The ambition of most EU governments (and even of some figures in the French government) is to strengthen NATO, by enabling the Europeans to contribute more to it. The Europeans are working hard to find a way of associating Turkey and other non-EU countries in their new club, though the Turks will have to accept that they cannot be full members until they are in the EU. The Europeans do not want to duplicate much of what NATO does because that would cost money (the EU's new military staff is unlikely to contain many more than 100 people).

The Americans should humour the EU by allowing it the theoretical possibility of running purely autonomous missions. For in many European countries, such as Germany, the best way of getting politicians to spend money on defence is to say that it is in the cause of 'Europe'. The truth is that Europe's weak military capabilities mean that it would not normally want to embark on military missions without the assistance of NATO and the US. For example, Europe has none of

the aircraft that are required to jam hostile radar systems and take out missile defences.

American commentators are right to be sceptical about Europe's ability to boost its military capabilities, so long as many countries (including Germany) continue to cut defence budgets. But while there is not much prospect of greater European spending on defence, there is a real chance that existing budgets could be spent more wisely. European governments are now coming under considerable peer-group pressure to follow the British and the French in developing professional and more mobile forces. Thus, Italy and Spain have already decided to abolish conscription.

Strobe Talbott, America's deputy secretary of state, is not the only American to have admitted that many of his compatriots are inclined to be schizophrenic about the CFSP. On the one hand, they have long urged the Europeans to get their act together on defence and foreign policy On the other, when the Europeans seem likely to do so, Americans worry that the CFSP may act against their interest.

Americans such as Strobe Talbott and Robert Zoellick, an adviser to President George Bush, welcome the European defence initiative, at least in principle. They believe that a more capable Europe will be a more useful ally to the US. To be sure, there will be occasions when the EU opposes US policy. But, because Europeans and Americans share many values and interests, they will usually agree on the big questions.

However, many Americans do not regard European defence as benignly as do Mr Talbott and Mr Zoellick. Many of them do not like the idea of a more united Europe, because it could pose a threat to American power. Whether in NATO, the WTO, the UN or the IMF, a more solid European presence, they fear, would make it harder for the US to get its way.

Europe's single currency is still in its infancy, while its military organisation remains embryonic. When both have developed further, the predominant US reaction may be negative. Given that most Europeans scarcely understand how the EU is changing, it is hardly surprising that many Americans are concerned about its evolution. Nor is it surprising that Europeans are dismayed by America's growing reluctance to work with international organisations.

So, it is hard to be optimistic about the immediate outlook for transatlantic relations. In the very long run, however, the emergence of a more powerful and successful EU could encourage the US to accept a world order that is less unipolar and more rule-based than that of today. The transatlantic relationship may ultimately reach a new and more balanced equilibrium, but the transition is likely to be fraught.

BRITISH ATTITUDES TO THE GLOBAL ROLE OF THE EU: A SIGNIFICANT SHIFT

Napoleon famously said that the British are a nation of shopkeepers, and his epithet still carries much truth. The British joined the EU because they thought—rightly—that it would help to revive their declining, post-imperial economy. Unlike the six founding members of the EU, the British have never seen Europe as a 'project' to inspire emotion or devotion. They have never felt comfortable about the political side of the EU. Many of them still wish it was merely a Common Market.

The British essentially take a pragmatic approach to Europe. They will support it when it can deliver concrete benefits that the nation state cannot deliver on its own. Thus, they will vote to join the euro—if they ever do— not because it will advance the cause of 'Europe', but because it will enhance their economic well-being.

The Economist (where this author used to work) reflects these very particular British attitudes. In the late 1980s and early 1990s, *The Economist* supported the cause of economic and monetary union. Its leader-writers considered that EMU would promote economic efficiency. They pointed out that, in terms of economic theory, there was no reason why a single currency should lead to much tighter co-ordination of economic policy, or indeed to central political institutions. However, in the mid-1990s, when it became clear that many continental European leaders *did* want EMU to be matched by, and to engender, greater political union, *The Economist* turned against EMU on the grounds that political union was a bad thing.

Most Britons do not want the EU to become a political federation. They regard the EU as an inherently bureaucratic, undemocratic organisation. They do not understand what the word 'political union' means. They worry that the French and the Germans are driving the EU towards a centralising, taxing, regulating 'super-state'. Some Britons are also quite happy to have a 'special relationship' with the US. They value their links with the Commonwealth. They fear that, the closer the UK gets to the EU, the weaker its ties will be to the US, Australia, New Zealand and Canada.

In almost every respect, the traditional British view has been different from the traditional French view. The French have been reticent about the EU as a market, in which national protection is no longer permitted. But they have striven to create the idea of *Europe puissance,* Europe as a power. They have cared more about the political union than the Common Market. As Jacques Delors, the former Commission president, once said: *'On ne tombe pas amoureux d'un marché unique'* (Nobody falls in love with a single market).

A REVOLUTION IN BRITISH THINKING

As far as most of the British people are concerned, the attitudes described above remain true. However, Tony Blair's government, elected in May 1997, has adopted a very different position. Its support for an EU role in defence (as mentioned in the preceding section) is one indication of this change. In fact, the viewpoint of British officials evolved through much of the 1990s. They began to see the value of the EU becoming more than a single market, and that British interests would be served—at least some of the time—by a more coherent and effective common European foreign policy. At least four factors explain this shift during the 1990s:

- In the safer, post-Cold War world, it is less urgent for the Europeans to keep the Americans engaged in Europe. The British, like most Europeans, want the Americans to remain committed, but it is not catastrophic if they wind down their presence. Thus Europeans, the British included, are freer to challenge and question what the Americans say and demand. A more independent European foreign policy no longer risks exposing the British people to real danger.
- The British have become disillusioned with the quality of American decision-making. The increasing power of the US legislature over American foreign policy has caused dismay in Britain (and in other European capitals). Even if the administration can be convinced of the right course of action, Congress can prevent it from moving in that direction. The situation in Bosnia from 1992 to 1995 caused great stress in Whitehall. The British, the French and other Europeans had troops on the ground in Bosnia, as part of a UN force. The Americans did not, but they wished to bomb the Serbs, which would have put at risk the lives of European troops. And, as previously mentioned, the war in Kosovo, in the spring of 1999, also caused anguish in London. President Clinton refused to countenance the commitment of ground troops to Kosovo, even though NATO's air campaign failed (for several months) to dislodge Serbian forces from Kosovo. Tony Blair wanted the NATO allies to commit ground troops in order to save the alliance from possible defeat, but the Clinton administration seemed—at least some of the time—to be more concerned about how the war would affect Al Gore's chance of winning the presidential election.
- There has been a growing awareness in London, as in other European capitals, that the EU's machinery for co-ordinating foreign policy has been inadequate. The rotating presidency, with a different country taking on the leadership of the EU every six months; the lack of central institutions, on a par with the Commission's role in economic policy-making; the requirement that all decisions be taken by unanimity; and the disconnect between the EU and its military club (the obscure Western European Union), all helped to ensure that EU foreign policy was slow-moving and ineffectual.

- British officials have also begun to appreciate a real convergence of interests among the principal countries of the EU. The experience of working with the French on the ground in Bosnia, and with the French and the Germans on the ground in Kosovo, has done a lot to promote ties between these countries' defence establishments. At a more political level, too, there has been convergence. France has moved closer to NATO, and put its forces under US command in Kosovo. Germany has become a more 'normal' nation, committing thousands of troops to peacekeeping in Kosovo (the first time in its post-war history that it has sent troops on such a role). And Britain, as will be discussed below, has abandoned its opposition to an EU role in defence.

These factors created a climate that was favourable to a shift in British policy on the EU's role in foreign policy. Less than two months after winning power, Tony Blair agreed to the Treaty of Amsterdam. This introduced new foreign-policy machinery: majority voting on decisions on implementing policy; a new policy planning unit in the EU's Council of Ministers secretariat; and, crucially, the creation of the post of High Representative for foreign policy. This post, effectively that of the EU's foreign policy spokesman, has now been filled by Javier Solana. Britain supported all these changes.

However, the real revolution in British thinking came in defence. In the spring of 1998 Tony Blair was struck by the absence of the EU from the diplomacy surrounding the crisis in Kosovo. The Americans dominated the field, despite the Europeans having strong interests in Kosovo. A more political consideration also influenced Blair. He wanted Britain to lead in Europe, but it was outside the euro. Therefore he needed a policy area in which Britain enjoyed natural advantages. He thought, rightly, that defence was the ideal domain in which Britain could exert leadership. Hence the reversal of Britain's longstanding opposition to an EU role in defence and the St Malo initiative of December 1998.

The British government, therefore, is quite happy for the EU to become a more effective and decisive player in foreign policy. But this policy change has been confined to the policy elite. Most British people have little understanding of, or sympathy with, the idea that the EU should become a power. The government, well aware of the innate Euroscepticism of the British people, has made no effort to sell the idea of EU foreign policy to them. It prefers to let sleeping dogs lie. It remains to be seen whether the Conservative opposition, now thoroughly Eurosceptical, can succeed in waking this dog.

BRITISH VIEWS OF MERCOSUL

Most British people do not think about Latin America a great deal. This is true even among those who take an interest in foreign policy. The British media take more interest in the EU, the US, Russia, the Balkans, the Middle East, South Asia the Far East and even in Africa, rather than in the countries of South America.

In the Foreign and Commonwealth Office (FCO), ambitious young men and women choose to specialise in the EU rather than in Latin America. Among those who are interested in the region, there is concern that Britain —and indeed the whole EU—is losing out by failing to focus sufficiently on Mercosul. In the words of one FCO man, 'Mercosul looks to the UK and the EU, but we are not ready to respond.' The Department of Trade and Industry seems to take Latin America more seriously. It has, for example, made the Brazilian market a top priority for export promotion.

Among Britain's Latin American specialists, Mercosul is seen as the most dynamic and successful regional trade organisation other than the EU. Its common external tariff is thought to have boosted trade between its members, rather than merely to have diverted trade. The Andean Pact has more structured institutions, with a Parliament and Court, but is nevertheless seen as less successful, because its governments have been less committed to free trade and to free markets.

Nevertheless, the British view Mercosul's political institutions in Montevideo as dangerously weak. When Mercosul hits a problem, it is over-reliant on the governments getting together to sort things out. Thus in 1999, when Brazil devalued the real by 40 per cent and Argentina retaliated by introducing trade restrictions, there were no institutions to take the strain or to constrain the behaviour of governments. The crisis required a top-level presidential summit to resolve the arguments—and such summits are not always the best means of solving disputes. The FCO hopes that Mercosul develops new dispute-settlement mechanisms.

MERCOSUL, A TRADING ARRANGEMENT

The British, like most other EU governments, see Mercosul primarily as a trade organisation rather than as a political body. The British government is happy that the EU has (since February 2000) reached a trade agreement with Mexico. Following the start of negotiations in 2000 between the EU and both Chile (an associate member of Mercosul) and Mercosul, there are strong hopes in London that a similar, but wider-reaching free trade agree ment can be reached with them during 2002. However, there are worries in London that no EU country is really pushing these negotiations hard. It seems that Argentina and Brazil are more enthusiastic than most of the governments on the EU side. The perception in London is that the deal with Chile will be easier to conclude than the deal with Mercosul: Chile seems to be more geared up for the negotiations, and more committed to the principle of free trade.

Farming may prove the biggest difficulty in these negotiations. The British, of course, as the perennial foes of the Common Agricultural Policy (CAP), are well aware that the European desire to maintain agricultural protection will create difficulties for the Mercosul countries. These countries are big exporters of farm produce, and their principal reason for wanting a deal with the EU is to gain new

markets for food exports. On the EU side, the chief benefits would be new markets for capital goods and services, as well as more open public procurement.

MERCOSUL, AN EMBRYONIC POLITICAL ORGANISATION?

Although the EU's negotiations with Mercosul are currently focused on trade, they will, increasingly, take on a political element. Indeed, the free trade agreement under discussion is expected to include clauses on human rights, culture and political contacts.

European governments are well aware that a trading club can have political implications and ultimately develop supranational organs; they have watched their own Common Market evolving into the EU. Europeans also know that some Latin Americans see Mercosul as a counterweight to the US. Brazilians, in particular, sometimes see Mercosul as a way of enhancing their sovereignty, because it helps them to stand up to the Americans. Some Brazilians seem more interested in linking Mercosul to the Andean Pact, than in moving ahead with the idea of a Free Trade Agreement of the Americas (FTAA).

Many Europeans—if not many Britons—view the EU as a means of standing up to the US, so that same trait in Latin Americans does not bother them. Nor are they bothered by the increasingly political nature of Mercosul: Europeans regard imitation of their own historical evolution as a sort of flattery. Just as the EU has helped to overcome historic rivalry between France and Germany, so Mercosul has reduced tensions—over border disputes and armaments build-ups—between Argentina and Brazil, and also between Argentina and Chile. During Paraguay's political crises of 1999 and early in 2000, the British, like the other Europeans, were delighted that the 'Mercosul factor' helped the cause of democracy: Brazil's political intervention appeared to aid the democratic forces within Paraguay.

MERCOSUL AND THE CAUSE OF MULTIPOLARITY

The US appears to have little in the way of a policy towards Mercosul. Thus, there is a real opportunity for the EU to develop a close political and economic alliance with the cone of Latin America. Both blocs may, on occasion, wish to ally against the US, although more often they will be allied with the Americans. Mercosul's fundamental economic and political interests are, in most respects, similar to those of the EU and the US. To take one example: Latin American countries, like those of Europe and the US, generally believe, in certain circumstances, that intervention in another country's affairs, for humanitarian reasons, is justified. Russia, China and India, by contrast, think that such 'Kosovo-style' intervention is never justified.

The EU and its governments, as was discussed earlier, worry that America is becoming increasingly unilateralist. Many Europeans, including Britons, are

worried that, in a unipolar world, the US is decreasingly willing to follow the rules and procedures of international organisations and conventions. One reason for welcoming the EU's slow emergence as a power in its own right—albeit a soft and slow-moving one—is that in a less unipolar world, the US will have more incentives to work within a multinational framework. It will not be so easy for the US to achieve its ends through putting bilateral pressure on individual states, if those states are bound together in regional bodies such as the EU or Mercosul.

The US should not fear the increasing coherence of the EU or, perhaps in the future, of Mercosul. For, as has been stated, most Europeans and Latin Americans have similar values to most Americans. A stronger EU and a more political Mercosul will be useful allies to the US. They will help it to shoulder the burden of sorting out the world's problems. However, the emergence of these regional entities will also create strong incentives for the US to deal with its allies in such groups, rather than individually, and to respect the principles of rule-based global governance. In any event, transatlantic relations promise to become a more complex game, with three, rather than two, principal players.

NOTE

1. Everts, S. 'The impact of the euro on transatlantic relations'. Centre for European Reform, London, 2000.