



**ATLANTIC
PARTNERSHIP**
LONDON | WASHINGTON | NEW YORK

**SPRING NEWSLETTER
2008**



LEADING OFF

BY LORD POWELL OF BAYSWATER

It's a fair bet that Super-Tuesday attracted more television viewers and newspaper readers in Europe than the Super-Bowl: there is much admiration and some envy for the intensity of grass-roots engagement in the U.S. primary campaigns. It's matched by unease about exactly what the repetitive message of "change" will mean in practice for Europeans. Supporters of the three remaining serious candidates are fanning out to reassure Europeans that the future will see traditional transatlantic consultation and multilateral diplomacy restored. That was the message received loud and clear at the annual *Wehrkunde* defense conference.



Whoever wins, I doubt that the outlook will be quite so rosy in practice, and that many traits of recent years will continue: pressure on European allies for greater burden-sharing, U.S. preparedness to act without allies if necessary, the creep towards protectionism. These are baked in as, I fear, is the European reluctance to spend more on defense or get involved in active military operations involving loss of life out of area. I recommend to you Karsten Voigt's article in this newsletter, in which he addresses these issues.

A further lesson from the U.S. primaries is the marked shift of voter pre-occupation to the economy rather than the war in Iraq. This has the follow-on effect of transferring the weight of transatlantic relations from the politico-military to the economic and trade pillar. The perception in Europe that we are the hapless victims of excesses in the U.S. sub-prime mortgage sector is strong. Any hope that Europe can decouple and avoid the U.S. melt-down has evaporated amid diverging interest rates, a weaker dollar and reduced growth. Economic, financial and trade issues look likely to be the most contentious themes in transatlantic relations over the

coming months with little evidence yet of a productive coordinated approach to staving off recession. Atlantic Partnership will devote more attention to these issues through our breakfast events.

The exception to the prominence of economic issues is Afghanistan and the forceful American complaint—shared by Canada and the UK—that other European NATO members are not pulling their weight there because of caveats on the use of national contingents, whereas the need is for maximum flexibility of deployment and the least number of caveats. As the Polish Foreign Minister put it at the Munich Conference: "he who gives without caveats gives twice." Secretary Gates has speculated about NATO evolving into a two-tier alliance, divided between some who are willing to fight and die and others who are not, and suggested that the viability of the European-Atlantic security project will depend on how we perform in Afghanistan.

The complaint is fair enough and likely to be the precursor of many frustrations for the next U.S. Administration about Europe's inadequate burden-sharing. But some perspective is required. This is NATO's first out-of-area operation, launched only in the face of significant political opposition in some European countries. While it's legitimate to demand a more robust commitment from European countries, it would be a mistake to treat the operation as a make-or-break test of NATO's future relevance. It's inevitably going to take time to build political support in Europe for full-blooded participation in expeditionary operations rather than just protecting populations at home. And in addition to Afghanistan there are many other pressing issues on NATO's agenda, including the Balkans, the admission of new members, missile defence, cyber defense. Making progress on these issues closer to home for Europeans will play a part in binding them into a long-term and more effective role in Afghanistan.

continued on next page

Lord Powell of Bayswater is Chairman of Atlantic Partnership and former Private Secretary and Adviser on Foreign Affairs and Defence to Prime Ministers Margaret Thatcher and John Major.

Meanwhile, we are keeping up a brisk pace in Atlantic Partnership events both in the UK and the U.S.

In London, we have already hosted Foreign Secretary David Miliband, Senator Chuck Hagel, Secretary of State for Justice Jack Straw, and World Bank President Bob Zoellick. Tony Blair will speak later in the spring while NATO's Secretary-General has promised to address us soon.

In the U.S., we've launched a successful Young Leaders' book series that aims to bring the next generation of globally minded professionals into our organization. We thank Barbara Slavin, Senior Diplomatic Correspondent on leave from *USA Today*, and Suzanne Goldenberg from *The Guardian* for helping us put the series on the ground. AP has also had the privilege of launching a new, select Chairmen's Dinner Series. We have learned from and appreciate the French, Italian and German Ambassadors' to the United States support, and look forward to hosting many more special guests.



ABOUT ATLANTIC PARTNERSHIP

Atlantic Partnership (AP) is a non-partisan initiative that aims to foster debate about the relationship between America and Europe while promoting the benefits of a strong and stable Atlantic community of nations. Founded by the leader of the Conservative Party Michael Howard in 2001, AP seeks to influence the transatlantic debate through meetings, conferences, and the media activities of our impressive stable of chairmen, vice-chairmen, patrons, and panelists that include such distinguished individuals as Dr. Henry Kissinger, Senator Joseph Biden, Secretary William Cohen and General Colin Powell.

The Atlantic Partnership's Young Leaders Committee, launched in 2004, includes prominent businessmen and opinion leaders such as Leo. M. Tilman, Chief Institutional Strategist and Senior Managing Director at Bear Stearns & Co., Simon Adamiyatt, Senior Managing Director at Bear Stearns & Co., British MPs George Osborne and James Purnell.

AP operates in the United States as Friends of Atlantic Partnership, a 501(c)(3) organization, and in Europe as the Atlantic Education Project, a registered charity.

ABOUT THIS EDITION

Our bi-annual newsletter informs our supporters about Atlantic Partnership's recent activities and highlights the work of our distinguished panelists, chairmen and patrons over the last few months. This edition runs amidst many elections on both sides of the Atlantic.

We are delighted to include five pieces written exclusively for Atlantic Partnership in this edition. From our

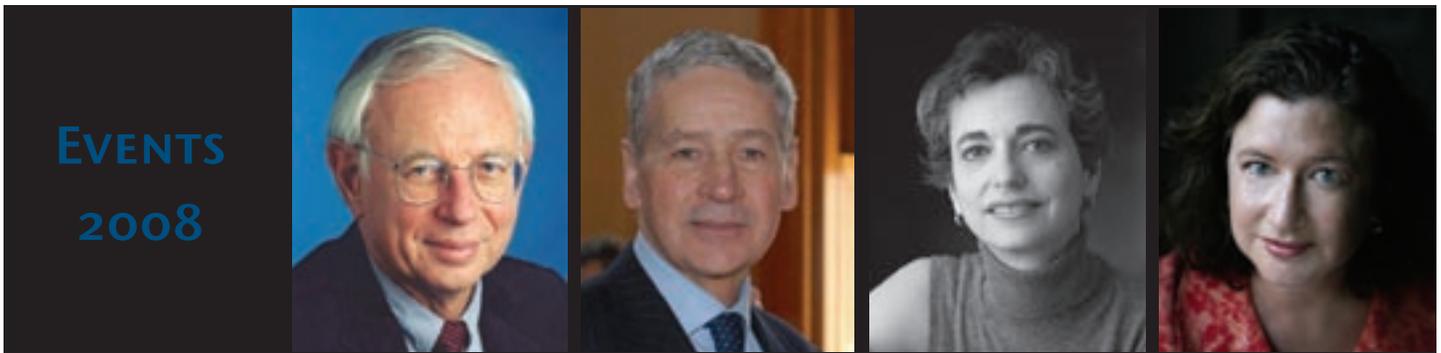
esteemed panel, Karsten Voigt and Ulf Gartzke offer the European perspective on the U.S. presidential elections, while Dr. Angela Stent comments on the position of Russia after Davos. We are also honored to feature an original piece looking at the NATO by Dr. Jamie Shea, as well as a thought-provoking submission by Joe Quinlan on the transatlantic economy. We hope you enjoy this edition, and welcome your feedback and comments.

NEW AT ATLANTIC PARTNERSHIP

Mr. Doug Seay has stepped down from his board position at Friends of Atlantic Partnership, USA. We greatly appreciate his dedicated help and support over the past five years.



Mr. Leo M. Tilman has been appointed to the Board of the Friends of Atlantic Partnership, USA. Also the Chair of the Young Leaders Committee at AP, Mr. Tilman is the Chief Institutional Strategist and a Senior Managing Director at Bear Stearns, a leading global investment banking, securities trading and brokerage firm. Mr. Tilman is the editor of the book *Asset/Liability Management of Financial Institutions* and co-author of the book *Risk Management*. He also teaches finance at Columbia University, which is his graduate as well as undergraduate alma mater. In 2007, Mr. Tilman was named Young Global Leader of the World Economic Forum, joining 250 executives, public figures and intellectuals – all 40 or younger – recognized for “their professional accomplishments, commitment to society and potential to contribute to shaping the future of the world.” We are delighted to have Leo on the board. For more information on our people, panelists and activities visit www.atlanticpartnership.org



CHAIRMEN'S SERIES, WASHINGTON

- ❖ **H.E. Ambassador Giovanni Castellaneta**, Italian Ambassador to the United States
- ❖ **H.E. Ambassador Klaus Scharioth**, German Ambassador to the United States

YOUNG LEADERS BOOK SERIES, NEW YORK

- ❖ **Ms. Barbara Slavin**, Senior Diplomatic Correspondent on leave from *USA Today*
Author of *Bitter Friends, Bossom Enemies: Iran, the U.S., and the Twisted Path to Confrontation*
- ❖ **Ms. Suzanne Goldenberg**, *The Guardian*
Author of *Madam President: Is American Ready to Send Hillary Clinton to the White House?*

LONDON

- ❖ **Dr. Luis Cuesta Civis**, Spanish Secretary General for Defence Policy
- ❖ **Senator Chuck Hagel**, U.S. Senator for Nebraska
- ❖ **The Rt Hon David Miliband MP**, Secretary of State for Foreign & Commonwealth Affairs
- ❖ **The Hon George Shultz**, former U.S. Secretary of State & **Senator Sam Nunn**, former U.S. Senator for Georgia
- ❖ **The Rt Hon Jack Straw**, Lord Chancellor & Secretary of State for Justice
- ❖ **Mr. Robert B. Zoellick**, President of the World Bank

FORTHCOMING EVENTS

- ❖ **The Rt Hon Tony Blair**, former UK Prime Minister, in London
- ❖ **Mr. James Rubin**, former Assistant Secretary of State in the Clinton Administration and Atlantic Partnership Trustee & **Mr. Max Boot**, Senior Fellow for National Security Studies, Council on Foreign Relations, in New York
- ❖ For more information, contact events@atlanticpartnership.org



ATLANTIC PARTNERSHIP OPINION

We include in this section a variety of extracts of speeches and articles given by our Atlantic Partnership panel, chairmen and patrons over the last few months. If you wish to consult more articles, Atlantic Partnership’s website www.atlanticpartnership.org contains links to articles written by our panelists, chairmen, patrons and supporters. It also contains copies of past newsletters as well as relevant articles and speeches on the subject of transatlantic relations. The authors’ views do not necessarily represent the official policy of the Atlantic Partnership, nor that of any of the publications from which reprints were originally drawn. They are included for the benefit of maintaining an informed debate.

CONTENTS

U.S. PRESIDENTIAL ELECTIONS

“Impact of a new U.S. Leader in Europe: Hype and Reality” by Karsten Voigt	7
“Bypassing the Presidency on Climate Change” by Daniel Hamilton	8
“If Europe Could Vote” by Ulf Gartzke	9

EUROPE

“Europe is Back” by Simon Serfaty	11
“Weighing in on Kosovo”: selections from the Associated Press	13
“Russia in 2008: Themes from Davos” by Angela Stent	14
“Slovenia’s EU Presidency” by Elizabeth Pond	15

SECURITY & DEFENSE

“NATO’s Road to Bucharest” by Jamie Shea	16
“Reducing the Tension”: Sam Nunn warns against U.S.-Russia military build-up	19

MARKET & ECONOMY

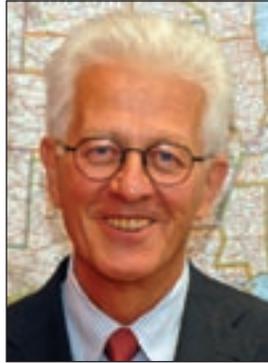
“The Transatlantic Economy: Twilight or Transformation?” by Joseph Quinlan	20
“Transatlantic Economy 2008” by Joseph Quinlan and Daniel Hamilton	21

AP EXCLUSIVE

IMPACT OF A NEW U.S. LEADER IN EUROPE: HYPE AND REALITY

BY KARSTEN VOIGT

The excitement about the American primaries has not just driven up voter turnout and fed hopes for a political change in the United States; it has also triggered an extraordinary enthusiasm for U.S. politics amongst the European public. The electoral marathon among Republicans and Democrats, the closeness of the race between Senators Clinton and Obama, and the rather unorthodox Republican frontrunner McCain are big news in Germany and across the continent. Senator Obama, in particular, has captured the imagination of young Germans, regardless of their political affiliation. Even before his endorsement by members of the Kennedy family, Obama had been hailed as the “new Kennedy” by some of the German media. His whole rhetoric and style are focused on change and renewal. Both Obama and Clinton are promising a fresh start for both domestic and foreign policy. Even Senator McCain presents a different profile from the current Administration of President Bush.



When Europeans hear the catchword “change,” many of them believe that after the November elections there will be a fundamental shift in American foreign policy, that the U.S. will become more multilateral in its approach to international crises, that the U.S. will be a more pliable and patient partner for the international community and that the U.S. will assume the leadership in issues that are key European priorities such as a post-Kyoto treaty against global warming and the civil reconstruction of countries ravaged by conflict. But are these realistic hopes?

My feeling is that the elections do present an opportunity to strengthen transatlantic relations and restore the confidence and trust in America that has eroded in European societies over recent years. Yet, many of the differences in opinion and priorities between the Atlantic partners will remain after

President Bush leaves office. After all, they have less to do with the current Administration than with systemic differences that will stay in place for quite some time.

The United States remains in a unique position of power within the international system. The United States’ military, technological and economic might, the self-perception of having a special mission in the workings of history, the belief in the legitimacy of American global interests, and the resolve to shape a friendly environment for the United States in the world - all of these factors give the U.S. a special role and responsibility in this international system. With this, the European Union cannot keep pace so far.

“**MANY OF THE DIFFERENCES IN OPINION AND PRIORITIES BETWEEN THE ATLANTIC PARTNERS WILL REMAIN AFTER PRESIDENT BUSH LEAVES OFFICE. AFTER ALL, THEY HAVE LESS TO DO WITH THE CURRENT ADMINISTRATION THAN WITH SYSTEMIC DIFFERENCES THAT WILL STAY IN PLACE FOR QUITE SOME TIME.**”

While Germany and other European countries maintain multilateralism as a political doctrine, the United States views multilateralism as only one of many political tools with which to tackle international challenges. If multilateral organizations fail to produce satisfactory results, the U.S. is ready to look for partners outside the established institutions or to go it alone.

Herr Karsten Voigt is a patron of Atlantic Partnership and the Coordinator for German-American Cooperation at the German Federal Foreign Office in Berlin.

Even if the next U.S. Administration can be expected to be more restrained in using military power than its predecessor, the leading candidates of both parties for this year's presidential nomination have made clear that they will use force unilaterally, if necessary, when American security interests are at stake. None of them will allow the U.S. to be bound by international law against its will.

While the next U.S. Administration will likely be willing to strengthen cooperation with Europe, we can also expect it to insist on more equal burden sharing and on stronger European engagement in crisis situations. This is especially true for the NATO International Security Assistance Force mission in Afghanistan and for the fight against international terrorism. Defense Secretary Gates' letters to his NATO colleagues on military engagement in the south of Afghanistan have already set the tone for this discussion. Conflict management in Europe, such as the aftermath of the declaration of independence of Kosovo, will rather be left to the Europeans. This means that Europe will have to continue to improve its capacity for the civil and military stabilization of crisis areas to remain relevant from an American perspective. Wherever Europe stands united, it becomes a crucial voice in world politics.

There are a number of other areas in which it is necessary for the United States, Canada and their European partners to cooperate more closely. Neither the protection of the global climate nor the reliable and sustainable supply of energy for our societies nor the stability of the world economy can be ensured without the Atlantic partners working closely together. We have shared values and interests, and a shared responsibility for our own future. There will be no peaceful end to the Middle East conflict if America and Europe do not help the two sides in the search for creative solutions. The problem of nuclear proliferation and the arms race may get out of hand if we do not work to strengthen the existing international regimes. If we are to tackle many of these problems, we need to work closely with Russia, as difficult as this might sometimes appear.

The election of a new American President and Congress will not bring America in line with European mainstream political thinking; but it will offer an opportunity for a fresh start for transatlantic relations, an opportunity we should use wisely.

BYPASSING THE PRESIDENCY ON CLIMATE CHANGE

Despite the speculation over shifts in U.S. foreign relations under a new administration, when it comes to climate change, some U.S. states are not waiting for the elections. In his January 13 article "To Beat Climate Change, Breaking the Mold Isn't Enough" in the *San Francisco Chronicle*, Atlantic Partnership Panelist Dan Hamilton provides an insightful discussion on how the EU and some U.S. states are bypassing Washington to form new partnerships with the aim of tackling climate change.

The article centers around a European Union plan to reduce airline emissions, including capping carbon dioxide emissions for planes flying in and out of its airports and allowing airlines to exchange pollution credits on the EU carbon market. European airlines and the Bush administration criticize the action as impractical, even against international law. Hamilton also sees gaping holes in the plan, holes that are "big enough for an Airbus to fly through." Yet the more interesting development, in his view, is that California and other U.S. states have taken their own stand against the Washington establishment, going so far as to defend the EU, citing international law and driving a petition for the Environmental Protection Agency to institute a similar system in the U.S.

The European-Californian punch, Hamilton argues, breaks the mold of traditional diplomacy. Europe, a regular advocator for multilateralism, is taking unilateral action, and regions within the U.S. are officially taking Europe's side against their own federal government on issues of global environmental regulation. While Hamilton recognizes the historic nature of these developments, and the potential to set the stage for greater cooperation following the U.S. November elections, he warns that the EU should use the intervening period to reevaluate its cap-and-trade plan for aviation.

[FULL ARTICLE](#)

IF EUROPE COULD VOTE

AP EXCLUSIVE*

BY ULF GARTZKE & MARK GLASOW

Europeans, like much of the rest of the world, are following the on-going U.S. presidential election campaign very closely. Barack Obama, Hillary Clinton and John McCain have all pretty much become household names across Europe. Newspapers, magazines and blogs, as well as TV and radio stations are providing daily coverage of the various party debates, primaries and caucuses and have now even begun to delve into arcane details governing the potentially decisive impact of super delegates on the Democratic race.



The reason why so many Europeans are captivated by and invested in the outcome of the campaign is simple. They are pretty much on the same page as Democrats. After eight years of George W. Bush—whose two terms in office most Europeans would summarize as a complete disaster dominated by the Iraq war, Guantanamo, Abu Ghraib, and opposition to the Kyoto Protocol, coupled with weird evangelical-religious fervor—there is great hope that the next president will deliver some much-needed “change” in America’s domestic and foreign policy.

Back in 2004, opinion polls indicated that more than 80 percent of all Germans would have voted for John Kerry. And with around 10 percent of the European non-vote, Ralph Nader garnered twice as much popular support as the incumbent George W. Bush, who came in last with around five percent. These dramatic polling figures likely reflected opinion in most other European countries as well. It should be added that the Democratic take-over of Congress following the 2006 mid-term elections was greeted enthusiastically across Europe. After letting Bush steal the 2000 elections and returning him to office in 2004,

Ulf Gartzke is an Atlantic Partnership panelist, a Visiting Scholar at Georgetown University’s BMW Center for German and European Studies and a contributor to THE WEEKLY STANDARD blog.

Mark Glasow is a Fellow at the Duesseldorf Institute for Foreign and Security Policy (DIAS).

Americans had finally come to their senses, or at least that was the view in Europe.

European media and big chunks of public opinion are now gripped by “Obamania.” A few weeks ago, Germany’s weekly *Der Spiegel* ran a cover story featuring a black-and-white photo of Barack Obama under the headline, “The Messiah Factor: Barack Obama and the Longing for a New America.”

Indeed, there can be no doubt that a President Obama would represent the most dramatic conceivable break with George W. Bush and the widespread European perception that America has turned into a trigger-happy rogue state run by a fundamentalist Christian nut job. In electing a young black politician with a Muslim father as their leader, Americans would do something that is pretty much unthinkable in any country in Europe, where politics are traditionally dominated by a white old boy’s establishment network, notable exceptions like German chancellor Angela Merkel notwithstanding.

“**A PRESIDENT OBAMA WOULD REPRESENT THE MOST DRAMATIC AND VISIBLE BREAK WITH GEORGE W. BUSH... IN ELECTING A YOUNG BLACK POLITICIAN WITH A MUSLIM FATHER AS THEIR LEADER, AMERICANS WOULD DO SOMETHING THAT IS PRETTY MUCH UNTHINKABLE IN ANY COUNTRY IN EUROPE**”

In this context, however, Europeans must not forget that Obama, despite boasting a very Europe-savvy foreign policy team, is not known to be a Europeanist who is instinctively committed to a strong transatlantic partnership.

Senator Clinton, for her part, has many European fans and admirers dating back to when she occupied the White House with Bill Clinton, who remains a very popular figure in Europe. In general, European women are particularly supportive of her; a fact that somewhat mirrors Clinton's last remaining bastion of waning support among white women over 50 in the Democratic race against Obama. If not for the sudden, unexpected rise of Obama, it would be safe to say that a vast majority of Europeans would be whole-heartedly rooting for Clinton.

Senator McCain, too, would represent a clear break with several of the Bush administration policies that Europeans find particularly egregious. With his promises to close Guantanamo, ban the torture of U.S. detainees and, probably most importantly, get serious about the fight against global warming, he represents an "acceptable" Republican. Furthermore, the decorated war veteran is strongly com-

“ SENATOR CLINTON, FOR HER PART, HAS MANY EUROPEAN FANS AND ADMIRERS DATING BACK TO WHEN SHE OCCUPIED THE WHITE HOUSE WITH BILL CLINTON, WHO REMAINS A VERY POPULAR FIGURE IN EUROPE. ”

mitted to NATO and knows that European support is crucial in confronting “the transcendent challenge of the 21st century”, radical Islamic extremism. At the same time, McCain's “stay-the-course-in-Iraq” attitude and his rather aggressive rhetoric adopted vis-à-vis Iran (Would he strike the Mullahs militarily?) and Russia (Will there be a new

“ MCCAIN REPRESENTS AN “ACCEPTABLE” REPUBLICAN. FURTHERMORE, THE DECORATED WAR VETERAN IS STRONGLY COMMITTED TO NATO AND KNOWS THAT EUROPEAN SUPPORT IS CRUCIAL IN CONFRONTING “THE TRANSCENDENT CHALLENGE OF THE 21ST CENTURY”, RADICAL ISLAMIC EXTREMISM. ”

Cold War?) certainly set more than just a few European alarm bells ringing.

And who would European leaders prefer to see win on November 4? With McCain, they would certainly have the toughest possible guy in the White House, someone with strong, virtually unshakeable, foreign policy convictions. The folks in Paris know that McCain is a foreign policy heavyweight compared to the junior Senator from Illinois. Though Obama enjoys superstar-type global media appeal, those like the ever-eager Sarkozy probably calculate that Obama's inexperience and lack of gravitas compared to McCain would open up more space for “la grande nation” on the international stage. Somewhat reminiscent of Khrushchev's initial view of Kennedy as being more glitz than substance.

Chancellor Merkel probably does not have much of a preference, not even for Hillary; after all, in politics, women leaders are rarely a good match. On climate change, the one issue that Merkel is really passionate about and that would allow her to score important political points at home, all three candidates are very promising. As for the Brits, Prime Minister Gordon Brown would likely have a more difficult time with McCain given the Senator's hawkish foreign policy positions on many fronts, including Iraq and Iran.

**A modified version of this article was recently published by the THE WEEKLY STANDARD online.*

EUROPE IS BACK

AP EXCLUSIVE

BY SIMON SERFATY

“Nineteen seventy-three,” declared Henry Kissinger in late April of that year, “is the year of Europe,” a time, he insisted, for the allies to join in “a fresh act of creation ... equal to that undertaken by the postwar generation of [postwar] leaders.” Now, in 2008—the thirty-fifth anniversary of “the year of Europe”—conditions seem to be broadly met, at last, for an answer from the European states and their Union.



First, at the level of the nation-states, the replacement of worn out and often discredited leaders in Germany, France and even Britain have ended the political agony that surrounded their last years in office. On the whole the new leaders—Angela Merkel, Nicolas Sarkozy, and Gordon Brown—are political pragmatists who can work well together and with their main partners, including Poland, also home to new and more flexible political leaders. These leaders also appear ready to work closely with the United States—which is confirmed by an open interest in engaging President George W. Bush despite the eagerly-awaited arrival of a new U.S. administration. With elections in Spain and Italy, as well as for Russia and the United States, due in 2008, the political framework is being recast for all of Europe and its two most significant interlocutors, pending the EU elections in June 2009.

Admittedly, these new leaders will have to bring much-needed relief to a prolonged malaise that has featured but has not been limited to the sluggish state of their economies and the cultural disarray of their respective societies. Some improvement can already be seen, thanks, ironically enough, to legacies that did not receive the credit they de-

served: Gerhard Schroeder, who started the economic reforms that Merkel is pursuing; Tony Blair who was the first to confront serious acts of post-9/11 terror in a European capital, which Brown is now facing; and even Dominique de Villepin, who introduced many of the policies that François Fillon is endorsing.

With Germany acting again as the economic locomotive it is meant to be, France, and the rest of continental Europe North of Spain, have been enjoying levels of growth that had not been seen for a decade at least. In Germany, the 2007 budget showed its first surplus since 1989. In France, unemployment has fallen to its lowest levels since 1982. In Britain, even the sub-prime crisis is not about to end a

“WITH ELECTIONS IN SPAIN AND ITALY, AS WELL AS FOR RUSSIA AND THE UNITED STATES, DUE IN 2008, THE POLITICAL FRAMEWORK IS BEING RECAST FOR ALL OF EUROPE AND ITS TWO MOST SIGNIFICANT INTERLOCUTORS”

streak of more than 60 consecutive quarters of economic expansion, with growth for 2008 projected at 2 percent—still slightly above the projected average for the Eurozone, which grew 3.3 percent in 2006 (a six-year high, and more than one full percentage point ahead of the United States that year) and a healthy 2.7 percent in 2007.

*Simon Serfaty, an Atlantic Partnership panelist, holds the Brzezinski chair in Global security and Geostrategy at the Center of Strategic & International Studies (CSIS) in Washington, DC. His most recent books are *Architects of Delusion: Europe, America, and the Iraq War* (University of Pennsylvania Press, January 2008) and, as editor, *A Partnership Recast: The Institutional Dimensions of Transatlantic Relations* (The CSIS Press, February 2008).*

Politically more confident and economically more robust, the states of Europe are also institutionally more cohesive. For much of the past decade, the EU was a convenient alibi used by national governments to redirect their citizens' discontent, thus facilitating an institutional crisis that exploded when voters in France and the Netherlands rejected the constitutional treaty in mid-2005. That debate was settled in June 2007 with a so-called "simplified" treaty that was floor-managed by Merkel, but prepared by Sarkozy and ultimately endorsed by Brown before being signed by all 27 members as the Lisbon Treaty in December 2007. Now at last, the EU can return to debating what it must do, as compared to discoursing over what it should be. That, too, will be tested in 2008, as the French prepare for, and assume, their six-month presidency of the EU in July.

The French presidency, which will be one of the last such EU presidencies, looms as the defining moment for Europe in 2008: much of what will follow will depend on what is achieved during those six months—how (meaning, with whom) and to what ends (meaning, without or against whom). Unlike the Constitutional Treaty, the Lisbon Treaty should face clear sailing for prompt ratification, including Gordon Brown's interest in such a step for Britain as early as June 2008. In 2009, the Treaty will provide a good basis on which to build a European Union that can be a more assertive power in the world without failing to become a more cooperative U.S. partner in a strong and cohesive Atlantic Alliance—a virtual regional state whose rules of governance are not shaped by a Constitution but by treaties, meaning, "We" the Heads of State and Government rather than "We the People" for, in Tony Blair's old formula, "a superpower rather than a super state."

It would be a profound mistake for Europe to sit passively while America proceeds with a presidential contest that is already restoring a great deal of the nation's image in the

world. Now is the time to be heard, and to create a climate that confirms the U.S. new appreciation of its allies across the Atlantic as countries that may be not only willing to follow but also able to lead. Properly used, the two EU presidencies held by Slovenia and especially France in 2008 can be effective tools for the reinforcement of transatlantic ties prior to the arrival of a new U.S. administration in 2009.

First, and prior to the NATO Summit that will be held in Bucharest in April, at least one European country will have to respond to Canada's urgent call for help in contributing to active combat missions in the southern and eastern parts of the country. By vocation, as well as by position, France

is the country best suited and most able to respond to this call. Reports that such might be the case are the clearest signal yet that France is prepared to assume a leading role with and within NATO, which the French government is also likely to return à part entière no later than April 2009, for the 60th anniversary of the alliance.

Second, with Kosovo's independence now imminent, the EU commitment to the deployment of a law and order force of policemen, judges, prosecutors, and custom officials is urgent. To assuage Serbia's bitter concerns, the EU should also proceed promptly with a pre-accession pact that can be viewed as an unequivocal step toward EU membership for Serbia, though by a date that no one will be able to make certain for some time to come. Meanwhile, the NATO summit in Bucharest in early April 2008, as well as the 60th anniversary summit 12 months later, followed by yet another summit in Berlin in November 2009 (for the 20th anniversary of the fall of the Berlin wall) will provide three distinct opportunities to respond unequivocally to membership bids from Croatia, Albania and Macedonia, as well as Serbia, and for future bids from Georgia and Ukraine, to outline the reach of the alliance in Europe during the next decade.

“ NOW IS THE TIME TO BE HEARD, AND TO CREATE A CLIMATE THAT CONFIRMS THE U.S. NEW APPRECIATION OF ITS ALLIES ACROSS THE ATLANTIC AS COUNTRIES THAT MAY BE NOT ONLY WILLING TO FOLLOW BUT ALSO ABLE TO LEAD. ”

Third, as it is well known, U.S.-EU and EU-NATO policy harmonization has repeatedly suffered from divisions within the EU, not only among EU members but also between (and within) its various institutions. The original European Security Strategy (EES) developed by Javier Solana in 2003 was a good and important document, but it no longer suits the global strategic conditions that have emerged in the context of the failed intervention in Iraq. Revising this document would be opportune not only to re-assert the terms of a strategic consensus within the EU but also in anticipation of a likely strategic debate in the United States, where a new U.S. administration will want to develop an American strategy it can call its own, and in the context of a much needed NATO attempt to develop a new strategic concept as well. In this context, the 21 European members of both the EU and NATO, together with the 9 European countries that belong to only one of these two institutions, should call for a Summit meeting of all 32 EU and NATO countries in Berlin in November 2009 (including the participation of a newly named EU president).

Admittedly, there have been many other moments in the past when Europe, seemingly on the verge of being back with an Atlanticist disposition and global expectations, was in fact held back or taken away from its senior partner across the Atlantic. Whether this moment will last is not sure, therefore, and it may depend on circumstances over which neither the states of Europe nor their Union have much control. Nor, in this initial phase in 2008, is this moment alone likely to produce the “fresh act of creation” that Kissinger called for 30 years ago. But, at least, improved relations between the United States and France in NATO, between Britain, France and Germany in the EU, and with the United States and the EU are a much-needed start.

WEIGHING IN ON KOSOVO

It is difficult to do justice to a topic so complex and with such long history as the ongoing Kosovo independence drama, but we attempt an honest presentation of both the Russian and American sides, letting the parties speak for themselves through recent articles from the Associated Press. In “U.S. Hopes for Close Relations with Serbia” on February 20, Desmond Butler reports on efforts by the United States, who quickly recognized Kosovo’s independence along with most major European countries, to mitigate tensions with Serbia, who promptly withdrew its Washington ambassador in protest. In this article, Rosemary DiCarlo, the U.S. Deputy Assistant Secretary for European Affairs, explains that efforts to integrate Serbia into Western institutions, such as the EU and NATO, are contingent on its coming to terms with the reality of the past and present. DiCarlo states that Serbia will do so by, “overcoming the ‘90s, overcoming the recent past, means apprehension of war criminals, it means recognition that Milosevic lost Kosovo.” While some European countries are also pressing Serbia to cooperate in finding war criminals from 1990s, the EU is also working to speed up membership negotiations as a means of assuaging growing anti-Western sentiments in Serbia.

Serbia, however, remains diplomatically closer to Russia, who supports Serbia in strong opposition to Kosovo’s independence and has promised to veto any recognition measures by the United Nations. In Mike Eckel’s article on February 22, “Putin Warns West over Kosovo Dispute,” Eckel reports that some Russian envoys have even threatened military intervention if the entire EU were to recognize Kosovo’s independence or if NATO moves beyond its mandate. Russian President Putin has warned that an independent Kosovo would set a “terrifying precedent” that could set off a chain of secessions throughout the world. Other countries with concerns over their own secessionist groups, including China and even EU member Spain, have joined Russia in opposition to Kosovo’s independence based on this logic.

For her part, DiCarlo is confident that a critical mass of countries will recognize Kosovo despite objections from Serbia and Russia. As to Russia’s warnings, she argues that “Russia has not been a major player in Kosovo for some time,” and that the countries recognizing Kosovo have a much larger stake in the Balkans, namely contributing to stability in the region and to Serbia’s path to the transatlantic community.

FULL ARTICLES: ON U.S. — ON RUSSIA

AP EXCLUSIVE

RUSSIA IN 2008: THEMES FROM DAVOS

BY DR. ANGELA STENT

On March 2nd, Dimitri Medvedev, as expected, won a decisive victory in Russia's presidential election, taking 70% of the vote. Although he will not be installed as president until May 7, speculation has already begun about how his power-sharing agreement with outgoing President Putin will work and what his policies will be. Although it is too early to predict how the Medvedev-Putin team will rule Russia, the contours of future policies emerged from discussions at the World Economic Forum in Davos this January.



The Russian delegation was led by Finance Minister and Deputy Prime Minister Aleksei Kudrin, an economic liberal who has worked closely with Mr. Medvedev. There was a large delegation of Russia's wealthiest businessmen and, as befits Russia's status as an energy superpower with a booming economy, a stabilization fund of \$150 billion and currency reserves in excess of \$450 billion, the Russian delegation treated conference participants to an impressive ice-skating spectacle. While much of the conference focused on the United States' economic difficulties and whether they could be decoupled from the rest of the global economy, Russia's status as a successful BRIC which should have a greater say in shaping global political and economic institutions emerged as a key theme.

Mr. Kudrin's dual message stressed the new Russian reality in its political and economic dimensions, themes that are already resonating in the Kremlin's messages to the West. Russia's dynamic growth will, he said, ensure that it will have the world's fifth largest economy

by 2030. International institutions need to reflect this new reality; the U.N. Security Council should be expanded, as should the G-8 to a G-13. Moreover, the world should build new political structures that reflect economic realities. NATO, he argued, is a "twentieth-century relic" that should be replaced by a new collective security organization. He warned against enlarging NATO any further.

Several of the Davos panels focused on sovereign wealth funds and, since Russia is poised to become a major outward investor, Mr. Kudrin was asked about how his country would dispose of its funds. Stressing that Russia's aim was to use its SWF to contribute to global stability, he described EU and U.S. concerns

“ THE MESSAGE FROM DAVOS WAS THAT RUSSIA'S GROWING ECONOMIC POWER ENTITLES IT TO A GREATER SAY IN SHAPING INTERNATIONAL POLITICAL AND FINANCIAL INSTITUTIONS AND THAT IT IS TIME FOR THE WEST TO RECOGNIZE THIS. ”

about a possible political agenda behind the disposition of Russian funds as exaggerated, warning that European and American restrictions on investments could undermine stability by constraining the global movement of capital.

Angela Stent is an Atlantic Partnership panelist, as well as Director of the Center for Eurasian, Russian and East European Studies in Georgetown University's School of Foreign Service. This fall she will be a fellow at the American Academy in Berlin working on a book about western policy toward Russia.

In answer to a question about whether countries should sign a global agreement on best practices for investments and an international code of conduct, he demurred, arguing that limits on investments would disturb the free flow of capital. Criticizing the U.S. CFIUS laws that regulate foreign investments in America and similar EU laws, he challenged the audience to define what kinds of Russian investments in Europe and America could be considered to be potentially threatening.

Discussions on energy by several Russian participants stressed Russia's major role as a global energy supplier and its reliability. Russian participants argued that Russia was not using energy to advance a political agenda and that it was investing in its infrastructure. They criticized the EU energy charter and said it was not working. Russian and European participants lamented the difficulties of dealing with the EU bureaucracy and the lack of a unified EU energy policy. Russian participants described nuclear power as the wave of the future, criticized Europeans for not building more nuclear power plants and highlighted nuclear power as a solution to the problems of global warming.

The message from Davos was that Russia's growing economic power entitles it to a greater say in shaping international political and financial institutions and that it is time for the West to recognize this. When Putin came into office in March 2000 oil was \$27 a barrel; today it hovers at \$100. This has fueled Russia's impressive GDP growth rates during the Putin presidency—averaging 7% or more over the last few years—and the economic trajectory for the beginning of the Medvedev presidency looks positive. In contrast to president Putin's 2007 speech at the Munich Security conference where he lambasted American unilateralism, First Deputy Prime Minister Sergei Ivanov's speech in Munich this February was non-confrontational and focused on economics. "We don't export ideology anymore," he explained, "We export only goods and capital." The United States and Europe will face major challenges in dealing with this new Russia that Dimitry Medvedev will inherit.

SLOVENIA'S EU PRESIDENCY

While tiny Slovenia's ascendancy to the presidency of the giant European Union has been overshadowed by events in France and the Balkans, Elizabeth Pond's in-depth analysis reveals that Slovenes are up to the task. In her recent article for *Transatlantic Magazine*, Pond outlines the major challenges that will define Slovenia's six-month administration, as well as its unique position to face them.

As the first post-communist country to lead the EU, one that achieved independence in 1991, Pond explains that Slovenia can serve as a model to the rest of former Yugoslavia, particularly after its promising success story of transition into a democratic social market economy.

Pond asserts that the real test that will likely characterize its presidency is also the one best suited to its talents: crisis management in the wake of Kosovo's declaration of independence from Serbia. Even as she outlines the difficulties involved, Pond is confident that Slovenia is already well-positioned to moderate, as the only EU member intimately acquainted with the mentalities of both Serb and Kosovar protagonists, and conversely the post-Yugoslav state that best understands the dynamic of the EU. She notes Slovenia's centrality in driving the integration of the "Western Balkans" with the EU.

Other major items on Slovenia's agenda include institutional reform and coordinating internal matters with much larger EU titans, such as France and Germany. Yet, as Pond argues, deference to smaller states is part of the EU ethos, and Slovenia has been prepared by the trio system, in which it worked with Germany and Portugal through their presidencies to implement an 18th month plan, gaining valuable experience along the way. Now it is Slovenia's chance, Pond writes, to show how far it has come.

[FULL ARTICLE](#)

NATO'S ROAD TO BUCHAREST

AP EXCLUSIVE

BY DR. JAMIE SHEA

A host of research suggests that the world is becoming overall a more peaceful place. The number of international and civil conflicts fell from over 50 at the start of the 1990s to just over 30 in 2005. Death tolls from violent conflict have fallen even more dramatically: from over 200,000 a year in the mid-1980s to below 20,000 in the middle of this decade. At the same time, a number of civil conflicts in Africa and Asia have come to an end or have at least quietened down. There is no room for complacency, of course. The current situation in Darfur, where 200,000 are estimated to have died and 2.5 million have been driven from their homes, underscores that the remaining conflicts can be very destructive and will not abate without urgent international action; but at least the trend line is in the right direction.



So why do many of us nonetheless have the impression that the business of security is much harder these days than ten or twenty years ago?

In the first place, today's security challenges are not limited to a single country or region. They are global and spread rapidly across borders. Tackling them requires the ability to operate globally and for that we need to have more deployable forces – both civilian and military – that are trained, equipped and funded to do the job effectively. At the same time, success requires patience, tenacity and the ability to bridge institutional and cultural gaps.

Secondly, these new security challenges often strike our political leaders and public opinions as latent: they could disrupt our safety tomorrow but they do not necessarily have to be tackled today. This perception is a serious mistake. If we don't supply stability in Afghanistan, the Taliban and the terrorist training camps will come back and it will not be long before the effects are felt in London, Paris or Madrid.

Jamie Shea is the Director of Policy Planning at the Private Office of the NATO Secretary General.

If we don't take proliferation seriously, and start now to implement policies to both deter and defend against weapons of mass destruction, we will only encourage more and more countries to try to acquire these capabilities as a means to exert political pressure. If we are not able to protect our vital energy networks, we could face major disruptions to our societies in the event of a conflict, a disaster or a terrorist attack. So we need to do a much better job of convincing our public opinions that we need to tackle these challenges today if they are not to be the sources of global tension and mass disruption tomorrow.

The third reason why the security business seems more difficult is that the new challenges cannot be dealt with by the classical instrument of military power alone any more. We really do need a comprehensive approach. This does not only mean NATO being able to work more effectively with other international organisations and achieving better integration of military and civilian efforts. We also need to form more effective global partnerships.

“ WE NEED TO DO A MUCH BETTER JOB OF CONVINCING OUR PUBLIC OPINIONS THAT WE NEED TO TACKLE THESE CHALLENGES TODAY IF THEY ARE NOT TO BE THE SOURCES OF GLOBAL TENSION AND MASS DISRUPTION TOMORROW. ”

When NATO Heads of State and Government meet in Bucharest for their next Summit in just a few weeks' time, the public will see an Alliance that is now at the centre of a growing network of partnerships across the globe.

Over 60 countries will be represented in Bucharest together with the representatives of international organisations who are our partners in the Balkans and in Afghanistan. Eighteen of our partners contribute to our operations and now provide over ten percent of our forces. These partnerships reflect this mutual interest in sharing security burdens equitably. So they must not be a temporary affair limited to participation in missions like ISAG in Afghanistan or KFOR in Kosovo but become a permanent arrangement to consult, analyse and act together in dealing with the security challenges of our age. In that way, NATO will not be the West versus the rest but a much needed bridge builder in a rapidly changing world.

To turn first to Afghanistan, it is clear that in a number of areas, such as helicopters, transport, manoeuvre battalions

AS NATO LOOKS TO ITS ROLE IN THE 21ST CENTURY, THERE ARE FOUR KEY PRIORITIES:

- ❖ We have to get our mission in Afghanistan on the right track so there is not just the reality of progress but also the perception in our parliaments and publics of progress.
- ❖ Second, we have to integrate the Balkans more firmly into Euro-Atlantic structures and keep the door of Euro-Atlantic integration open to the new democracies on this continent.
- ❖ Third, we need not just to talk about the comprehensive approach as a noble objective but actually make it work in practice. Without it not only NATO will find it difficult to succeed in places like Afghanistan; but other organisations such as the UN, the EU or the AU will also find it difficult to succeed in their missions.
- ❖ Fourth and finally, we have to bring NATO's key Article 5 security guarantees into the 21st century; that is to say we need a common approach and concrete policies to protect our populations against the new challenges.

“ NATO IS AN ALLIANCE THAT IS NOW AT THE CENTRE OF A GROWING NETWORK OF PARTNERSHIPS ACROSS THE GLOBE ... THEY MUST NOT BE A TEMPORARY AFFAIR LIMITED TO PARTICIPATION IN MISSIONS LIKE ISAG IN AFGHANISTAN OR KFOR IN KOSOVO BUT BECOME A PERMANENT ARRANGEMENT TO CONSULT, ANALYSE AND ACT TOGETHER IN DEALING WITH THE SECURITY CHALLENGES OF OUR AGE. ”

and support to the training of the Afghan National Army NATO still has not been able to fill the current shortfalls. The longer it takes to deploy these assets the longer we will be in Afghanistan. Yet we have seen from recent operations such as in Musa Kala that Afghan soldiers, when properly trained and equipped, can do an effective job and take the burden off our shoulders. So we must redouble our efforts and meet our targets for standing up the Afghan National Army. It is our only viable long-term exit strategy.

Afghanistan is a necessary mission but it is also a difficult one. It requires not just reconstruction and development but also our political will and ability to neutralise those forces that are trying to undermine everything that we are doing and return Afghanistan to an obscurantist society. One task cannot succeed without the other. This security mission can only be done by NATO and by all of the Allies working together. We cannot afford the notion that Allies have only responsibility for certain tasks in certain areas. Afghanistan is one country and one strategic theatre for NATO. We need therefore one NATO strategy which sets common goals, common bench marks, and which can generate the resources to meet our targets.

“ WE CANNOT AFFORD THE NOTION THAT ALLIES HAVE ONLY RESPONSIBILITY FOR CERTAIN TASKS IN CERTAIN AREAS. AFGHANISTAN IS ONE COUNTRY AND ONE STRATEGIC THEATRE FOR NATO. ”

If we begin to point fingers at each other, or break up into smaller groups, each one claiming to have the monopoly of the right approach, we will lose the only thing that will enable us to succeed in Afghanistan: our unity and our solidarity.

It is obviously understandable that individual Allies, and especially those under pressure in the south, are looking for additional commitments from other Allies. We will need to continue to work with that issue as we are doing with some good results inside the Alliance. No matter how many forces NATO can provide, Afghans have ownership of the process, and bear the ultimate responsibility. But it would be an illusion to believe that they can succeed without the firm help of the international community. There is obviously a need for better coordination, both within the international community and with the Afghans. And that is why there is an obvious need for a strong, effective UN Representative to help lead this effort.

The Balkans are still Europe’s unfinished business and we are now arriving at a decisive juncture in Kosovo. The next few months will be difficult as the international community seeks to resolve the issue of Kosovo’s status and NATO will be called upon to ensure that Kosovo remains stable and a place where both Kosovar Albanians and Serbs can co-exist peacefully. NATO will uphold security but it is important that we create a new dynamic in the region towards Euro-Atlantic integration. The peoples of the region deserve better than the endless repetition of old ethnic arguments and territorial turf wars.

At the Bucharest Summit Allies will be ready to open NATO’s door to new members from this region and to reach out to new partners such as Montenegro and Bosnia-Herzegovina who have made it clear that they too do not want to be left behind. We must also make clear to Serbia that there is no viable future in a retreat into sullen nationalism. It’s future too lies in Euro-Atlantic integration. But it takes two to tango and Serbia must demonstrate that it accepts the responsibilities as well as the rights of a modern European democracy.

We have seen in the Balkans how much progress we have been able to make when the major organisations have a more or less equal commitment to a particular mission. Pragmatism will always dictate that those who are involved in an operation in the field—whether they be military commanders, UN officials, NGO representatives or humanitarian relief workers—will eventually see the need to work together, share information and coordinate their efforts. But we can often lose years while we wait for this to happen; and it often depends on the personality of individual players. How much better would things be if NATO and the UN or NATO and the EU could plan and consult together before operations, make sure their planning is consistent and define a seamless interface between the military and the civilian aspects?

NATO has always been seen by our publics as the organisation which defends them.

“ NATO HAS ALWAYS BEEN SEEN BY OUR PUBLICS AS THE ORGANISATION WHICH DEFENDS THEM. THEY QUITE RIGHTLY ASK WHAT NATO IS DOING TO DEAL WITH ISSUES WHICH ARE PROBABLY MUCH MORE UPPERMOST IN THEIR MINDS THAN AFGHANISTAN. ”

They quite rightly ask what NATO is doing to deal with issues which are probably much more uppermost in their minds than Afghanistan. If you are an Estonian, you are clearly worried about the recurrence of massive cyber attacks; if you are a Norwegian, you wonder what the consequences of global warming will be on activities in the far north; if you are a Briton or a Spaniard and have witnessed a major terrorist incident in your capital, you understandably wonder what is coming next; and if you come from a country with a high degree of energy dependency, you obviously wonder how you are going to cope if supplies are disrupted.

NATO has to look seriously at these issues; not because it has all the answers – indeed tackling these challenges requires a multifaceted approach and a great deal of coordination between national governments and international organisations. But given the threats these challenges pose, they are a wholly legitimate topic of debate for the Alliance. Indeed, readers would be alarmed if they discovered that NATO was not debating these issues. Bucharest will define a clear way forward in areas such as missile defence, energy security and cyber defence. We must not simply produce analyses where we all agree that these threats are real or even growing, and then refuse to identify appropriate responses.

Moreover it would not be in anybody's interest for the Alliance not to come up with collective responses. That would simply open the door for individual allies to seek out bilateral or other arrangements which would mean the end of the indivisibility of allied security with some allies being covered and some not. It would also lead to strategic incoherence with different countries adopting different approaches and capability fixes, none of which would add up to an effective solution. That is why when it comes to missile defence the United States, having initially adopted an ad hoc arrangement with Poland and the Czech Republic, now sees the advantage of having this discussion where it belongs: in NATO.

The burdens on NATO are greater today than ever before and this makes it even more urgent that we have a clear strategic vision, clear priorities and above all a clear sense of the resources that we need to be successful. What is the meaning of Article 5 today? What is the proper balance between expeditionary missions and protecting our populations at home? What is the future of our partnerships and how should they best be organised? And above all, how can we make NATO that central forum for the transatlantic dialogue that Chancellor Merkel called for two years ago? These questions won't go away simply because we refuse to tackle them. An organisation like NATO is in my view strong enough to have this debate and will emerge even stronger from it.

REDUCING THE TENSION

Amid the optimism surrounding the upcoming elections on both sides of the Atlantic, and against the backdrop of rising tensions over Kosovo's independence declaration, former U.S. Senator Sam Nunn warns that the United States and Russia must take their weapons off high alert, or else risk accidentally triggering a nuclear catastrophe. Nunn, Co-Chairman of the Atlantic Partnership, is also a Co-Chairman of the Nuclear Threat Initiative, a nonproliferation advocacy group.

“Making it through 60 years without a nuclear attack should not make us complacent,” Nunn stated at a recent nuclear disarmament conference in Oslo hosted by Norway's Foreign Ministry, which the Associated Press reported on February 28. Nunn urged both the U.S. and Russia to increase their launch times to reduce the danger of firing on a “false warning.”

Nunn recently spoke on this topic at an Atlantic Partnership breakfast with former U.S. Secretary of State George Shultz. Shultz and Nunn launched the joint initiative for A World Free of Nuclear Weapons with Henry Kissinger and William Perry in 2007, which calls on the United States to take the lead in nuclear disarmament.

FULL ARTICLE

AP EXCLUSIVE

THE TRANSATLANTIC ECONOMY: TWILIGHT OR TRANSFORMATION?

BY JOSEPH P. QUINLAN

The transatlantic economy remains the largest and most dynamic commercial artery in the world. However, early in the twenty-first century, there is a general feeling that the primacy of the transatlantic economy is in its twilight. A new world order is the making, according to the consensus, led by China, India, Russia and other developing nations. Following this logic, the rise of the developing world portends the decline of the U.S. and Europe, or the standard bearers of the global economy.



Against this backdrop, it is hardly surprising that fear and alarm have grown in the United States and Europe over the seismic shift underway in the world economy. On both sides of the Atlantic, alarm bells are ringing over the potential for lost jobs, lower incomes, and soaring imports courtesy of the new world economic hierarchy. The benefits of globalization are increasingly being questioned, with a powerful undertow slowly eroding support for a process that has been hugely beneficial to stakeholders in both the U.S. and Europe.

In that globalization's demise would produce only losers, the challenge before the transatlantic economy is quite simply: the mentality that the developing nation's rise goes hand-in-hand with the decline of the U.S. and Europe needs to be disposed of, and quickly. What's urgently needed is a more dynamic and forward-looking mindset that embraces the core principle that the integration of Poland, Turkey, South Africa, and other developing nations in the

global economy will benefit all parties involved. Both Europe and the U.S. need to transform their thinking and actions regarding the growing economic influence of the developing nations. This requires a three-front strategy from the U.S. and Europe:

1. IDENTIFY AND COOPERATE IN AREAS OF MUTUAL INTEREST

The United States and Europe should engage and work with the developing nations in a number of key areas that are mutually beneficial to all parties. Ripe areas of cooperation include global climate change and the environment; energy security; and the challenges associated with a rapidly aging population.

Where possible, the U.S. and Europe should collaborate on how best to tackle these issues. The transatlantic community needs to actively engage China, India and others on how best to create new energy technologies, renewable energy sources, and global warming regulations that steadily reduce carbon emissions. In that nearly every nation in the world confronts a rapidly aging population, joint efforts should also be directed at securing the future for the elderly across the globe.

In addition to the above, the U.S. and Europe should work to increase the participation and involvement of China and other key developing nations in the deliberations of various multilateral organizations, like the G-8, the OECD, the World Trade Organization and International Energy Agency. A strategy based on leveraging the respective positive influences of these organizations would help facilitate and coordinate global macroeconomic policies.

Joe Quinlan is the Managing Director and Chief Market Strategist of Bank of America Capital Management.

2. CONTINUE TO STRENGTHEN THE TRANSATLANTIC PARTNERSHIP

The stronger the transatlantic economy, the better positioned the United States and Europe will be to meet the challenges posed by the rise of the developing nations. In this respect, strengthening the transatlantic partnership is critical to ensuring a smooth functioning global economy.

Among all the commercial arteries in the world, the transatlantic economic ties are the deepest and richest. However, various transatlantic tariffs and non-tariffs, regulations and bi-lateral industry impediments have slowed the pace of transatlantic integration, notably in many service areas. The transatlantic economy could become even more competitive and dynamic if various protectionist layers on both sides of the Atlantic were removed, allowing for an even deeper level of transatlantic integration across various sectors. The task for policymakers is to find mutual areas of cooperation and convergence that will ultimately strengthen the overall transatlantic economy.

Above all else, the U.S. and Europe need to work diligently so as not to allow specific bi-lateral tension points to fester, thereby precipitating a transatlantic split. Neither party can afford a divorce. Such a scenario would devalue the global influence of the transatlantic partnership; it would undermine joint efforts in integrating others into the global economy and would represent a leap backwards in fostering global prosperity.

TRANSATLANTIC ECONOMY 2008

Over the past five years the transatlantic economy has enjoyed one of its strongest periods of growth and prosperity in decades, write Joseph P. Quinlan and AP Panelist Daniel S. Hamilton in their recent book *Transatlantic Economy 2008*. Transatlantic trade, investment and affiliate profits have soared, boosting employment, income and corporate earnings on both sides of the Atlantic. Here we present some of the most compelling findings.

- ❖ The European Union expanded at roughly the same pace as the U.S. in 2006 and is likely to exceed U.S. growth in 2007. A more vibrant Europe has been instrumental in driving and sustaining the earnings of many U.S. firms confronting decelerating or declining sales at home.

- ❖ On a historic cost basis, America's investment stakes in Europe rose to \$1.2 trillion in 2006, or nearly 53% of the global total, nearly three times larger than corporate America's investment position in all of Asia and more than double its cumulative stakes in the developing nations. Record U.S. investment in the EU in 2006 even eclipsed the booming investment amounts of the late 1990s. Europe remains the top destination of U.S. foreign direct investment (FDI), with the region accounting for nearly 59% of total U.S. investment outflows in 2006.

- ❖ U.S. assets in the UK are the largest in the world, totaling \$2.3 trillion in 2005, nearly one-quarter of the global total, and an amount greater than total combined U.S. assets in Asia, South America, Africa and the Middle East. U.S. assets in the Netherlands (\$868 billion) were the second largest in the world in 2005. The U.S. asset base in Poland, Hungary, and the Czech Republic (over \$50 billion) in 2005 was twice the size of corporate America's assets in India. Corporate America's investment position in Ireland in 2006 (\$83 billion) was larger than America's total investment stakes in the much-hyped BRICs—Brazil, Russia, India and China (\$73 billion).

- ❖ The EU accounted for roughly 60% of total U.S. capital outflows of \$216 billion in 2006.

CONTINUED ON NEXT PAGE

3. GET THINGS RIGHT AT HOME

Adjusting to the competitive challenge of China and other developing nations requires that the United States and Europe get their own economic house in order, a dynamic that would help boost the confidence and competitiveness of the transatlantic partnership relative to the rest of the world.

The “to-do” list in the United States includes increasing the national savings rate; reconciling unsustainable Medicare and Medicaid payments, in addition to reforming social security; strengthening America’s public school system; and cutting the federal budget deficit.

In Europe, creating the right conditions for sustainable economic growth is imperative. Towards this end, the EU should implement measures that would lead to labor market reform, the creation of a pan-European capital market, the deregulation of the service economy and the implementation of the Lisbon Agenda.

In the end, there are many complementary and convergent interests that can bind the transatlantic economy and the developing nations together. The task is to identify these interests and construct a working relationship for all parties.

Failure to do so will come at a high price. While the transatlantic economy remains one of the most vibrant components of the world economy, maintaining this position will not be easy. Avoiding the twilight means the transatlantic partnership must undergo a period of transformation.

TRANSATLANTIC ECONOMY 2008

CONTINUED FROM PREVIOUS PAGE

- ❖ The United States remains the primary destination of EU investment in terms of FDI flows and outward stock. No other region of the world has invested as much in the United States as Europe, with the latter accounting for roughly 75% of total inward investment stock in 2006 – an increase in Europe’s leading role over the previous year. Switzerland ranked first as the largest holder of U.S. assets in 2005 (\$1.2 trillion), followed closely behind by UK firms (\$1.1 trillion).
- ❖ In 2005, EU investment in the U.S. totaled €29 billion versus total combined investment of €8 billion in China and India. Investment in China totaled €6 billion, while EU investment in India tallied just €2 billion. Europe invests considerably more in California than it does in China. Overall European investment in China is less than German investment alone in the American Southeast.
- ❖ Europe remains by far the most profitable region of the world for U.S. multinationals. Europe accounted for roughly half of total U.S. global earnings in 2006 and a similar share in the first half of 2007. During this decade, Europe has accounted for 55% of total U.S. global earnings. U.S. affiliate income from Europe in 2006 was nearly three times as large as total earnings from Latin America and more than double affiliate earnings from Asia.
- ❖ Sales of services by European foreign affiliates in the U.S. totaled \$261 billion in 2005. European affiliate sales of services were more than double U.S. service imports—a fact that underscores the ever expanding presence of European services leaders in the U.S. economy.
- ❖ The U.S. and Europe are each other’s most important foreign source of jobs. Most foreigners working for European companies outside the EU are American. Most foreigners working for U.S. companies outside the U.S. are European. European majority-owned foreign affiliates directly employed roughly 3.5 million U.S. workers in 2005. Of the 9 million people employed outside the United States by majority-owned U.S. companies in 2005, roughly 44% were located in Europe. The bulk of these workers were based in the United Kingdom, Germany and France.



ATLANTIC PARTNERSHIP

Atlantic Partnership (AP) is a non-partisan initiative that aims to foster debate about the relationship between America and Europe while promoting the benefits of a strong and stable Atlantic community of nations. Founded by the leader of the Conservative Party Michael Howard in 2001, AP seeks to influence the transatlantic debate through meetings, conferences, and the media activities of our impressive stable of chairmen, vice-chairmen, patrons, and panelists that include such distinguished individuals as Dr. Henry Kissinger, Senator Joseph Biden, Secretary William Cohen and General Colin Powell.

The Atlantic Partnership's Young Leaders Committee, launched in 2004, includes prominent businessmen and opinion leaders such as Leo M. Tilman, Chief Institutional Strategist and Senior Managing Director at Bear Stearns & Co., Simon Adamiyatt, Senior Managing Director at Bear Stearns & Co., British MPs George Osborne and James Purnell.

AP operates in the United States as Friends of Atlantic Partnership, a 501(c)(3) organization, and in Europe as the Atlantic Education Project, a registered charity. The opinions shared in this newsletter do not reflect the views of the Atlantic Partnership.

Friends of Atlantic Partnership, Inc
1015 15th St, NW, 6th Floor
Washington, DC 20005

www.atlanticpartnership.org

UK Registered Charity No: 1081459
U.S. 501c(3) Status

For more information about AP contact Anne Gantén
aganten@atlanticpartnership.org | (202) 974-2423

PRESIDENT AND FOUNDING CHAIRMAN

The Rt Hon Michael Howard QC MP

PATRONS

Dr. Henry Kissinger
The Rt Hon John Major CH
The Rt Hon Lord Robertson of Port Ellen
Senator Joseph R. Biden Jr.
Mr. Alain Juppé
The Rt Hon Lord Gilbert
Herr Friedrich Merz
Herr Karsten Voigt
Sr. Eduardo Serra
Senator Antonio Martino
General Colin L. Powell

CHAIRMEN AND VICE CHAIRMEN

Lord Powell of Bayswater - Chairman
Senator Sam Nunn - Co Chairman USA
Secretary William Cohen - Co Chairman USA
Mr. Jamie Rubin - Vice Chairman USA
Ambassador François Bujon de l'Estang - Vice Chairman France
M. Pierre Lellouche - Vice Chairman France

TRUSTEES

The Rt Hon Michael Howard QC MP
General Brent Scowcroft
Jonathan Marland
Lord Powell of Bayswater
Lord Chadlington of Dean
Ms. Meg Allen
Ambassador Richard Burt
Sir Evelyn de Rothschild

FRIENDS OF ATLANTIC PARTNERSHIP, USA

Mr. Roger Kline
Mr. Daniel Yergin
Ambassador Richard Burt
General Brent Scowcroft
Mr. Seth Dubin
Mr. Jamie Rubin
Mr. Leo M. Tilman

YOUNG LEADERS COMMITTEE

Mr. Leo M. Tilman
Mr. Simon Adamiyatt
Mr. George Osborne MP
Mr. James Purnell MP

DIRECTORS

Anne L.H. Gantén - Executive Director USA
Vanessa Arkell - Director UK

PROJECT MANAGERS

Eric Mittereder - Project Manager, USA
Amy Cohen - Project Manager, USA
Tim Williams - Advisor, UK

