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THE EVOLVING RELATIONSHIP BETWEEN EUROPE AND THE UNITED STATES

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At present, the three main dimensions of the transatlantic relationship are: a. security, b. trade and c. monetary affairs. There are clear cross-linkages between the related policy fields, on the understanding that the reduced need for Europe to rely on military protection by the United States since the collapse of the Soviet empire has increased the likelihood of the outbreak of conflicts in the non-security sectors. European countries are inclined to assert their interests more vigorously than in the past, whereas well-organised domestic interests in the US leave the current American administration little room to sacrifice short-term national interests. On the other hand, new opportunities have arisen to transform the mutual relationship into a more equal partnership. But it remains to be seen whether the window will be closed.

Until recently, Europe was only at par with the US in the domain of trade relations. By speaking with one voice it was able to convert its position as the world's largest trading bloc into effective negotiating strength vis-à-vis the US. There was American hegemony (or leadership) both on security and money. The realisation of the EMU and the introduction of a common European currency are now offering the prospect of establishing a bipolar monetary order with about equal responsibility for Europeans and Americans. As Europe becomes not only a commercial but also a monetary big power, its military dependency on the US will increasingly be seen as both an anachronism and an embarrassment. The search for a more independent role for the Europeans in the Atlantic Alliance gained fresh impetus by recent European decision-making on defence. Theoretically at least, the way has been paved for a much higher European security profile than in the past.

a. Security

For many years European states and the United States have been trying to define a new transatlantic bargain that reconciled Europe's desire for playing a more important geopolitical role (commensurate to its economic strength) with its enduring reliance on US military capabilities. The Treaty of Maastricht (effective 1993) underlined the need for developing a European Security and Defence Identity (ESDI) but failed to give a clear definition. The Western European Union was designated as "the defence component of the European Union and as means to strengthen the European pillar of the Atlantic Alliance". The Treaty of Amsterdam (which was agreed upon in 1997) gave some substance to the European Union's common defence policy by including the so-called Petersberg tasks to the treaty provisions, *i.e.*, "humanitarian and rescue tasks, peacekeeping tasks and tasks of combat forces in crisis management, including peacemaking".

For a long time, American reactions were dominated by fears of erosion of NATO and particularly of a European caucus to emerge within the Alliance. It was felt that, as a result of the development of a European defence policy, the process of building a consensus would shift from NATO to EU. EU members were under suspicion to present common positions to the US and other allies, which were not open to further negotiation. Nevertheless, by adopting the concept of Combined Joint Task Forces (Berlin 1996) the US agreed that, when it chose not to become involved in an operation, it would approve of NATO supporting European operations under the political responsibility of WEU. It also agreed to provide critical military assets (strategic lift, intelligence and surveillance) for these operations. This agreement was reaffirmed three years later at NATO's summit in Washington (April 1999). The New Strategic Concept endorsed the further development of ESDI within NATO because it would enable all European allies to make a more coherent and effective contribution to the missions and activities of the Alliance as an expression of shared responsibilities... "The decision to make NATO assets and capabilities available for WEU-led operations would be taken on a case by case basis and by consensus.

A major development was the reversal of Britain's long-standing reluctance to seriously consider defence co-operation in the EU. The December 1998 joint declaration of the British Prime Minister Blair and French President Chirac in St. Malo was particularly significant. The two leaders agreed that the EU "must have the capacity for autonomous action, backed up by credible military forces... "

The declaration was therefore significant because it left open the possibility of European military action outside the framework of NATO.

At the Cologne meeting of the European Council (June 1999) the other EU member states concurred with the joint British and French position on defence, thus making the commitment to create a capacity for autonomous action part of agreed EU policies. European leaders, more specifically, identified the need for "a capacity for analysis of situations, sources of intelligence, and a capability for relevant strategic planning". On the same occasion, also preparations were made "for the inclusion of those functions of WEU which will be necessary for the EU to fulfil its new responsibilities in the area of the Petersberg tasks". The abrogation of WEU was anticipated by the end of the year 2000.

The Cologne decisions have been hailed as an important breakthrough in Europe's quest for defence cooperation but did the Europeans really pass the Rubicon? It is much too early to say. The readiness of especially the larger European nations to pool

their sovereignty on defence has not been tested yet. Despite their agreement in St. Malo, France and Great Britain still believe to have military options of their own while their differences on the appropriate role to be played by the U.S. in Europe have not disappeared either. There is also in this context the relevance of the neo-realist argument about considerations of relative power as a major impediment to international co-operation. In view of the strictly intergovernmental nature of any conceivable form of European defence participating countries have reason to ask about the distribution of gains. Which countries will be brought in positions of leadership and, concomitantly, which countries will enjoy more prestige than others will?

What's more, as the Kosovo war demonstrated, European countries lack vital capabilities to sustain longer-distance military campaigns beyond the size of humanitarian operations and classical peacekeeping. It is, therefore, imperative for them to get more deployable troops for the euro, not by duplicating the command structures and headquarters of NATO but by removing the duplications among the armed forces of European countries. Building "common force elements" could increase Europe's military strength. Obvious candidates are strategic lift, air surveillance, communication facilities and IT systems for logistical support.

As for the U.S., it is hard to avoid the impression that Washington wants the best of two worlds: Europe is urged to take up a larger share of the common Atlantic defence burden and to assume greater international responsibility in security matters but at the same time the US tries to maintain political control (if not dominance) in NATO. From the European perspective, the US must show more flexibility so as to allow for wider French participation in the military organisation of the Alliance.

EU-led military operations would require the creation of a European sub-structure that can be extracted from NATO's overall, command structure.

b. Trade

Trade relations between both sides of the Atlantic have been dominated recently by noisy quarrels over bananas, tomatoes, soybeans, genetically modified food, hormone-treated beef, and airplane 'hush kits'. Official discourse, then, was very much focused on a range of narrow, highly technical sectional interests. At the latest EU-US summit (Bonn, June 1999), the Atlantic partners decided to establish an early warning system in order to combat tensions arising from trade disputes. The mechanism was intended "to improve the capacity of each side to take the other side's interests into account at an early stage when formulating policy, legislative, or regulatory decisions, without thereby limiting each side's existing decision-making autonomy". This institutional

device may turn out to be useful but the present stage of the relationship demands for more substantive initiatives. One reason for this is the threat of a protectionist backlash in the US as a consequence of the yawning trade deficit. The US administration has become increasingly subject to pressures exerted by domestic industries, notably steel and agriculture, complaining of unfair pricing by foreign competitors and urging the government to restrict imports. The issue poses a political dilemma to the administration, which is not in the mood to alienate its constituents but which, at the same time, is neither eager to antagonise its trade partners by erecting new trade barriers. Another, more general reason for concern lies in the fact that the movement towards trade liberalisation has lost its momentum since no significant trade liberalisation is under way anywhere in the world. Whilst the European Union was very much preoccupied with internal reform because of further enlargement towards Central and Eastern Europe, it shook off its rather inward-looking attitude by proposing a Millennium Round of negotiations at the World Trade Organisation (WTO). Last July the European Commission set out its proposals for the agenda of the new round of global talks to be launched in Seattle (November 1999). Considering a comprehensive round to be the best mechanism for breaking down the remaining barriers to trade, the Commission stressed the need to achieve greater market access by reducing tariffs and non-tariff barriers and improving market access in the services sector. It also emphasised the importance of developing new rules governing trade and investment, trade and competition, and rules aimed at facilitating trade. To date (early September), the US failed to respond to the European suggestions by offering detailed proposals of its own.

To counter looming protectionism as well as to overcome anti-globalisation sentiments in many political quarters, it is essential that the US and the EU reach agreement about some strategy to achieve the goal of greater market access to countries that still place large restraints on imports. In their bilateral relations the two sides are well advised to conclude mutual recognition agreements for consumer safety, labour and environmental standards, in order to prevent regulations from acting as non-tariff barriers to transatlantic trade and investment

c. Finance

Sharp fluctuations in the official exchange rates of the major currencies have been one of the basic characteristics of the international monetary system since the early 1970s when President Nixon was forced to float the dollar. Although the establishment of formal exchange rate regimes is a source of controversy among economists, there is general agreement among them that monetary stability is a precondition for a steady

growth of international trade. Indeed, currency fluctuations often are not rational adjustments to changing competitive conditions but consequences of speculative and erratic financial flows. The launch of the euro raised expectations about transatlantic efforts aimed at the avoidance of destabilising currency gyrations, at least between the two Atlantic monetary blocs. However, German suggestions, supported by other Euroland countries, to establish monetary target zones or to consider similar arrangements fell on deaf American ears. As a result of a mixture of ideological motives and fear of higher interest rates, the US preferred to leave the euro-dollar rate to market forces.

Should mutually benign neglect govern US-European monetary relations in the future? Probably not. It is true that, so far, predictions about a radical upsurge of the euro against the dollar and a radical portfolio diversification from dollars into euros have not materialised. The explanation for this can be sought in the "economic fundamentals", i.e., the diverging economic developments of Europe (stagnation in Germany and other European countries) and of the US (uninterrupted economic expansion). But as European economies are bouncing back and as the European Central Bank succeeds in establishing its credibility a broad swing in the dollar-euro exchange rate may be anticipated in the years ahead. The decline of the dollar is all the more likely in view of America's increasing trade deficits. Its value has already sunk against the yen. The foreseen swing in the dollar-euro exchange rate would be neither in Europe's interest nor in the American. An excessive appreciation of the euro is bound to hurt Europe's competitiveness and to raise unemployment levels already considered much too high. On the other hand, a sharp fall of the dollar would certainly help to redress the trade deficit with Europe but at the same time most likely produce inflationary pressures. So logic and mutual interest compel the US and the EU to accept a clear commitment to pre-empt radical movements in their exchange rate and to prevent monetary turbulence in the international financial system as a whole.

Conclusion

As long as the US and Europe give priority to following their domestic agendas it is not very likely that the official rhetoric of equal partnership will be turned into reality. Both in Europe and perhaps even more so in the US the sense of urgency, notably in the field of trade and finance, seems to be lacking to move policies beyond sheer incrementalism. Bureaucratic compartmentalisation and inertia pose formidable obstacles to developing a comprehensive strategy linking the main dimensions of the Atlantic relationship together. Such a strategy would also be required in view of European and American relations with the countries belonging to zones of conflict and

turmoil outside the Atlantic area. A tacit division of labour seems to be growing: Europe takes care of 'soft power' issues like foreign aid and humanitarian assistance whilst the US is mainly in the business of 'hard power' with the use of military force. A division of labour along these lines can hardly be a cause for self-congratulation; on the contrary, it will most certainly stir up new acrimonious debates about transatlantic burden-sharing. The current official paralysis can only be broken by strong political leadership rooted in a clear recognition of the fact that only through dose co-operation on various areas Europe and the US will be able to master the challenges of the new millennium.