

# **The New Transatlantic Strategic Framework**

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## ***Transatlantic Strategy Group on Security and on Economics, Finance and Trade***

### **Discussion Outline and Follow-up topics**

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## The Future of Transatlantic Security and Economics, Finance and Trade

### ***Economics, Finance and Trade***

1. The U.S. and Europe face enormous challenges to their efforts to provide global economic leadership: They must restore confidence, stimulate growth and lead the world economy in new directions.
2. Greater attention must be given to the interrelationship between economic policy and international security. There is clearly a lack of direction, whether in terms of structural reform in Europe, fiscal and macro policies in the US, and even more generally with regard to the Japanese economy. Fiscal and monetary policies are moving in different directions on each side of the Atlantic.
3. Geo-politics exercise a significant influence on consumer confidence, business decisions, and risk analysis. The price of oil, for example, is highly influenced by international developments. In the aftermath of military intervention in Iraq, one can only speculate about the costs associated with reconstruction.
4. An opportunity exists for the transatlantic partners and the G7 to compensate for the tensions, disagreements, and lack of joint action in foreign and security policies by intensifying cooperation on a well-defined set of economic and financial issues – with the aim of promoting increased economic and financial stability in an uncertain world.
5. In sum, joint efforts at economic policy formulation could serve as a means of better defining the connections that exist between economic and security concerns.

### ***Transatlantic security***

#### Where are we?

1. The Atlantic Alliance is in serious danger. The Alliance was created as a political, cultural, economic, and defence alliance. It was established to promote the values and protect the welfare of its members. Faced with the Soviet military threat, NATO acted primarily as a military alliance. By September 11, 2001, at the latest, the consensus that underlay the Alliance – namely, that common political concepts determine military considerations – had collapsed.
2. Throughout its history, the Atlantic Alliance depended on and drew strength from American leadership. With the election of President George W. Bush, Washington ceased to serve the same sort of leadership role within Alliance.
3. The vacuum that arose as a consequence encouraged some to use the alliance for purely national purposes, in the form of bilateral arrangements between key Alliance members and Washington, or by pretending to fill the vacuum (the recent French-Russian-German declaration on the Iraq being a case in point).
4. It has been forty years since John F. Kennedy called on Europeans to fulfil their obligations under the two pillar concept. But Europe has yet to fulfil its side of the bargain. This is due, in part, to Europe's failure to establish a common foreign and security policy. The debate over Iraq confirmed what had already become apparent after September 11: France and Britain, Spain and Germany have pursued purely national policies rather than seek a common position for the EU as a whole. Europe's failure to reach a consensus among its members served as a welcome alibi for a short-sighted US policy directed toward the formation of "coalitions of the willing" outside the Alliance rather than seek consensus within the Alliance. Europe's weakness is the greatest deficiency in European-American relations.
5. The German government's position with regard to war against Iraq was not motivated by anti-Americanism. The main reason not to subscribe to President Bush's Iraq policy has to do instead with a number of unanswered questions: What is the objective of the war? Regime change? The elimination of weapons of mass destruction? Realignment in the Middle East? Fighting international terrorism? Or are other motives in play? And what happens after the war?

#### Wat is new?

1. Europe is both united and yet divided. However, the new lines of division within Europe no longer run from north to south, dividing the continent into east and west, but zigzag across through the entire region, transforming Europe into a fragmented jigsaw puzzle of differing interests and perspectives.

2. Jointly identifying fundamental security problems and presenting them to the public has always been one of the strengths of the Euro-Atlantic partnership. Today, however, there is no longer any agreement on the nature of the problems we face.
3. Throughout NATO's history, Washington's resolve has been a source of strength and security for its allies, and a source of deterrence to others. Today that same resolve poses for quite a number of countries more a source of concern than of hope.
4. While Europeans have profoundly failed to grasp the fundamentally changed context in which US national security strategy is now formulated, the United States has not mastered the need to explain to its allies the conclusions and consequences it derives from its new security perspective.
5. Today the United States of America is the only nation capable of projecting power worldwide. It is, however, unclear whether or not this increase of power is adequately linked to any increased sensitivity about applying that power.
6. War causes casualties. But pre-war, too, causes casualties. Usually, the latter are less than the former. This is no longer true. The Atlantic Alliance, the European Union, and the German-American relationship are the most prominent casualties of the crisis over Iraq.

#### What needs to be done?

1. Alliance members in general and elected leaders in particular must understand the delicacy of the situation. It was symbolic that at the peak of the crisis NATO Secretary General Robertson's contribution to the crisis was the announcement that he would step down from his position at the end of 2003.
2. The North Atlantic Treaty Organisation must once again become the main framework for addressing the security issues that affect all Alliance members. A strategy aimed at creating "coalitions of the willing", mainly with countries outside the Alliance, must be abandoned.
3. Before NATO-enlargement can proceed, the following questions must be addressed: What purpose should the Atlantic Alliance serve? How should it be structured and which means should be placed at its disposal? And what would be the consequences of the dissolution of the Alliance?
4. It is crucial that both sides, Americans and Europeans, recognise the implications of a more united Europe. One possible consequence would be for some of the core members of the European Union -- France, Germany and the Benelux countries, for example -- to initiate a core union that would be open for other members to join.
5. Entry into the European Union should be made dependent on the principle that contributions to the Alliance be channelled through the Union's common foreign and security policy.
6. One important suggestion is to try to compensate for problems in the political arena by pursuing stronger cooperation in economic affairs. Strong differences of opinion can be expected on the economic side, though, as well, and could pose problems for the proposed compensation mechanism. The first consideration, of course, is the overall economic outlook. If the war against Iraq goes badly, extending over two or three months or perhaps even longer, it could result in a deep, worldwide recession. This resulting crisis would be a dual in nature, involving both political and security aspects (along with possible acts of terrorism), as well as a crisis of the economy. Both crises would, of course, mutually reinforce each other. Therefore, it seems unlikely that economic cooperation would be sufficient to compensate for ongoing political differences. Nevertheless, some matters of economic concern might be dealt with on their own merits. Any cooperation that resulted might serve the dual purpose sought and help move other matters forward as well.
7. Economic reform poses difficult choices. Changes are needed in the US and Europe, as well as in Japan, changes directed at both macro economic policies and micro economic or structural matters. Changes are needed to deal with both short-run problems and long-run structural problems.
8. The exchange of opinion in the G7 and the broader multilateral institutions has become less candid, and, as a consequence, international economic cooperation has become less effective -- at a time when increased globalisation makes cooperation ever more essential.
9. There is no G7 in any real sense. Canada is irrelevant, Japan increasingly so. The European Union and the United States are the only players of real importance. The G7, if it is to deal with the current problems effectively, either must be transformed into a G2 or, at the very least, operate on the basis of G2 consensual leadership.
10. A new initiative for transatlantic relations requires a new conceptual framework: Economic issues are too important to be left solely to government bureaucrats directly responsible for economic policy. They must be dealt with and given impetus by the political leadership itself.

*Discussion:*

1. Military intervention in Iraq serves a catalyst to promote the emergence of a new global security system. The differences of opinion between Europe and the United States are deeper than is realised. It would be wrong to suppose that a resolution of the quarrels over Iraq would remove the sources of tension, rebuild confidence or restore comity between the alliance partners.
2. Relations between states are dynamic, their security arrangements fluid. The challenge lies in closing the gap between the dynamic nature of the international system and the more static nature of the institutions, like NATO, that exist to manage that system.

## Separate Session on Security

### ***The Future of Security***

#### *On US security policy:*

1. The policies pursued by President Bush and the American security establishment are driven by the consensus that there now exists a dangerous convergence between technology and radicalism, made worse by the tacit or active support provided by incompetent ("failed") or irresponsible states. These three factors characterise the new security era.
2. America's power cannot be sustained in all places all the time. The US is already overextended. America cannot fight two wars at the same time simultaneously, against both Iraq and North Korea. This feeling of overextension is what propelled President Bush to turn to the UN.
3. America's dilemma lies in the weaknesses evident in both the unilateralist and the multilateralist approaches: The weakness of the unilateralist position lies in their tendency to eschew the institutional context needed to give their views staying power. The problem multilateralists face lies in the fundamental weaknesses of the international institutions they must rely on. President Bush's dilemma is that he likely realises that his instincts for unilateralist action cannot sustain victory over the long run, but his need to establish a broader, more multilateral foundation for victory rests on a weak institutional framework.
4. There is a sustainable dimension to the future, which rests on improving the authority of the multilateral institutions within which the USA and the EU may embed their security needs. The US demands more authority and assertiveness from the various international institutions, while simultaneously remaining uncomfortable with any increase in the powers available to those same institutions.

#### *On the EU Common Security and Defense Policy:*

1. Scenario: The terrorists succeed in setting free highly contagious biological agents in Paris, London, Frankfurt, or Milan. What would be the implications for European policy? What would be the crisis patterns?  
 First assumption: The immediate consequence would be a breakdown of European institutions. European states would instantly re-erect national border controls, with an eye to protecting national assets first and foremost.  
 Second assumption: The next step would be intensive coordination and cooperation on the European level, in order to deal collectively with the situation at hand. The economic impact of such an attack would be viewed as an issue requiring European cooperation. That would be followed by a struggle in the European institutions – in the European Council and the European Commission -- about who does what and why.  
 Third assumption: Were a number of American citizens to be hurt or even killed as a consequence of these attacks, Europe would probably be divided on whether or not to involve the US in post-attack policy planning. One might conclude that one result of such a crisis would be a strengthening of Europe's internal crisis reaction mechanisms, but it would more likely contribute to a weakening of the coherence of the Alliance.
2. European mechanisms for developing coherent foreign policy actions are too weak. Europe must strengthen the structures needed to formulate common foreign policy responses.
3. Europe must re-examine current practices in three main areas:
  - a) Europe's failure to think strategically: Europe must link foreign economic assistance to a regional policy.
  - b) Europe lacks the institutions needed to shape its strategic thinking: In the event of a crisis, Europe's highly decentralised structures, in both the law-enforcement and military sectors, will be incapable of quick reaction. This points to a need for a greater coordination of Europe's internal security measures.

c) The exchange of security assessments between EU member states must be intensified: Europe must seek a greater measure of coordination and integration of existing resources and capabilities.

One recommendation involves the creation of a national security advisor as one means of shaping strategic thinking within national governments.

4. Internal security in the European Union is indivisible, because of the way the European member states' economic well-being is dependent on continued exchange, on the day-to-day flow of goods, services, people and capital. The same applies in principle to external security now that all clear distinctions between internal and external security have ceased to exist.
5. Europe needs an engine for CFSP: It needs to recognise the indivisibility of its security. It needs to tackle the enormous duplication that exists in its territorial defence capabilities. It needs to pool its defence resources and reinvest the resources thereby freed up in areas where they are more urgently needed.

*Discussion:*

1. Something much more fundamental is at stake than the future role of NATO or the UN. We are facing a collision of concepts about the future shape of the world order, a collision between a concept of world order preferred by one segment of the American political and foreign policy elite, and a concept of world order preferred by much of the rest of the world.
2. NATO's character has changed from a collective defence organisation to a collective security organisation. That is no reason to give up on NATO. What is now needed is a new approach to the central security issues of our time.

## **Separate Session on Economics, Finance and Trade**

### ***The Development of a Broader "G2" Strategic Management Framework***

Discussion of the Paper „THE G-2: A NEW CONCEPTUAL BASIS AND OPERATING MODALITY FOR TRANSATLANTIC ECONOMIC RELATIONS" by C. Fred Bergsten

*The G2 concepts: How can it be done, how would it be designed and how would one introduce it?*

1. The G2 concept is meant to work on the basis of variable geometry, of concentric circles, meaning that in areas like trade, where Europe speaks with one voice, a G2 can work quite well. Competition policy is another area in which the G2 could work. The G7 would continue to exist.
2. This G2 variable geometry would work nicely in the new Post-Convention Europe – whether on matters relating to the environment or on macro policy formulation beyond trade and competition.
3. Europe must address the question of who will speak for the EU as a whole. The European G4 feel very strongly about their prerogatives within Europe. Will they be able to speak with one voice for all of Europe? And what about the consultation procedures between the European Commission and the European Central Bank? A great deal will depend on Europe's structural changes after the Convention and the IGC that follows (i.e. one chair for Europe in the IMF, one European Foreign Minister etc.).
4. Bottom-up or top-down approach for the G2 strategic management framework?
5. In order for the G2 to function properly, the U.S. will have to commit itself to cooperation with the EU. Despite current difficulties, the US knows that its economy will benefit from a healthy European economy.

## **Common Session**

### ***The New Partnership with Russia***

1. Does the West want a strong Russia or a weak Russia in the near to midterm future? The West remains largely ambivalent about Russia's future role: On the one hand it clearly seeks a Russia sufficiently strong enough to control the large arsenals of chemical, biological, nuclear materials built up during the Soviet era, a Russia able to control the turbulent forces within or near its borders, especially on its southern flank.

At the same time, however, the West is nervous about a strong Russia. The desire on the part of many in Eastern Europe to get into NATO as quickly as possible reflects an abiding distrust of Russian power, a distrust that grew out of the region's historical experience.

2. There are already signs of converging interests -- in closer economic cooperation, for example, in particular as relates to energy supply. There is a convergence of Russian economic with Western/Euro-American strategic interests: While the former seeks to assure and boost its exports, the latter aims to secure energy sources outside of the Middle East. Another trend lies in the increasing cooperation with Russia on the «war against terrorism» and in assuring «global security». The question remains, however, whether the underlying conceptual basis, namely a common understanding of the nature, scope and duration of this war, the definition of «terrorism» and, more broadly, the organization or defense of international security, is solid and durable enough to underpin and possibly institutionalize NATO-Russian and/or US-Russian cooperation.
3. How should Russia's role be defined? Several propositions:
  - 3.1. Russia is still capable of or at least willing to act as more than just a "European power".
  - 3.2. The European Union's relationship with Russia has not yet been fully clarified, especially as regards its institutional associations with Russia, on the one hand, and with the United States on the other. Russia's relationship with Europe is perhaps more pragmatic in nature, especially as relates to economic cooperation. Its relations with the US, by contrast, are more strategic in character.
  - 3.3. The number of interests held in common by both Russia and the West is growing.
  - 3.4. Russia's relationship to Belarus, Ukraine and Moldova is essential: Russia is in a very complex process of redefining its strategic priorities, away from the ideological rigidity of the Soviet era toward a more pragmatic flexibility in operation today – leading, perhaps, to an institutionalised predictability at some point in the future.
4. Russia needs help to reform its economy. Some suggestions:
  - 4.1. WTO membership could serve as a spur to Russian economic development.
  - 4.2. A Free Trade Agreement/Area with the EU could also promote economic development.
  - 4.3. Russia should not only be a member of the G8 Head of Government process, but also a full member of the G7 Finance Minister process.
5. Russian membership in the EU is currently not on the agenda, nor is it likely to be in the foreseeable future. Russian perception of its treatment by the West on this issue is, however, colored by the prospective EU memberships held out to Moldova, Belarus and Ukraine, and even Turkey.

## **Separate Session on Security**

### ***The Future of the Transatlantic Alliance***

1. In the current crisis in the relationship between the United States and Europe two fundamental topics should be addressed:
  - 1.1. The future of the system of international security: The issue of intervention in Iraq serves as a catalyst promoting the emergence of a new international system. Two key questions are: What is the nature of this new system, and what are the circumstances and factors shaping it? And secondly, what roles should the United States and Europe play in such a system?
  - 1.2. The undisputed economic, military and technological superiority of the United States: America's alliance partners do not doubt the need for American leadership. They do, however, criticise the lack of cooperation and consultation as well as the lack of rules acceptable to all partners.
2. Another element of the new international reality is the invitation extended to seven states to join NATO, along with the European Union's invitation to ten states to join the EU. The character of both organisations is about to change fundamentally.
3. The US clearly believes that American ideas and American ideals as well as American strength are adequate to the task of bringing about change in the international system.
4. NATO as an organisation will not continue to exist in the same form. It will not be possible to take on new tasks or structural change until some very basic questions about the purpose and objectives of the Alliance have been settled. NATO and the transatlantic partners must begin to prepare not just for the day after Bush, but the day after the Iraq war and for the day when Europe overcomes its internal divisions. The whole of the Middle East region will need stabilising following

the war in Iraq – a process in which NATO could play an essential role.

Reform initiatives include:

- 4.1. Military restructuring: This must take into account not so much new technology but the way in which force can be exercised in a much more efficient and much less costly way.
- 4.2. Institutional reform: Efforts in this area should comprise the 400 committees as well as structures in Brussels more generally.
5. The Alliance would probably be well advised to maintain the kind of basic structure that allows for the creation of “coalitions of the willing” while simultaneously insuring the continued viability of the overall Alliance framework.
6. NATO can still have a future, but exploiting its potential value is a matter of choice. The US has chosen to pursue the Iraq war in a unilateral fashion. But it is only through the framework provided by the NATO alliance that the United States will remain a European power.
7. If NATO ceased to exist, a G2 security arrangement would immediately be created in its place, since Europeans would recognise that they can only have influence if they combine their own security efforts and seek some form of association with the United States.

## Separate Session on Economics, Finance and Trade

### ***Regulatory Convergence***

#### *The G2 concept*

1. The next action steps will involve exploring how the G2 works in practice on a couple of specific issues:
  - 1.1. Trade: De facto, a G2 approach already exists, but has not yet been institutionalised. Efforts should be made to build on the Zoellick-Lamy relationship in order to institutionalise the G2 approach on matters relating to trade.
  - 1.2. Regulatory convergence and corporate governance: Several working groups have been established, but nothing cohesive or G2-oriented has yet emerged.
2. One concept suggested the G2 act as a caucus rather than as a distinct institution. While setting aside for the moment the question of what constitutes “Europe” and who speaks for it, the US and Europe would try to coordinate action between themselves on a number of specific issues.
3. The Strategy Group on Economics identified three additional topics that it will commission papers on, with the aim of determining whether similar strategies could be employed. All three topics include both security and economic dimensions:
  - 3.1. Energy policy;
  - 3.2. Environmental policy; and
  - 3.3. Migration, including demographics.

#### *Corporate governance – Regulatory Convergence*

Regulatory convergence is important because Europe and the United States trade almost 90% of the world's assets.

1. It would be helpful if the U.S. and Europe could reach a consensus in the area of corporate accounting. One modest alternative would be to urge the US Financial Accounting Standards Board (FASB) to move away from an approach based on detailed rules and toward an approach based on accounting principles.
2. A more ambitious alternative would be to advocate a set of global accounting standards (GAS) incorporating the best elements of U.S. GAAP (Generally Accepted Accounting Principles in the US) and IAS (International Accounting Standards).
3. SOX (Sarbanes Oxley Act): In response to the substantial extension of American law to foreign issuers registered with the SEC, the Transatlantic Strategy Group on Economics could take one of several concrete positions:
  - 3.1. It could ask the U.S. Congress to limit the application of all provisions of SOX to U.S. issuers only. This would require a broad exemption from SOX, which would be unlikely to pass.
  - 3.2. It could ask the U.S. Congress to exempt foreign firms from particularly intrusive aspects of SOX, such as the requirements for audit committees and the PAB's (Public Company Accounting Oversight Board) jurisdiction over foreign auditors. Though one might argue that these aspects of SOX conflict with foreign practice, Congress is, at best, only likely to provide the SEC with broader exemptive authority for foreign issuers.

- 3.3. The group could urge the SEC to utilize its existing exemptive authority, albeit somewhat constrained by Congress, in a more flexible manner for foreign issuers.

Joint or cooperative action on corporate governance issues offers an illustration of what could be done by an effective G2. One might refer to the program needed as: "creating a Transatlantic financial market".

## Common Session

### ***Implications for Reconstructing the Transatlantic Relationship***

During the Miami meeting, the Transatlantic Strategy Groups dealt with a long list of issues: NATO and global security, Russia, trade, corporate governance/regulatory convergence, international accounting standards. The overarching idea being examined is that of a G2 aimed at advancing the transatlantic agenda more aggressively by means of greater networking. It could bring Europe closer to speaking with one voice and prevent the US from acting unilaterally. This G2 concept should obviously not come at the expense of other groups. It should be pursued inclusively rather than exclusively.

The world has entered into an unstructured phase of international relations. Four key issues must be addressed: the future of NATO, the shape of the European Union, relations with Russia, and of course the questions, "What happens after the war against Iraq? How do we cope with the post-war situation? What tasks will be involved and who will take them on?"

1. The next meeting of the Transatlantic Strategy Groups should focus on three principle issues.
  - 1.1. Security following the war with Iraq, in which the question will need to be addressed whether existing institutions still have a role to play, or whether new institutions, new mechanisms, and new procedures are needed.
  - 1.2. The European Union's role in foreign and security affairs. Suggestions for a core Union will certainly not suffice to deal with the problems at hand and will therefore require further deliberation.
  - 1.3. What does this mean to prospective EU/NATO members? How do they interpret current developments?
2. The key question the two groups have to work on is how to keep transatlantic relations vital. Both groups have contributed a great deal toward defining the problem. The second step will be to define the criteria for solutions. The third step, then, will be to develop strategies to overcome these problems.

One important suggestion was to overcome problems on the security side by a closer cooperation in economics, finance and trade, on the basis of an institutionalised G2 approach. This idea should be developed further at the next group meeting.
3. Agenda items for the next meeting have to be:
  - War in Iraq:* The US and the EU must prepare for the aftermath of the War in Iraq.
  - International Security:* The new dimensions of international security and Europe's role in shaping the international security environment forces Europe to initiate a strategic debate about its future role in world affairs.
  - Russia:* Russia's interest in integration into the West, NATO, and possibly the EU. Russia and the West need to identify common goals, common challenges, common interests and common principles that can be used for a successful integration of Russia into all these frameworks.
  - The next transatlantic generation:* The coming generation of leaders can already be identified. The Transatlantic Strategy Groups need to look systematically at those most likely to assume positions of responsibility in the coming years.