

TRANSATLANTIC POLICY NETWORK

(TPN)

133 RUE FROISSART 1040 BRUSSELS

Tel: Brussels (2) 230 6149 Fax: Brussels (2) 230 5896

"EUROPEAN STRATEGY TO THE UNITED STATES PHASE TWO- SECOND MEETING TUESDAY 1 FEBRUARY 1994

*Banco Di Roma, (Entrance Via Lata 3)
Palazzo De Carolis, Via del Corso 301 Rome*

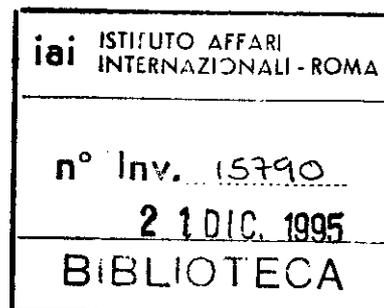
PROGRAMME

SEMINAR CHAIRED BY:

MR ENRIQUE BARON CRESPO MEP
*CHAIRMAN, COMMITTEE ON FOREIGN AFFAIRS & SECURITY
EUROPEAN PARLIAMENT*



- 0845** Arrival and coffee
- 0900-1100** **SESSION ONE**
European Strategy towards the US:
southern European perspectives:
Lead comments and introduction:
- 0900-0905 William Wallace, TPN Research Director
0905-0910 Peter Linton, TPN Rapporteur Phase One
0910-0920 Gianni Bonvicini, Director, IAI
- 0920-1100** **DISCUSSION**
Including other southern country interventions
on national perspectives
- 1100-1115 Coffee Break
- 1115-1245** **SESSION TWO:**
Transatlantic relations in the 1990s:
* The potential impact of NAFTA on European interests
* Mediterranean security and Mediterranean migration -
divergent perspectives, divergent interests?
- 1300-1430** **SESSION THREE:**
Working lunch and concluding discussion



TRANSATLANTIC POLICY NETWORK (TPN)

Sixth Floor, 133 Rue Froissart, 1040 Brussels
Tel: Brussels (2) 230 6149 Fax: Brussels (2) 230 5896

"EUROPEAN STRATEGY TO THE US" PHASE 2 - SECOND MEETING

*Banco Di Roma, (Entrance Via Lata 3)
Palazzo De Carolis, Via del Corso 301 Rome
Rome, 1 February 1994*

PARTICIPANTS

GIULIANO AMATO

President
Aspen Institute Italia

LORENZA BADIELLO

TPN

ENRIQUE BARON CRESPO MEP

Spain

PABLO BARRIOS

Head of Policy Planning
Foreign Affairs Ministry
Spain

GIANNI BONVICINI

Director
IAI

MANUEL CASANUEVA

Vice President & Director General
Euroforum

MARTA DASSU

Director
CESPI

MARIO DE LUCA

Director
Banca Di Roma

JAMES ELLES MEP

UK

ILALIRO FELICI

Reponsible for North America
Banca Di Roma

FRANCO FORNASARI

Director Trade & Investment International Relations
Fiat SpA

DINO FRESCOBALDI

Journalist
La Repubblica

JAS GAWRONSKI MEP

Italy

CARLO GILARDI

Director
Banca Di Roma

ROBERT GRAHAM (tbc)

Correspondent
Fiancial Times

FRANCA GUSMAROLI

Director Policy Programmes
Aspen Institute

VIVIEN HAIG

Director
TPN

JACQUES LEFLON

Senior Vice President
Pechiney

GIOVANNA LEGNANI

Director
Aspen Institute Italia

PETER LINTON

Rapporteur
TPN

PAOLO MANCINELLI

Secretary General
Olivetti Spa

CESARE MERLINI

President
IAI

GERALDO MOMBELLI

Director, Rome Office
European Commission

ALESSANDRO OVI

Director
IRI

ALDO PITTONI

Responsible for Relations with Ministeries
3M

RINALDO POLLAK

Deputy Director for International Cooperation
ENI SpA

DAVID PRICE

Head of European Affairs
BP Europe

PATRIZIA PRODE

Researcher
IAI

KEITH RICHARDSON

Secretary General
European Round Table

WTO Casanueva

Multilateral dimension → the Block superiority - (NAFTA, EES, Pacific).

Regional integration - GATT → WTO by 1st 17/95.

- Central's press conference → articulated Agenda between US/Pacific.
Where are the issue frontiers for Europe → CS CR important to many of.

Q11

unemployment - S/W de japonais (?)

Forecast:

not yet prepared to face global competition. Redefine institutions and frontiers.

- US and EU approach to fundamentalism -
- Relevant for North/South - institutionalisation -
- reluctance -

Wyls

Don't white Paper → good instrument to deal with the problem of unemployment.

Social protection → hypocrite behaviour. (what kind of employment?)
deniable and kind of misaccount
environment is dead

Neti

123

ROBERTO SAVINI

Director IRI Europe and the European Union
IRI

AMBASSADOR CONRAD SEITZ (tbc)

German Ambassador to Rome

GIAN LUIGI TOSATO

Professor
University of Rome "La Sapienza"

ROBERTO TOSCANO

Head of Policy Planning
Ministry of Foreign Affairs
Italy

JACQUES VANDAMME

Chairman
TEPSA

WILLIAM WALLACE

Research Director
TPN

JOHN WYLES

Journalist

GEORGES ZAVVOS MEP (tbc)

Greece

Revisiting policy h. Med. policy.

Damir
- multilateralism is the core - (recent times) - Yug./UN.
EU, NATO not sufficient.

Seles
- New inst. framework for the US to negotiate with Europe.
What kind of multilateral shape?

Toscan
- Change of behaviour of the left wing parties to US.
The right wing party is to day more anti US than the left.

Toscan
- Europe as a subject of intern. relations - / priorities of the system
to frame national interests.

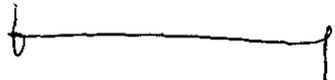
Damir
- Difference of interest of US and South is not within in the
med. framework is probably not true.

Damir
- Italy preserving (take resources from developing policy to
participate in preserving of order) - (Damir)

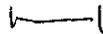
Ridendo
- who is going to manage the CFSP - I/US 7 interest in y/sa/med.
contin. - ESCO (has the time come to represent the project) -
security and cooperation go together

Bonino
- lack of regulatory system -
where to frame the national ~~system~~ interest.

- Ganga - new proposal in NATO - (high level group - ^{Bonino:} build up a new agenda
for partnership in the med.)
- EC policy h. Med. is not enough.
- in the Med. a clear set of rules to decide respons. among countries -
no multilateralism is the core - Common general rules for the Med.



McLain
- reconstruction of US h. the Pacific (NAFTA/APEC) -
ESCO framework - to discuss with Med. countries -



Damir
- provide idea adopted at NATO summit concerning the high level
group for Med. countries (supporting the Italian idea) -

Wyles
EU policy us - is us the Med. ~~policy~~ - not adequate.
Like the Franco-German etc why the further west centre have not pushed
for med. as a whole.

TRANSATLANTIC POLICY NETWORK

TPN

Sixth Floor, 133 Rue Froissart, 1040 Brussels

"EUROPEAN STRATEGY TOWARDS THE US"

1. BACKGROUND:

In full co-operation with its members and many co-operating institutions, TPN proposes to publish in the autumn of 1994 a 10-15,000 word report for widespread circulation. It will be drawn up in 3 phases on the basis of a well defined agenda, including analysis and recommendations, drawn from a wide-spread range of experts from different backgrounds.

Two divergent developments set the context for this study. One is the increasingly close economic interdependence between Western Europe and the United States reflected by such indicators as high levels of foreign direct investment, close monetary interdependence as well as intensive and relatively balanced pattern of trade. On the other is the weakening of the underlying security tie which has bound Western Europe and the United States closely together since the second world war.

The aim of this project is to stimulate a widening debate on how to maintain a close relationship with the US in post-cold war conditions. It starts from the premise that is evidently in Western Europe's interest to ensure such a close relationship; but that a more active European strategy will be needed to maintain such a relationship without the strong security underpinning from which it has benefited over the past half-century.

The objectives of this study are therefore to:

- Focus attention in Western Europe on the importance of maintaining the closest possible transatlantic political and economic relations in an international context transformed by the disappearance of the Soviet threat which for 40 years provided a firm security foundation for the transatlantic relationship;
- Examine the implications of changes in economic policy and regulation on both sides of the Atlantic for convergence or divergence of policy and practice: to consider the changing pattern of common and divergent economic interests, and suggest how these should be managed;
- Make recommendations about means to maintain and improve the transatlantic relationship, in particular achieving full and whole-hearted co-operation on the basis of shared goals and equal responsibilities.

2. OPERATIONAL NOTE:

For ease of operation, this project has been developed in three phases:

PHASE ONE:

The preparation of a strategy document which establishes the central agenda for the study and creates a framework for the project. This phase reflects the active involvement and input of TPN Members.

PHASE TWO:

An important central purpose of this phase is to explore how far assumptions and attitudes about transatlantic relations differ from one West European country to another; to ask what may be the reasons for that divergence; and to examine how far an active national debate is underway, how far attitudes are changing, and whether policy-makers and other elite opinions consider a more active transatlantic strategy desirable or necessary.

This phase will also enable a more detailed examination of some of the different dimensions of the transatlantic relationship. These objectives will be assessed during the series of four seminars to be organised:

A. ROME: 1 FEBRUARY 1994

B. PARIS: 17 MARCH 1994

C. BONN: 10 MAY 1994

D. BRUSSELS: 20 JUNE 1994

These meetings will bring together the key players and experts from the different Member States in order that a broadly based view of European opinion can be reflected in the final outcome of the project. To help focus the discussions in this phase:

- The strategy document drawn up in Phase I will be circulated before and presented at each meeting;
- A synthesis of existing work either complete or underway will be available to ensure that the project will not carry out work which has already been done by other institutions;
- Background papers.

To ensure continuity and input at every stage, summaries of each of these meetings will be distributed to all those closely involved in the project. A core group of TPN members based in Brussels will provide regular ongoing input at each stage of the project.

PHASE THREE:

This phase involves the preparation of the final report pulling together the results of Phases One and Two. The results are to be published and circulated widely in Europe and the United States.

The first formal presentation of this study will take place in Strasbourg during late September, while the second will be organised in Washington during October 1994. The TPN will then ensure a broad and rapid dissemination of the conclusions of the project through its corporate, political and institutional members.

TRANSATLANTIC POLICY NETWORK TPN

TOWARD A EUROPEAN STRATEGY
FOR
TRANSATLANTIC PARTNERSHIP

Brussels, January 1994

(This report summarises "Phase I" of a three-phase project undertaken by European members of the Transatlantic Policy Network.)

EXECUTIVE SUMMARY

(TPN Transatlantic strategy project -
Phase I report, January 1994)

- * A call to action : profound geopolitical and economic change makes it essential to build a new political foundation for future partnership between Europe and America.
 - * A first step : The purpose of this TPN project is therefore to create a European strategy for partnership with America.
 - * Uncharted water : No previous generation of Europeans has faced the need for a common political strategy to ensure Europe's future global interests, with Transatlantic partnership at its core.
 - * Project structure & points of departure :
 - * An assessment of the future common interests of Europe and America is the most practical basis for conceiving a partnership strategy.
 - * Shared values and political symbolism may also be important.
 - * Fundamental similarities and differences between Europe and America must be taken into account from the beginning.
 - * Four pillars for a Transatlantic partnership : We postulate the development of four pillars of common interest as the political basis of future partnership.
 - * Common bilateral economic interests
 - * Common multilateral economic interests
 - * Common defense & security interests
 - * Common multilateral political interests
 - * Linkage between interests : The linkage - or overlap - between these various interests will grow; this trend underlies the structure and value of TPN itself as a medium of communication between political and business leaders, with the support of the academic community.
-

CONTENTS

I.	FOREWORD	page 1
II.	PROJECT STRUCTURE & POINTS OF DEPARTURE	page 5
III.	FOUR PILLARS FOR A FUTURE TRANSATLANTIC PARTNERSHIP	
1.	Common bilateral economic interests	page 10
2.	Common multilateral economic interests	page 11
3.	Common defense & security interests	page 13
4.	Common multilateral political interests	page 16
IV.	LINKAGE BETWEEN INTERESTS	page 18

Annexes (I, II & II)

I. FOREWORD

A call to action

It has been over three years since the dismantling of the Berlin wall, over two years since the unification of Germany, and going on two years since the collapse of the Soviet Union. This year, the last remaining Russian troops on German soil will be repatriated, leaving some 100.000 American troops in Europe as the most tangible vestige of the cold war.

Whether or not the democratic revolution proves durable in Russia (or other newly-independent states created from the failed Soviet empire), and whatever the consequences should it not, a return to the peculiar geopolitical structure, dynamics and hostilities of the cold-war era becomes increasingly difficult for most Europeans to conceive. But neither has the disappearance of the Soviet threat brought peace and stability. Political and ethnic turmoil in many places long frozen in time and circumstance on the bi-polar map of the world, including Russia itself, raise preoccupying new security questions for both Europe and America.

At the same time, economic development is accelerating in many previously dormant or inaccessible parts of the world, trade and foreign investment continue to expand worldwide as barriers to both continue to fall, and the west faces wrenching social change as we try to adapt to the new realities of global competition.

This kaleidoscope cumulation of profound change, much of it within Europe or with direct foreseeable impact on our economic and physical security, has produced among Europeans a growing sense that the next few years will usher in - for better or for worse - an entirely new world order, just as did the decade of the 1940's (or perhaps more apposite, the period from 1789 to 1815).

TPN (Transatlantic Policy Network) is founded on the common conviction of its members that neither Europe nor America can hope to surmount the global challenges of the next century if we do not preserve and strengthen the Transatlantic political relationship over the remaining years of this one.

We share as well an acute appreciation of the inestimable value of the political capital left to us by the previous generation of Atlanticists :

- * Common habits of mind, common principles of policy and conduct, mutual reliance, and the cumulative wisdom born of our joint successes and failures;
- * Most of the machinery of international governance which has underwritten peace and prosperity throughout the free world since 1945.

But these political assets will not survive indefinitely as unquestioned ends in themselves. They must be reinvested. What do we now intend to do with them ? Where do Europe and America go from here ? Do we go together ? For what respective motives of legitimate and vital self-interest ? With what common purposes ? Via what processes and institutions ?

TPN European members believe Europeans and Americans do each other no favours by ignoring or disguising the growing relevance and urgency of these questions (often by invoking the very images, emotions and political assumptions of an Atlanticism fast slipping not just from relevance but now also from living memory).

In Europe we have become preoccupied by our internal differences and our immediate periphery. America is likewise confronted not only by her own pressing domestic agenda but also by urgent new priorities attached to her long-standing continental and Pacific interests. Atlantic defense and security institutions remain intact, but their future purposes become unavoidably less clear as uncertainty prevails over the origin and nature of future threats to our collective security.

In the face of these realities, TPN European members have become firmly persuaded that to preserve and strengthen the future Transatlantic relationship we will have to build a new political foundation, responsive to the future interests of both Europe and America in a vastly changed world.

Seen from Europe, achieving this purpose will require migration from the well-developed concepts, politics and practices of alliance toward concepts, politics and practices of partnership which today are only superficially understood, let alone well-developed.

We recognise that to succeed in this difficult task will take time. But for that very reason it is necessary to begin now - and to associate in the effort all who share our conviction and determination to go forward.

A first step

TPN European members have reached the conclusion that no serious joint European/American effort to reinvent the Transatlantic relationship as a functioning political partnership can be undertaken - let alone succeed - until each partner first considers what its own future interests and priorities will be.

TPN European members therefore address this Phase I document to Europeans. It represents the first step in a multi-phase TPN European strategy project the three-fold purpose of which is to initiate and catalyse widespread reflection and action in Europe to :

1. Redefine Europe's future interests in partnership with America;
2. Agree how Europe should work toward partnership with America to advance those interests;
3. Agree on how best to organise Europe for these two purposes.

Uncharted water

TPN European members believe it is essential to recognise from the outset that to achieve these three purposes, this generation of European leaders will have to venture where no previous generation has gone before. Moreover, the new dimension to Europe brought by Title V of the Treaty on European Union (Provisions on a Common Foreign and Security Policy) strengthens the legal and institutional framework for doing so, if we are prepared to develop it.

Before 1950, the political, economic and security interests of Europe's nation-states were conceived in predominantly national terms (even when global in scope). Since then, European perceptions of Europe's vital interests have increasingly become functions of a political and security order imposed from without by the global pax Americana, and by the political logic of common market construction within the well-defined (and well-protected) perimeters of "Free Europe".

But now the familiar external certainties have all but disappeared. As a result, Europeans confront not only the opportunity but, more important, the unavoidable necessity to fashion our own collective place in the dynamic new global environment.

As we strive to do so, no external political power will set the parameters of our future ambition and strategy. No vital American interest will necessarily coincide with our own (nor save us indefinitely from our own internal tensions). No vital Asian interest guarantees our future economic or political relevance in that dynamic part of the world. Nor is it certain that Russia and other newly independent states on our Eastern frontier can sustain, at any cost, reforms premised on closer integration with Western Europe's social and economic systems.

In sum, after nearly 40 years of Community-building inscribed in a world geopolitical order largely beyond our own making or control (though not in every case our influence), we now have to redefine Europe's own political purposes, reinvent our own political being, and quite literally create our own future.

As we do, a high and urgent priority must be to conceive and pursue a political partnership with America which will enable us to fulfil our own uniquely European ambitions.

II. PROJECT STRUCTURE & POINTS OF DEPARTURE

A. SHARED VALUES OR COMMON INTERESTS ?

Shared values

In any focused discussion of past and future Transatlantic relations, "shared values" are invariably asserted to be at least as important to the political relationship as are the more objective common interests of Europe and America.

But increasingly this assertion also incites challenges to the underlying premise that Americans and Europeans do, in fact, share a body of common values. Indeed, some will argue that America's vast strategic embrace of Western Europe over the past half-century has had less to do with shared cultural, political or social values than with our geopolitical position on the cold-war chessboard.

This school of thought holds that for so long as the Soviet Union dominated Eastern Europe and Central Asia, the alliance with Western Europe was so central to America's security interest that America had no choice but to manage its political relationship with Europe as a strategic priority, share values or no shared values. From Franklin Roosevelt to George Bush, no American president would have risked "losing Europe" (or Japan, for that matter, where the case for shared values has never been made). Likewise, the cold-war alliance with America has also been seen by the overwhelming majority of Europeans to be in their vital security interest though (arguably with less rhetoric devoted to shared values along the way).

This is not necessarily to say that shared values and political principles may not have been a critical factor in the success of the Alliance. But it is very much to suggest that this remains a largely untested assumption.

Indeed, one way to look at the challenge now before Atlantic partners is to see it as the unavoidable testing of the untested assumption of shared values. Stripped of the dominant reciprocal motive of self-preservation, are we about to discover that the Atlantic partnership is not so firmly founded on common values as our reflexive cold-war political rhetoric has led us to believe ?

During Phase I, European members of TPN have discovered a wide range of passionate, highly personal, and often conflicting views on this question.

Even more fundamentally, there are great differences of opinion on how important the existence of common values really is for practical policy-making purposes. Some see the issue - or at least prolonged analysis of it - as largely irrelevant to the task at hand. Others believe shared values to be the most important continuing bond between us - in fact, our most enduring common interest and indissociable from any exercise like this.

It is therefore agreed to put the highly subjective question of shared values on a separate track over the course of the project. Contributions on this issue will be organised for review and summary in the concluding stages, and taken into account in the formulation of strategic conclusions and recommendations.

Common interests

Having put the question of shared values on a separate track, the primary objective of Phase II will be to identify those future interests of Europe which can serve as a basis for future political partnership with the United States.

During our Phase I discussions, four broad points of agreement have emerged:

1. The impact of each partner's economic interests on the political relationship is certain to grow;
2. Our respective future political and security interests (or "non-economic" interests) have entered an uncertain period, but will remain central to our political relationship;

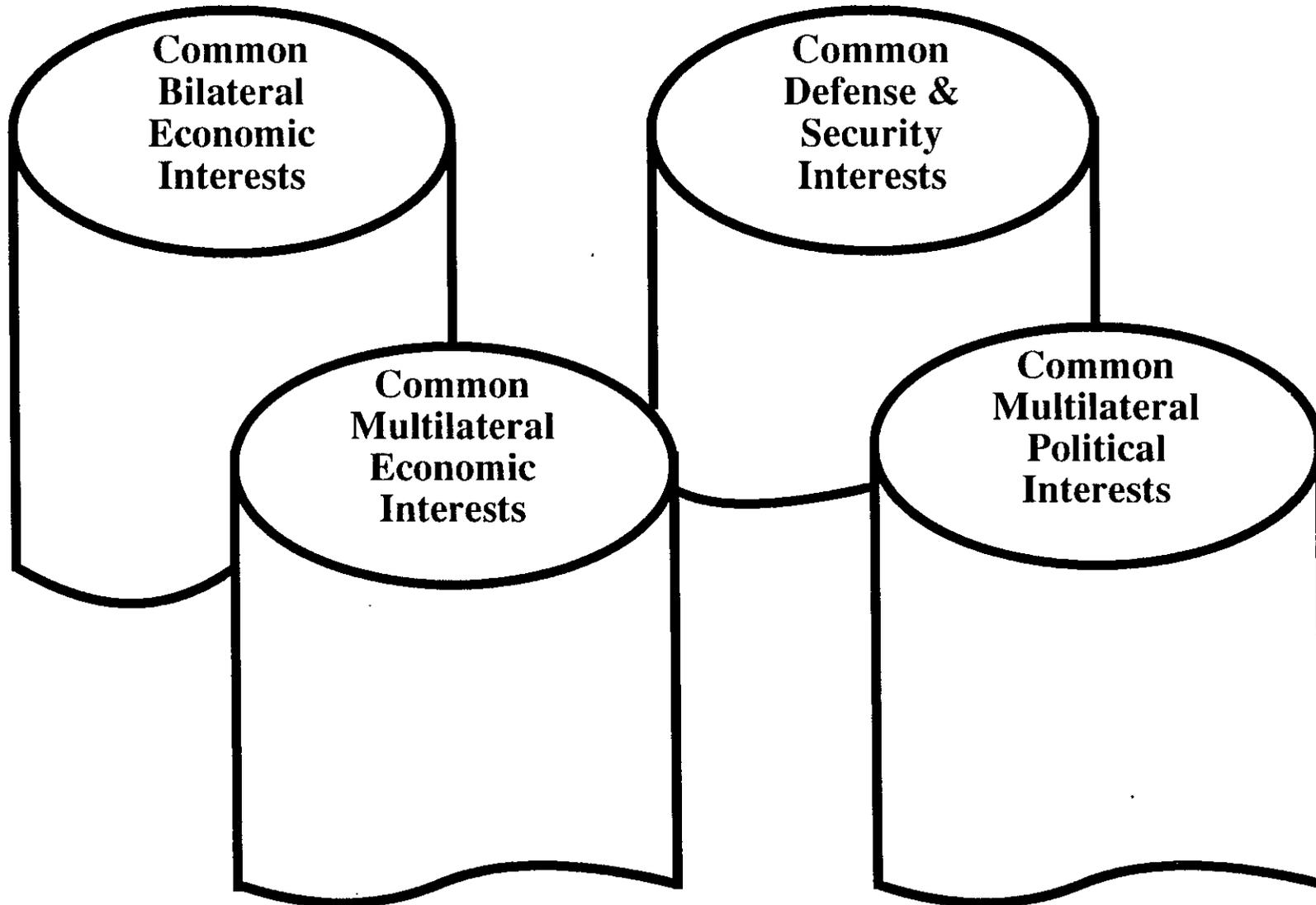
3. A distinction between our "bilateral" common interests and our "multilateral" common interests can usefully be drawn for this project, this distinction being understood for practical purposes as follows :
 - * Bilateral common interests are those arising from our direct relations with each other, and which can be advanced through direct bilateral engagement;
 - * Multilateral common interests are those arising (in whole or in part) from Atlantic partners' respective relationships with the rest of the world, but which neither can hope to advance absent bilateral concertation with the other.
4. The "linkage" - or "overlap" - between partners' economic and "non-economic" interests is certain to grow, as is the linkage between our "bilateral" and "multilateral" interests.

In view of the general agreement on these four points, it has been decided to use them as the practical framework for the rest of the project. As illustrated on page 8, we postulate four political "pillars" as the foundations of a future Transatlantic partnership :

1. Common bilateral economic interests
2. Common multilateral economic interests
3. Common Defense and security interests
4. Common multilateral political interests

Each of these "pillars" is discussed briefly in Section III of this document. Section IV addresses the importance of future linkages between them.

Four Political Pillars for a Future Transatlantic Partnership



B. FUNDAMENTAL SIMILARITIES & FUNDAMENTAL DIFFERENCES

Phase I participants also agree on the importance of recognising from the outset that Europeans and Americans do not "start from the same place" when considering their future interests and priorities.

In many fundamental respects we are similar, but in others we are quite different. Our analytic approach therefore will therefore try to take account of the future evolution of our most important fundamental similarities and differences, because convergence or divergence in these will determine important convergences or divergences in our future interests.

Annex I presents an indicative summary of fundamental similarities and differences between Europe and America identified during Phase I discussion.

C. SYMBOLS AND SYMBOLISM

Finally, beyond the relative importance to the political relationship between Europe and America of values, interests and fundamental characteristics, our Phase I discussions have also speculated on the role and importance of "symbols".

Are the familiar symbols and symbolism of our long-standing defense alliance the same symbols and symbolism we will need to sustain a future political partnership founded to a much greater extent than in the past on broader, less immediately compelling - and certainly far less readily communicable - common interests?

What practical implications will answers to this question carry? (Are such issues, for example, close to the core of recent Transatlantic conflict over cultural policy?)

As with the issue of shared values, we believe the issue of symbols will need to be reintroduced in the final stages of this project.

III. FOUR PILLARS
FOR A
FUTURE TRANSATLANTIC PARTNERSHIP

PILLAR 1 : Common bilateral economic interests

Be our fundamental economic similarities and differences as they may (see Annex I), Europe and America have developed an immensely important bilateral economic relationship, characterised by enormous - and balanced - trade, investment and technology flows.

Much is often currently made of the fact that other parts of the world are now growing in economic importance to both Europe and America. And indeed, some dilution in the proportion of trade and foreign investment each Atlantic partner represents for the other is widely seen to be both inevitable and desirable.

But this necessary diversification of economic interests in response to worldwide economic development is no argument against the strategic primacy for both Europe and America of further developing the volume and quality of Atlantic trade and investment. To do so, Phase I participants believe we will need to :

- 1) Demonstrate and articulate each partner's interest in the bilateral economic relationship more consistently and forcefully in the face of evident tendencies on both sides of the Atlantic either to take this interest for granted or to assert its diminishing importance;

- 2) Define and take forward a specific policy agenda for further integrating markets and facilitating investment across the Atlantic;

(Phase I participants have nominated specific social, economic and business policy issues for priority bilateral attention within the Atlantic partnership; these appear in Annex II.)

- 3) Develop principles and mechanisms for systematic bilateral economic dispute prevention and resolution, lest an accumulation of festering, unresolved disputes undermine political support for greater economic integration (meaning, inevitably, greater competition) across the Atlantic;

(During Phase I, TPN European members have entertained recommendations from the European Commission on principles for future bilateral transatlantic dispute settlement.)

We believe that, given sufficient effort, the common interest of Europe and America in our bilateral economic relationship can become a significantly more robust political pillar of partnership than it is today. Moreover, developing this pillar appears to offer the most immediate insurance against any future weakening of the defense and security pillar.

PILLAR 2 : Common multilateral economic interests

Development of future common multilateral economic interests of Europe and America as a pillar of future partnership looks from Europe to be less immediately evident, for the following reasons :

- * Europe has never pretended to a go-it-alone international economic policy option; our prosperity has long been seen to be heavily dependent on an open, growing world economy;
- * Europe's external trade is highly diversified and therefore politically unmanageable except through established GATT principles and undertakings; moreover, we have no real experience of dealing with protracted bilateral imbalances on the scale of America-Japan;

- * Europe is itself a multilateral construct through which member states have learned over the years to solve many of their own internal problems; the aptitudes, attitudes, skills and techniques of multilateral economic management are today second nature to Europeans (though Americans often perceive this as no more than an incurable addiction to protectionism and managed trade).
- * By contrast (and notwithstanding the recent NAFTA and GATT agreements), America today appears from abroad to remain deeply divided on the benefits of a multilateral international economic policy strategy :
 - * On one side are seen many Americans who (for understandable reasons of history and geography) continue to regard multilateral rules with deep suspicion - as ineffectual, an unacceptable infringement of sovereignty, or both;
 - * On the other are those who believe that America has no viable alternative to a multilateral economic policy strategy (though this is less frequently seen as the preferred option, and rarely as incompatible with a vigorous bilateral or unilateral defense of American interests).

It is therefore foreseeable that Europe will in future perceive a greater strategic interest than will America in the continued development of effective multilateral principles, mechanisms and institutions as the foundation of future economic prosperity .

Under this assumption, Europe can no longer assume, as we have been able to throughout the cold-war era, that America will in future provide decisive leadership to ensure the vital European interest in preserving and developing the multilateral economic system.

But by the same token, Europe must also accept that future multilateral initiatives cannot hope to succeed absent strong American support and involvement, if not outright leadership.

For these reasons, TPN European members conclude that :

1. Europe must assume a greater burden of leadership in the development of the world's multilateral economic management system because (i) we have the most evident interest in doing so, and (ii) we have the necessary skills and aptitudes.

2. Success in this endeavour - upon which Europe's future prosperity absolutely depends - itself depends on the development over the next few years of a clear and realistic bilateral Transatlantic consensus on the "next generation" of multilateral principles, mechanisms, institutions and priorities;
3. We must focus this bilateral effort on multilateral problems and opportunities which America accepts cannot be solved or pursued in isolation.

Successfully developed, a Transatlantic consensus on multilateral economic policy strategy would constitute a second major political pillar of the future Transatlantic partnership - and one of great strategic value for Europe in the longer term.

During Phase I, TPN European members have identified a number of multilateral economic issues on which Transatlantic consensus could be pursued as priorities (Annex II).

* * * * *

Note : Discussions during Phase I of this project have focused primarily on economic issues and interests. The non-economic interests touched on hereafter will require further elaboration during Phase II.

* * * * *

PILLAR 3 : Common defense & security interests

The present security environment in Europe (and elsewhere in the world, for that matter) is characterised by many more questions than answers :

- * From where will future threats to European security come? From external aggression? Internal sedition? What will be their specific nature and force? Force of arms? Force of economic leverage or dependence? Force of political or religious ideas? Unmanageable immigration?
- * What will be their geo-political locus? Greater Europe? The Mediterranean rim? Farther still?

- * And, most important for purposes of this project, how will Europe's answers to these questions coincide or differ with America's answers to the same questions ?

Bringing coherent European answers to these questions will be an absolute prerequisite for bringing new coherence and strength to this political pillar in a strategy of Transatlantic partnership.

For the European Union, newly possessed of Treaty provisions for a common foreign and security policy, efforts will therefore have to be made to forge a collective European security strategy. One way to approach this task will be to consider :

- * Europe's "local" security interests;
- * Europe's "global" security interests.

Europe's "local" security interests appear to arise in two neighbouring problem areas:

- * The Eastern Frontier, from Central and Eastern Europe to Russia, other CIS states.
- * The Southern Frontier, from North Africa to the Middle East.

But in each case, there is presently a striking anomaly: whereas geography suggests a division of interest and involvement heavily weighted toward Europe, in fact America continues to dominate international political and security involvement in key countries or regions of both European frontiers.

Among apparent reasons for this anomaly are usually cited :

- * America's historical involvement in these parts of the world, combined with its continuing military strength, unity of purpose, and long experience of leadership;
- * America's reluctance to defer to European views when these differ;
- * The abiding unwillingness of key European governments to cede sovereignty within Europe on foreign and security policy.

But a subtler reasoning may also be advanced, namely that America's deep political and military involvement on Europe's frontiers has been of high strategic importance over the past decades because Europe itself has been of the highest strategic importance in American security doctrine.

To accept that there is an underlying truth in this observation is to accept that American security interests in many parts of Europe's two frontiers may begin to wane in the future - or at least shift in focus and motive, if and as Europe itself becomes less central to American security preoccupations.

Be this conjecture as it may, there can be little doubt that a common European foreign and security policy would have as its first practical consequence (if not explicit objective) a rebalancing of the weight of influence and engagement between Europe and America in Europe's immediate neighbourhood. (Such a scenario also presumably implies greater clarity on the future role and structure of NATO).

Europe's "global" security interests will likewise require definition and strategic action under the new external policy framework of the Union. Some of these will certainly coincide with America's future security interests (e.g. nuclear non-proliferation; migration; relations with the Islamic world).

Beyond these brief preliminary observations, Phase I participants offer three tentative conclusions for further consideration :

1. Whether our future common interests with America turn out to be "local" or "global", a redefinition and restructuring of the Transatlantic defense and security pillar around them will depend first on affirmative development of common foreign and security policies within Europe;

This will in turn depend directly on the political willingness of European governments to pursue such common policies;

2. Irrespective of the specific Atlantic security policies and inter-institutional relationships ultimately emerging (but always assuming progress on a common European strategy), greater burden-sharing and power-sharing between Europe and America on defense and security matters is the policy orientation most compatible with a shift away from defense alliance and toward political partnership.

3. Absent such a shift, many Phase I participants agree that what has been by far the most important political pillar of the Transatlantic relationship could easily deteriorate into recurrent dissention and mutual acrimony of the sort which has characterised the west's response to the tragedy of the former Yugoslavia.

PILLAR 4 : Common multilateral political interests

Phase I discussions have left participants with renewed appreciation of Europe's profound interest in fostering a peaceful and cooperative world. Viewed against this ultimate objective, Europe will need to find responses to a variety of potentially destabilising problems confronting mankind at the close of the XXth century.

An indicative list of such issues would include :

- * environmental degradation
- * food and famine
- * health
- * illegal drugs
- * organised crime
- * human rights and ethnic minorities
- * peace-making and peace-keeping
- * the sanctity of frontiers

This global political dimension to Europe's future interests begs precisely the same basic issue of European strategy for a future Transatlantic partnership as does the multilateral economic dimension, i.e. :

- * If Europe believes multilateral approaches offer the only possible solutions to such problems, then we will have to assume a far more assertive leadership role than we have in the past;
- * This will often mean first convincing a sceptical United States to support the multilateral strategies and institutions necessary for success (all the more problematic given American attitudes toward the United Nations system, which deals with many of these issues today).

Progressively closer, and successful, concertation between Europe and America in dealing with global problems which neither partner can effectively deal with alone would then add an important fourth political pillar to the foundation for Transatlantic partnership.

Moreover, effective multilateral action by politicians on pressing problems of great concern to their home constituents looks to be the best - and perhaps the only - way to build popular political support for multilateralism as a basic policy orientation.

V. LINKAGE BETWEEN INTERESTS

As a last point of preliminary input into this strategy project, TPN European members believe it is essential to stress the growing linkage between the economic and non-economic interests of Atlantic partners in today's dynamic geopolitical environment, as well as the increasingly frequent blurring of the distinction between the bilateral and multilateral interests of Atlantic partners.

Thus the "four political pillars" conceived as the foundation of future partnership in this Phase I document will not prove nearly so distinct and discreet in practice - nor in the subsequent stages of this project - as they have been made to appear in this introductory analysis.

Will European and American economic interests in future be dictated largely by our respective security interests (as America's arguably have been during the cold-war era)? Or will our respective security interests increasingly reflect our economic interests (as Europe's largely did throughout the colonial era). Are there any economic or security issues between Europe and America which do not today have a broader, multilateral dimension?

It is left to subsequent phases of this project to identify important linkages with greater specificity (as for example the obvious linkages among western interests in relations with Russia).

One of the driving forces behind this growing linkage among interests of Atlantic partners is certainly the rapid globalisation of major corporations of both European and American parentage.

As their nationalities become less distinct, and as their interests expand beyond Europe and America, and beyond simple trading opportunities, they become stakeholders in political choices and socio-economic development literally around the world. At the same time, their growth and profitability become increasingly dependent on rapid commercialisation of new products and process virtually simultaneously in key markets. They thus acquire a growing stake in the elimination of political and regulatory barriers to doing business on a global scale.

TPN's unique structure (bringing together business people, politicians and the academic community) is itself a reflection of the growing linkage among Atlantic partners' interests, their growing globalisation, and the consequence of these two trends, i.e. :

- * Business activity - in Transatlantic markets and elsewhere - will increasingly acquire a political dimension;
- * Political choices in both Europe and America will increasingly affect business interests on both sides of the Atlantic, and beyond.
- * When Europe and America take decisive political action in concert to advance our common interests, European and American businesses benefit, and their many stakeholders benefit.

And the first lesson of the TPN experience is that far more effective communication between business executives and politicians has become a prerequisite for preserving and building the Transatlantic partnership.

Why? Because deeper mutual understanding and cooperation between economic actors and political decision-makers is the only way to begin to resolve the central conundrum of the modern world, summarised so elegantly and succinctly during a TPN session in 1993 :

"We have a global economy and tribal politics."

* * * * *

ANNEX I

FUNDAMENTAL POINTS OF COMPARISON
BETWEEN
EUROPE AND AMERICA

(Points made by participants during Phase I discussions)

Fundamental economic similarities

- * Broadly similar productive capability, the result of unfettered access to state-of-the-art technology (wherever sourced), openness to foreign direct investment, and similar composition of final domestic demand.
- * Open, competitive systems largely driven by private capital and private entrepreneurship, with companies free to decide strategy.
- * A structural shift toward information-based industries - and notably service industries - as the engines of future economic growth and employment; (this gives rise to new concepts and policy strategies for, e.g. industrial policy, human resource policies, telecommunications infrastructure policy, competition policy for information and communications sectors).
- * Broadly similar concepts of private commercial law.
- * Highly-developed education systems.

Fundamental economic differences

- * Europe is not rich in natural resources, particularly as compared with the United States;
- * America is one country and one economic system, characterised by high internal mobility not only of products and services but even more importantly of all factors of production including labour.

Europe's economic structure is a unique overlay of supra-national constitutional law on national political economies, resulting in increasing internal mobility of goods, services, capital and certain categories of professionals.

- * Europe remains more wedded to the politics of social democracy, with concomitant policies of the "social market economy".
- * Within living memory, Europe has seen several versions of the command economy, with central planning of both the left and the right.
- * Nationalised industry remains a far more common feature of the European economic landscape; it is present to varying degrees in every member state of the Union.
- * Likewise, regulation intended to protect distinct socio-economic groupings, or to redistribute wealth between them, remains far more prevalent throughout Europe than in the United States.
- * European countries have been far more trade-dependent compared with the United States (although this gap is now closing as American trade has grown from 9% of American GDP to 20% over the past decade, while Europe's internal trade has grown much more rapidly than our external trade); and Europe's scope and composition of trade has historically been more diversified, reflecting in part its colonial past.
- * Europe consumes less energy per capita than does the U.S., with different political risks attached to imported energy supplies.

ANNEX II

PRIORITY BILATERAL ECONOMIC ISSUES

(Issues nominated by one or more TPN Phase I discussants for priority bilateral development in the Transatlantic relationship)

- * "Competitiveness" policies (incl. R&D, subsidies and procurement)
- * Regulatory cooperation (esp. for health & safety regulation)
- * Mutual recognition for product and process approvals
- * Standardisation and certification
- * Fiscal treatment of foreign investment (and other investment-linked issues)
- * Policies and regulation relevant to information-based industries and services
- * Policies and regulation relevant to life-science ("biotechnology") based industries
- * Education and training
- * Employment programmes and policies (work underway within TPN)
- * Economic policies and programmes for Russia and CIS states (work underway within TPN)

ANNEX III

(Issues nominated by one or more TPN discussants for priority bilateral treatment with a view to multilateral action)

- * Macro-economic and monetary policy
- * Environmental policies and trade
- * Competition policy
- * Intellectual property policy
- * Cultural policy and trade
- * Anti-dumping and safeguard policy and practice
- * Organisational and institutional strategies (e.g. future role and organisation of GATT, G-7, OECD, IMF, BIRD, BERD, etc.)

TRANSATLANTIC POLICY NETWORK

DW60/P2

TPN

Sixth Floor, 133 Rue Froissart, 1040 Brussels

PHASE TWO

Phase Two has several interlinked aims:

- * to draw in a group of expert and professionally interested participants to comment on the draft report, and so to gather a broad-based view of informed European opinion;
- * to examine divergent perspectives in different European countries towards transatlantic relations;
- * to discuss in more detail a number of aspects of transatlantic relations which feed into the formulation of a European Strategy.

The Research Director will be conducting a review of governmental and elite opinion in the major West European countries, as the debate on European policy towards the USA after the Cold War has evolved focusing on the United Kingdom, France, Germany, Italy, Spain and the Netherlands, while also surveying relevant statements and papers from the other Member States of the European Community as far as time allows.

Alongside this background work on the developing European debate, a series of four seminars will be held, in Rome, Paris, Bonn and Brussels. These will be jointly sponsored with national institutes and companies, with up to 30 participants: of whom 6-10 would be members of the "core group" attending some or all of the series, with others coming from national government, politics, companies, media and intellectual life.

Discussion of the Phase One report will be complemented by papers on national perspectives and on specific themes. Input from both TEPSA (Trans European Policy Studies) and the European Institute (Washington) will form part of this ongoing work.

To promote as wide an input as possible of different European views, participants from Spain and Greece could be invited to the Rome seminar, from Britain and Ireland to the Paris seminar, and from the Netherlands and Denmark to the Bonn seminar.

"EUROPEAN STRATEGY TO THE US"
MEETING TWO

VENUE: ROME

DATE: 1 FEBRUARY 1994

HOST COMPANY: IRI

COOPERATING INSTITUTE: TEPSA
ASPEN INSTITUTE, ITALY

PROGRAMME:

Specific issues to raise will include North American regional integration: its implications for European interests and,

South-north migration, Mediterranean security: issues for transatlantic conflict or cooperation?

MATERIAL INPUT:

Discussion of Phase One report.

Italian perspectives on transatlantic relations (paper from Istituto Affari Internazionali (IAI).

A synthesis of existing documentation on the transatlantic relationship.

ADDITIONAL POINTS:

Spanish and Greek participants to be invited.

**"EUROPEAN STRATEGY TO THE US"
MEETING THREE**

VENUE: PARIS

DATE: 17 MARCH 1994

HOST COMPANY: PECHINEY

COOPERATING INSTITUTE: TEPSA
INSTITUT FRANCAIS DES RELATIONS
INTERNATIONALES (IFRI)

PROGRAMME:

Issues to raise will include economic cooperation among the advanced industrial democracies: OECD and G7 (possible paper from OECD).

MATERIAL INPUT:

Report on progress and establishment of the study so far.

Discussion of Phase One report.

French perspectives on transatlantic relations. Paper from IFRI.

A synthesis of existing documentation on the transatlantic relationship.

ADDITIONAL POINTS:

British and Irish participants to be invited.

"EUROPEAN STRATEGY TO THE US"
MEETING FOUR

VENUE: BONN

DATE: 10 MAY 1994

HOST COMPANY: DAIMLER BENZ

COOPERATING INSTITUTE: TEP
SA
INSTITUT FUR EUROPISCHE POLITIK

PROGRAMME:

Specific issues to raise will include transatlantic security cooperation in a widening Europe: NATO, NACC, WEU, and CSCE. Paper from NATO secretariat.

MATERIAL INPUT:

Report on progress and establishment of the study so far.

Discussion of Phase One report.

German perspectives on transatlantic relations. Paper from Institut fur Europaische Politik.

A synthesis of existing documentation on the transatlantic relationship.

ADDITIONAL POINTS:

Dutch and Danish participants to be invited.

**"EUROPEAN STRATEGY TO THE US"
MEETING FIVE**

VENUE: BRUSSELS

DATE: 20 JUNE 1994

HOST COMPANY: TBC

COOPERATING INSTITUTE: TEPSA
CENTRE FOR EUROPEAN POLICY
STUDIES (CEPS)

PROGRAMME:

Specific issues to discuss will include global integration and regional integration: the management of EC/US relations after NAFTA and the GATT Uruguay Round.

MATERIAL INPUT:

Report on progress and establishment of the study so far.

Management of the EC/US relationship after the GATT and Uruguay Round (Paper from the European Commission).

Finalisation of work developed during Phase 2.

Proposals for the preparation and development of Phase 3.

ADDITIONAL POINTS:



CAUTIOUS OPTIMISM:
A REVIEW OF LITERATURE ON US-EC RELATIONS 1988-1993

Presented to the Transatlantic Policy Network by
The European Institute

Washington, DC
January 25, 1994

CAUTIOUS OPTIMISM:

A REVIEW OF LITERATURE ON US-EC RELATIONS 1988-1993

Presented to the Transatlantic Policy Network by

The European Institute

I. INTRODUCTION

Numerous publications on transatlantic relations have appeared in the last several years, reflecting not only the unprecedented changes affecting and occurring within the relationship, but also the uncertainties surrounding future relations. While none of the authors surveyed expressed "Europhobia," "Europhoria," or any of the other extreme sentiments often applied to European integration, there was a prevalent mood of cautious optimism with respect to future US-EC relations, whether they be of a political or economic nature.

This report provides a synthesis of the principal works on US-EC political and economic relations since 1988. After a brief overview of the authors surveyed, a more detailed look is provided of the authors' treatment of selected issues in both the political and economic realms that have engaged the US and the European Community during the last five years.

II. POLITICAL RELATIONS

A. Overview

Recent publications on the US-EC relationship all support the thesis that the events of 1989 have fundamentally altered the nature of the transatlantic relationship by

undermining the premises of the Cold War alliance, resulting in a decline in US influence. Differences appear, however, as to how the US should react to its declining leverage. Several authors argue for a cautious approach due to the uncertainty surrounding the future shape of Europe. Nearly all argue that the US should overcome its reluctance to make fundamental changes in its foreign policy and should reassess its approach to Europe in order to encourage the development of an outward-looking Europe.

While earlier works on contemporary US-EC political relations continued to focus on the security dimension, they generally acknowledged the emerging importance of political and economic issues. In his essay, Levine (1990) argues that the events of 1989 have presented both dangers and opportunities for the US. He recommends that the US adopt a "conservative/activist" strategy which would entail maintaining long-term opportunities in Europe by avoiding short-term blunders. In particular, he argues that the US should help revive the economies of Eastern Europe to avoid future threats to stability in Europe.

In another essay, Steinberg (1990) argues that the declining importance of security issues will not undermine transatlantic relations; rather, underlying interests and ties will sustain their special relationship. The US should adopt a new approach based on existing institutional arrangements with the EC to develop a new partnership.

Treverton (1990) offers a series of academic essays focusing primarily on the security implications of US-EC relations in light of the events of 1989. The contributors believe that 1992 will create more numerous and controversial issues, although trade disputes are unlikely to undermine the Atlantic Alliance.

Treverton (1992) presents another series of essays which examine "1992" in its broader political setting. Wallace envisions a central role for the EC in Eastern Europe and argues that the EC wants the US to stay engaged in Europe, but as an active partner in a multilateral order. Heisbourg agrees with the general thesis that the confusion resulting from recent changes in the post-war era should be managed through existing international institutions. Ludlow, who argues for deepening the EC, contends that foreign policy and defense issues will be the most difficult for the EC but is optimistic that a common European foreign policy will eventually emerge. Hoffmann, less optimistic, argues that foreign policy consists of more than just declarations and that, in the absence of an overriding threat, diverging approaches will continue to exist. He contends that Eastern Europe is the EC's responsibility and that the US should not seek new transatlantic projects to deal with problems in this area.

In a historical analysis of transatlantic relations, Cromwell (1992) argues that changes in the international environment have created unparalleled complexity and challenges for US-EC relations. Because policies toward the former USSR will no longer be a source of conflict, he believes, contrary to the majority of authors, that US and EC interests are converging, thereby improving the outlook for transatlantic cooperation as a partnership of equals develops. However, increasing EC assertiveness will result in distinctive EC positions which will pose challenges to transatlantic relations.

Collins (1992) analyzes the patterns of change occurring in Europe and their implications for US foreign policy. He agrees with Cromwell that the US and EC share basic interests, and that future tensions are likely to be of economic origin. He contends that the US should restructure its approach to the EC but, like Levine, warns the US not

to act in haste given the uncertain shape of Europe due to the amorphous nature of the E.C.

Van Tartwijk (1992) provides an overview of European integration, including sections on specific areas of controversy and comments by representatives of both the public and private sector, as well as of academia, incorporating more of an economic focus than previously mentioned authors. She contends that recent events make the EC more important to the US than ever. However, the US response has been ambivalent: while EC-92 presents the opportunity for a more self-reliant Europe, it also presents challenges to U.S commercial interests. She argues that the US should take a more offensive position with respect to European integration.

Haftendorn and Tuschhoff (1993) present another series of academic essays providing historical perspectives and theoretical approaches to evolving US-EC relations. In contrast to van Tartwijk, they maintain that the EC has lost its primacy for the US. They conclude that, while the predominant pattern of future transatlantic relations is likely to be conflicting interests, these conflicts will be over less vital issues and therefore a more symmetric partnership will develop based on common political and economic interests.

In his essay, Krasner presents a realist perspective, arguing that the relative decline of the US vis--vis the EC will result in a unipolar, less hierarchical world and that the US should develop a strategic vision to confront the challenges of the new order. Keohane agrees that the US must readjust its thinking in terms of joint leadership through the institutionalization of existing multilateral organizations.

Hoffmann expects two developments in US-EC relations: a normalization of their relationship due to decreasing US domination, and US ambivalence with respect to EC

unification due to its conflicting fear of rivalry and frustration at the EC's inability to speak with one voice. He is one of the few authors who contend that security issues will continue to dominate US-EC relations.

Putnam presents a related thesis based on economic interdependence and parochial politics. While the former lends itself to increased cooperation, domestic political priorities may create tensions (i.e., over trade issues), especially if the EC is unable to provide coherent leadership. He concludes that the EC needs a genuine federal system with a strong executive and agrees with the general conclusion that a more integrated Europe will provide a more reliable partner but also a more dangerous rival.

Nye envisions a less commanding role for the US but argues it should continue to influence multilateral coalitions and institutions. However, the EC fear of US efforts to dominate may lead it to resist efforts to cooperate. Furthermore, internal EC preoccupation will decrease its interests in US concerns. Because emerging issues will be treated at lower levels (i.e., among trade ministers), there will be increased prospects for friction. He concludes that a stronger EC will lead to increased conflicts, but the opportunities for burden-sharing will outweigh the threats to US interests.

Nelson and Ikenberry (1993), focusing on the EC as the main object of US European diplomacy, agree with the general thesis that the end of the Cold War has given the US a historic opportunity in Europe. They also foresee growing antagonisms in the 1990s as economic differences surface, arguing that firm political and economic ties are necessary for sustaining the Atlantic alliance. The US should adopt a proactive strategy to support a united, outward-looking Europe through an institutional framework, but that, as Levine also argues, its approach should be "bottom-up," dealing with specific problems and seizing

specific opportunities. A strong European partner is needed to combat the challenges of the Post-Cold War era.

B. Selected Issues

Institutions

As European integration progresses, the US interest in cooperation and dialogue has increased and there has been a greater effort to adjust US European diplomacy to the EC. The major challenge seen by several authors for the US is to keep pace with European integration through institutional arrangements to ensure a full hearing for US interests and continued transatlantic cooperation.

Cromwell acknowledges the Bush administration's effort to adjust US European diplomacy through increased cooperation and dialogue. However, his overall positive outlook for US-EC relations is tempered by US disappointment in the EC's unwillingness to strengthen institutional and consultative links with the US and the failure of the Transatlantic Declaration to lead to joint action. Until the EC is able to speak consistently with a single voice, the US will retain a strong bilateral influence in transatlantic relations.

Collins argues that the US has nothing to fear from increased EC assertiveness; on the contrary, the US will profit from increased burden-sharing. However, he laments the fact that the US is not often privy to EC internal deliberations which affect the US. He notes a US tendency to underestimate the potential of the E.C., concluding that the US government should develop special committees to monitor and deal with EC institutions at top levels. His main conclusion is that the US must reassess its role in Europe and keep pace with European integration through increased consultation.

Krasner asserts that policy coordination will be more difficult due to decreased US leverage, but that increased EC independence is a positive development, resulting in a more sustainable division of labor. The US should be willing to participate in more cooperative decisionmaking arrangements and should strengthen existing international institutions for this purpose.

EC Foreign Policymaking

The EC has enjoyed limited success in its foreign policy initiatives. Nonetheless, analysts agree that the US should welcome the development of a more active EC as a partner capable of sharing the economic and political burdens which it has hitherto borne alone. However, while a unified EC presents the US with a potentially strong ally in its own foreign policy initiatives, it may also be more capable of resisting US pressures, resulting in new challenges for US-EC relations.

Overall, analysts observe that as the EC consolidates and becomes a more independent policymaking entity opportunities increase for a distinctive European voice in international affairs. However, until the Twelve are able to act unilaterally on all issues, the US will retain a strong bilateral influence.

The events of 1989 have improved the outlook for transnational cooperation by removing an often controversial political context for foreign policy decisions. The removal of differences over policy vis--vis the East presents an unprecedented opportunity for converging interests and cooperation. However, the emerging "partnership of equals" will also entail an increasingly independent EC which will not be as likely to subjugate its interests to those of the US.

III. ECONOMIC RELATIONS

A. Overview

The EC's internal market program has generated innumerable analyses of its effects on US-EC economic relations. In one of the first studies of the 1992 program by an American, Calingaert (1988) provides a thorough overview of the origins of EC-92 and its implications for the US. He argues that, while the 1992 program is not inherently protectionist, certain provisions may give a competitive advantage to EC firms. Therefore, the US should anticipate the challenges to its own commercial interests in order to insure maximum market access.

Colchester and Buchan (1990) present a European perspective of EC-92, agreeing that overall it is not protectionist, but stressing that its evolving nature makes it necessary for businesses to monitor its progression. Hufbauer (1990) offers a comprehensive sector by sector series of essays analyzing the effects of EC-92 for US businesses. The contributors argue that the US needs a strong, well-articulated strategy to face the challenges of EC-92. By bargaining with the EC within the existing institutional framework, US-EC differences can be resolved, resulting in a stronger economic relationship. Their shared interests could lead to a US-EC duumvirate in international economics. In his essay on EC competition policy, Rosenthal maintains that the EC favors open markets and therefore its competition policy is generally non-discriminatory, presenting increasing opportunities for US companies. Greenwald, writing on US negotiation strategy, discusses controversial elements of the single market program, arguing for increased multi- and bilateral consultations with the EC.

Yannopoulos (1991) presents a series of essays on different aspects of EC-92, emphasizing its subtle and complex effects for US-EC relations. While fears of a "Fortress Europe" are exaggerated, the US should not relax its efforts to guard against protectionism. In his essay on American responses to 1992, Zupnick notes that while the US initially supported EC economic integration to build a stronger ally, it now faces a strong competitor. He argues that economic relations will be the dominant force shaping US-EC relations. Furthermore, future relations are likely to be more prickly, but they are unlikely to result in crisis. In a comment to Zupnick's essay, Mayes argues that overall US-EC conflicts will decrease, but warns against the increasingly bilateral nature of conflicts where specific issues can sour relations.

Kreinen, in an essay on EC-92 and the world trading system, presents a mixed review of US-EC economic relations, noting increasing opportunities for liberalized trade but also the danger of discrimination. Graham, writing on the effects of EC-92 on multinationals, argues that unclear rules and competency are likely to cause conflict, a thesis which is applicable to all areas of the evolving EC-92 program. Kaufmann, in a discussion of European monetary integration argues that it will likely reduce the relative importance of the dollar as an international currency.

Coffey (1993) provides an up-to-date examination of past and current issues, including European monetary union, concluding that a dialogue of equals is emerging between the US and the EC. However, he warns the US to remain vigilant with respect to developing EC policies.

The National Association of Manufacturers (NAM), the Department of Commerce and the International Trade Commission have provided regular, practical analyses of the

emerging 1992 program. NAM, overall optimistic regarding the prospects for US business, argues that future relations will see an increased number of conflicts, but over less vital issues, resulting in more difficult policy coordination. The US Government and businesses need to develop a unified front to meet the challenges of EC-92. The US Government publications all stress the urgent need for US businesses to make themselves fully aware of the implications of EC policies in order to maintain their market access and competitiveness.

B. Selected Issues

Monetary Relations

Overall, the authors surveyed tend to be optimistic about the effects of EMU on US commercial interests. More controversial is the impact on international monetary coordination and the role of the dollar.

Kaufmann, Coffey and a 1992 report to Congress support the argument that the dollar's role as an international reserve currency is bound to be challenged by the ECU. According to Coffey, this will limit the US's ability to run up budget deficits, since another, perhaps stronger, reserve currency is available. As capital flows to the ECU, leading to dollar depreciation and inflation, the US could conceivably lose control over its own monetary and fiscal policies. A recent Congressional hearing on EMU cites the dollar's competitiveness, as determined by underlying economic conditions, as the key factor affecting its fate as an international currency, but that its decline is no great cause for alarm. On the other hand, the existence of three equally important currencies -- the dollar, the ECU and the yen -- is seen as a positive development, since it could reduce dollar

volatility. Hufbauer believes the development of such a US-EC-Japan triumvirate in international financial issues is likely.

The great deal of uncertainty surrounding the future of EMU in light of recent setbacks makes the effects on US-EC relations difficult to ascertain. However, most authors believe it likely that the US will experience decreased leverage of the dollar, although the magnitude is impossible to predict. While the perception of the dollar as a safe haven currency could prevent this, the US must get its own fiscal house in order if it wants to retain this status. As with trade relations, the US will be gaining a stronger partner but, at the same time, a stronger competitor.

Trade Relations

A cautious optimism now exists whereby both the opportunities and challenges of a unified European market are recognized, as reflected in recent literature on EC-92. The result is a more proactive, sectoral approach to the changing competitive conditions in Europe. This approach consists of assessing the microeconomic implications for US businesses and of devising means to express US concerns and to influence evolving EC policies. Although this marks a great improvement in the US response to EC-92, virtually all of the authors surveyed warn that the US government has not gone far enough in developing an aggressive strategy to ensure that the opportunities presented are not outweighed by new challenges to US economic interests.

Without exception, the analyses of EC-92 dismiss the likelihood of a Fortress Europe. However, two recurring themes are evident. The first is that while intra-EC trade barriers are becoming dismantled, there is a growing concern that individual EC policies may discriminate against third countries. For US industry the most critical aspect of EC-92

is technical barriers to trade, which restrict market access of both US subsidiaries in and US exporters to the EC on a large scale. The second is that the US has limited access to and input into the EC complex decisionmaking process concerning these policies. The challenge seen by most authors for the US is to determine how best to follow the development and implementation of EC rules and how to make US concerns known in a timely manner.

Most of the authors surveyed agree that US-EC dialogue has improved since the Single Market was first announced. Since 1988 the EC and the US have consulted on key elements of the 1992 program and have generally been able to avoid disputes which could have led to trade disruption. While accommodation has been reached on many issues, several EC policies are consistently discussed as being particularly controversial. These include reciprocity, public procurement, local content and rules of origin, and standards harmonization and testing.

Reciprocity. US concerns over EC reciprocity are best reflected in the debate over financial services, in particular the second banking directive.

Through informal US communications with the EC, the EC agreed to soften its approach to reciprocity with respect to financial services. On December 15, 1989, the Commission adopted a more liberal definition of reciprocity as applied to banking based on national treatment, although its requirements of "effective market access" and "competitive market opportunities" go beyond the US policy of national treatment. While this shift constitutes a major improvement for US banking, there is some concern that the EC may still pressure the US to liberalize the legal and regulatory structure of its banking sector. Furthermore, as Yannopoulos notes, reciprocity does not apply to results, thus if

EC banks are not successful in the US, despite being granted national treatment, further disputes could arise.

The Second Banking Directive is cited by several authors as evidence that the EC is not a Fortress Europe; rather, reciprocity is used as a tool to open up foreign markets and is usually targeted at Japan, not the United States. The EC would still prefer to see reciprocity applied to other areas, such as public procurement, another issue which remains a major source of conflict in US-EC economic relations.

Public Procurement. Literature on EC procurement policies is mixed, but over the past five years there has been a slight trend from outright skepticism towards cautious optimism. Calingaert (1988) presents a practical assessment of why, with respect to increased US access to EC procurement markets, there is "more progress on paper than in fact" because it is not clear whether in practice US firms meeting local content requirements will be given fair consideration. He predicts that public procurement is likely to remain a significant issue in US-EC relations and that further agreements are more likely to occur on a bilateral rather than a multilateral basis.

Greenwald provides a balanced examination of the origins of EC policy, as well as a comparison with American policies and an assessment of the implications for the US. As the EC is the biggest export market for US suppliers, he argues that liberalization will have an immense impact on transatlantic trade. He considers the Utilities Directive to be an especially positive development because it gives the EC competence in public procurement and therefore negotiating authority in GATT, where public procurement

negotiations had been stalled due to the lack of an EC negotiating authority. Equally encouraging, he maintains, is the Single European Act's introduction of qualified majority voting in legislation relating to EC-92, theoretically making it easier for foreign bids to gain acceptance. However, protectionist sentiments still linger, and current policies have failed to significantly increase intra-EC public procurement. The major question for Greenwald is whether the US will eliminate its "Buy American" provisions to gain increased access to the EC market. Finally, he agrees with Colchester and Buchan that enforcement is likely to be a major stumbling block because the US would not be able to contest every occurrence of unfair treatment. He therefore recommends increased bilateral diplomacy or, preferably, the creation of a US- EC dispute settlement process.

Kreinen presents a pessimistic view of the potential impact of EC procurement policies on US firms, reaffirming that liberalization is likely to favor EC member states over non-EC countries because of discriminatory provisions of the Utilities Directive. Coffey, on the other hand, presents a more positive perspective, claiming that the EC and the US recognize that public procurement is "a most important and lucrative market on both sides of the Atlantic." He therefore believes that increased dialogue is likely and that agreement will be reached to further liberalize markets due to continued EC insistence on reciprocity.

The National Association of Manufacturers has provided thorough coverage of developments in public procurement in its five annual reports on EC-92, which also reflect a cautious optimism. NAM argues that EC markets are so protected now that new initiatives can only benefit the US. However, "Buy EC" provisions may make future liberalization of multilateral trade difficult despite the EC's willingness to do so.

The ITC's 1993 report presents a mixed review, claiming US experts believe that in the long-term EC procurement markets will be more open to the U.S, but that in the short-term issues such as enforcement will undermine their effectiveness. Enforcement is especially difficult because of the reluctance of suppliers to challenge potential buyers. The ITC's biggest concern is the 50 percent requirement, because it is unclear whether US firms qualify and what constitutes local content.

Congressional reports reflect optimistic views on EC public procurement policies provided the EC can ensure implementation. However, one report notes that in 1/3 of 2000 transactions member states continued to select national champions. Concerns have also been expressed that EC public procurement policies in toto may be stricter than national policies, but there is some optimism that domestic content requirements may be phased out.

Local Content and Rules of Origin. As Zupnick and Calingaert note, the EC has used local content to counter the efforts of foreign firms to avoid EC anti-dumping duties by investing directly in the EC. Colchester and Buchan concur, claiming "The single most damning piece of evidence in favour of the claim that the EC is constructing a 'Fortress Europe' has been the evolution of its anti-dumping policy," although overall they maintain that EC industrial policy is not protectionist. Anti-dumping rules, while legal under GATT, are viewed by several authors as inherently dangerous since they encourage bilateral rather than multilateral trade policies, although it is admitted that thus far the EC has directed them primarily against Japan. Both Greenwald and Calingaert view it as unlikely that EC anti-dumping policies will be extended to the US.

Standards. Standards requirements represent a far-reaching concern according to the majority of the authors surveyed. Harmonized standards promote trade because they insure compatibility, quality and safety. Incompatible standards and certification processes, however, create technical barriers to trade.

In principle, the authors surveyed agree that the EC's "new approach" will benefit the US through the abolition of conflicting or overlapping standards and regulatory procedures and increased transparency of the standards development process. In practice, however, new EC standard requirements may constitute technical barriers to trade, since it is not clear to what degree "mutual recognition" will be extended to US standards and testing and certification procedures. Because mutual recognition goes beyond the principle of national treatment, US businesses, generally subject to less restrictive standards, would have preferential treatment in the EC.

Calingaert warns that US interests are vitally affected by exclusionary regulations and standards, and especially testing and certification procedures. He expresses concern that because EC standards are more extensive than their US counterparts, covering quality in addition to technical requirements, and that, because they are generally developed by government agencies, they are likely to be stricter than US standards which are set by industries themselves. Furthermore, the US is disadvantaged by non-transparent standards setting process resulting in EC standards which do not conform to global standards. He cites the dispute over beef hormones as an example where the US was harmed by uniform EC standards. Although generally optimistic at the prospect of increased US-EC cooperation, he lists four areas of concern, including lack of US input into the EC

standardization process (though he claims US companies are satisfied with the degree of access granted to them which, they claim, is proportionate to the amount of effort invested), lack of EC recognition of US standardization organizations, the EC's emphasis on EC bodies at the expense of international bodies, and discrimination against US products. Yannopoulos shares his view that the chief danger of EC-92 is exclusionary standards and fears that EC policies will undermine international efforts and that they are not open to outsiders.

Hufbauer is also pessimistic, claiming that uniform EC policies are more restrictive than decentralized US regulations. Coffey, though optimistic that an increased dialogue between equals is developing, claims that US optimism at the prospect of harmonized standards is misplaced due to considerable misunderstandings. January 1, 1993 does not automatically create harmonization since the adoption of "mutual recognition" means that different standards will still be allowed, although, as Hufbauer points out, harmonization will encourage a Darwinian selection method resulting in adoption of the least restrictive standards. Furthermore, Coffey believes the weakness of international standardization bodies and advanced EC systems will result in EC reliance on more restrictive EC standards developed by official laboratories, whereas the US relies on manufacturer self-certification. He concludes, however, that bilateral consultations are on the right track, although mutual recognition will be a long, arduous process.

NAM believes US companies will benefit in principle from EC standards because they will be more compatible with ISO standards. The main concerns are a lack of US input and problems for US companies that source products locally and therefore, under EC rules, may not be eligible for EC certification.

The ITC acknowledges that the number of steps taken to improve US access to the EC standards setting process had alleviated US concerns, since the prime US interest is timely access to standards being drafted and reasonable opportunities for input.

Testing and Certification. The US has pushed for mutual recognition of testing and certification procedures. Since 1989 Commerce has been working to ensure that certification remains the manufacturer's responsibility. If third-party certification is required, it should be done by a US body. In the meantime, the most straightforward, albeit costly, means for US companies to comply with EC requirements is to follow European standards and testing procedures, particularly until the EC agrees to recognize US procedures.

The authors surveyed are consistently less optimistic with respect to the impact of EC testing and certification policies on US companies. Calingaert calls testing and certification the "weak link in the EC standardization development process. Hufbauer asserts that, while conflicts over standard themselves have dissipated due to the success of US-EC dialogue, certification and testing will be a controversial aspect of EC integration for years to come.

IV. CONCLUSION

From the point of view of US foreign policy and the EC as a political actor, there was a consensus in literature surveyed that the US would have to find new institutional mechanisms to build foreign policy partnerships with the EC. The Transatlantic

Declaration was a start, but needed upgrading. The 1992 program had strengthened the Community's role on the world stage and provided the US a more equal partner with which to pursue joint foreign policy goals. The EC would be potentially more difficult to work with, however, because of this new assertiveness.

In the economic sphere, the literature on US-EC relations shows a clear evolution. The earlier works were concerned with the general question of whether the European Community would turn into "Fortress Europe" because of the 1992 single market plan. Later works dismiss the likelihood of an overall inward-looking, protectionist Europe but rather take a more focused look at possible problems for US companies in particular sectors. Overall, the EC is seen as an opportunity rather than an obstacle for the pursuit of US commercial interests. In the earlier period, reciprocity, particularly in financial services, and local content laws were a concern of the works surveyed. Later, public procurement and standards testing became two areas where the authors saw a continued need to monitor possibly restrictive EC practices.

BIBLIOGRAPHY

Calingaert, Michael. The 1992 Challenge from Europe: Development of the European Community's Internal Market. Washington, DC: The National Planning Association, 1988.

Coffey, Peter. The EC and the United States. New York: St. Martin's Press, Inc., 1993.

Colchester, Nicholas, and David Buchan. Europower: The Essential Guide to Europe's Economic Transformation in 1992. New York: Random House, Inc., 1990.

Cooney, Stephen. EC-92 and US Industry, National Association of Manufacturers, February 1989.

Cooney, Stephen. EC-92: New Issues and New Developments, National Association of Manufacturers, April 1991.

Cooney, Stephen. Europe After 1992: Boom or Bust?, National Association of Manufacturers, June 1993.

Cooney, Stephen. The Europe of 1992: An American Business Perspective, National Association of Manufacturers, May 1992.

Cooney, Stephen. Update on EC-92, National Association of Manufacturers, April 1990.

Cromwell, William C. The United States and the European Pillar: The Strained Alliance. New York: St. Martin's Press, Inc., 1992.

Graham, Edward M. "Strategic Responses of US Multinational Firms to the Europe-1992 Initiative," in Yannopoulos, George N., Europe and America, 1992: US-EC Economic Relations and the Single European Market, New York: St. Martin's Press, Inc., 1991.

Greenwald, Joseph. "Negotiating Strategy," in Hufbauer, Gary C. (ed). Europe 1992: An American Perspective, Washington DC: The Brookings Institution, 1990.

Haftendorn, Helga and Christian Tuschhoff (eds.). America and Europe in an Era of Change. Boulder: Westview Press, 1993.

Hoffmann, Stanley. "American and Europe in an Era of Revolutionary Change," in Haftendorn, Helga and Christian Tuschhoff (eds.), America and Europe in an Era of Change. Boulder: Westview Press, 1993.

Kreinen, Mordechai E. "EC-1992 and World Trade and the Trading System," in Yannopoulos, George N., Europe and America, 1992: US-EC Economic Relations and the Single European Market, New York: St. Martin's Press, Inc., 1991.

Hufbauer, Gary C. (ed.) Europe 1992: An American Perspective. Washington, DC: The Brookings Institution, 1990.

Haufmann, Hugo M. "The Dollar and Monetary Integration in Europe," in Yannopoulos, George N., Europe and America, 1992: US-EC Economic Relations and the Single European Market, New York: St. Martin's Press, Inc., 1991.

Keohane, Robert O. "The Diplomacy of Structural Change: Multilateral Institutions and State Strategies," in Haftendorn, Helga and Christian Tuschhoff (eds.), America and Europe in an Era of Change, Boulder: Westview Press, 1993.

Krasner, Stephen D. "Power, Polarity, and the Challenge of Disintegration," in Yannopoulos, George N., Europe and America, 1992: US-EC Relations and the Single European Market, New York: St. Martin's Press, Inc., 1991.

Kreinen, Mordecai E. "EC-1992 and World Trade and the Trading System," in Haftendorn, Helga and Christian Tuschhoff (eds.), America and Europe in an Era of Change, Boulder: Westview Press, 1993.

Levine, Robert A. Toward a Stable Transition in Europe: A Conservative/Activist Strategy for the United States, Rand Corporation, August 1990.

Nelson, Mark M. and G. John Ikenberry. Atlantic Frontiers: A New Agenda for US-EC Relations. Washington, DC: Carnegie Endowment for International Peace, 1993.

Nye, Joseph S., Jr. "Patrons and Clients: New Roles in the Post-Cold War Order," in Haftendorn, Helga and Christian Tuschhoff (eds.), America and Europe in an Era of Change, Boulder, Westview Press, 1993

Putnam, Robert D. "Two-Level Games: the Impact of Domestic Politics on Transatlantic Bargaining," in Haftendorn, Helga and Tuschhoff (eds.), America and Europe in an Era of Change, Boulder: Westview Press, 1993.

Rosenthal, Douglas E. "Competition Policy," in Hufbauer, Gary C. (ed.), An American Perspective, Washington, DC: The Brookings Institution, 1990.

Steinberg, J.B., The Evolution of the United States Role in Europe, Rand Corporation, July 1990.

Traverton, Gregory F. (ed.) Europe and America Beyond 2000. New York: Council on Foreign Relations Press, 1990.

Traverton, Gregory F. (ed.) The Shape of the New Europe, New York: The Council on Foreign Relations, Inc., 1992

Van Tartwijk-Novoy, Louise B. The United States and the European Community: Europe in the 1990s: On the Road to Unity. Lanham: Madison Books, 1992.

Yannopoulos, George N.(ed.). Europe and America, 1992: US-EC Economic Relations and the Single Market, New York: St. Martin's Press, Inc., 1991.

Zupnick, Elliot. "American Responses to 1992," in Yannopoulos, George N. (ed.), Europe and America, 1992:US-EC Economic Relations and the Single Market, New York: St. Martin's Press, Inc., 1991.

US Government Publications on EC-92

Department of Commerce:

"EC Single Market Opens to Business," Business America, Vol. 114, Number 5, March 8, 1993.

Europe Now, June 1993.

Europe Now, Fall 1993.

"Preparing for the Europe of Tomorrow," Business America, Vol. 109, Number 16, August 1, 1988.

International Trade Commission:

1992: The Effects of Greater European Integration Within the European Community on the United States, Fifth Follow-up Report, US International Trade Commission, May 1993.

Congress:

Europe and the United States: Competition and Cooperation in the 1990s, Report to the Subcommittees on International Economic Policy and Trade and on Europe and the Middle East of the House Committee on Foreign Affairs. Washington: US Government Printing Office, 1992.

Europe-92 Trade Program. Hearing Before the Senate Committee on Finance. May 10, 1989

Europe 1992 and its Impact on American Exporters. Joint Hearing Before the Subcommittees on Europe and the Middle East and International Economic Policy and Trade of the House Committee on Foreign Affairs, June 9, 1992.

European Community: Issues Raised by 1992 Integration. Report for the Subcommittee on International Economic Policy and Trade of the House Committee on Foreign Affairs, May 31, 1989.

Implications of European Monetary Union. Hearing Before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, July 25, 1991.

European Strategy towards the United States for the 1990s.

Key Questions for discussion.

- 1) What is the likely impact on transatlantic economic and political relations of the loosening of the transatlantic security relationship which bound Western Europe and the USA together - and moderated conflicts over economic interests - during the forty years of the Cold War?
- 2) What are the most important bilateral economic interests on which differences between European and American approaches require to be managed? Which issues most risk becoming politically contentious unless carefully managed? Which emerging economic issues might threaten transatlantic tensions in the absence of an active dialogue?
- 3) What are the most important aspects of multilateral economic interests which should be addressed in reinforcing transatlantic partnership? Does American preoccupation with regional cooperation through NAFTA (North American Free Trade Area) and APEC (Asia-Pacific Economic Cooperation), and parallel European preoccupation with further development and enlargement of the European Community/European Union, make cooperation on global economic cooperation after the Uruguay Round more difficult?
- 4) How far do the demands on Western countries for assistance to former socialist countries in transition to democracy and to market economies raise difficult issues for management in transatlantic relations - over priorities in market-opening, over 'burden-sharing' in provision of financial transfers, over enlargement of the European Union and of NATO, over the balance of attention between central and east European countries and the major states of the former Soviet Union?
- 5) How common are European and American defence and security interests in the absence of a direct Soviet threat and the withdrawal of most American and Russian troops from central Europe?
- 6) Does 'the West' on both sides of the Atlantic still share common political interests in the management of global order, the promotion of democratic values and the maintenance of regional stability outside the North Atlantic area?
- 7) What are the economic and political issues on which it is most difficult to reach a concerted European view in approaching transatlantic relations?
- 8) What are the greatest difficulties West Europeans now face in maintaining American commitment to sustained transatlantic partnership?

Transatlantic Policy Network meeting, Rome, 1st Feb.1994.

Note on the Southern European and Mediterranean dimension.

One of the major aims of this series of seminars is to discuss how far perspectives on the transatlantic relationship and interests seen to be at stake in the relationship differ from one part of Western Europe to another. This is to note a number of questions about southern European interests, to encourage participants to expand on the points made - or to dismiss them as unimportant:-

1) Security in the Mediterranean has been much more heavily dependent on American power and leadership during the 1970s and 1980s than on has been the case on NATO's central front. The Sixth Fleet and associated air bases maintained the southern flank, and supported American Middle East policy. In the 1980s American security concerns also spread to Africa, previously a region where European states had taken the lead. But US and European interests in Africa and the Middle East don't necessarily coincide. What is for US policy-makers a matter of global strategy and order (policy towards Libya, Sudan, Somalia, e.g.) is for European states a matter of dealing with our 'near abroad' (to borrow the expression which the Russians now use). How do we handle this difference of perspective, given that our economic and political interests in these countries are so different from those of the USA?

2) Faced with a surge of migration across the Mediterranean, sustained by explosive population growth and by the widening gap between prosperity in the northern Mediterranean and poverty in the south, American and European attitudes to immigration differ sharply. The USA sees itself as a country of immigration; most European countries do not. Most southern European countries were, after all, themselves net emigration countries until not long ago. A certain lack of sympathy and understanding is evident in American comments on current European agonizing over immigration. Does this come through into the Italian and southern European debate - are there issues here which overlap onto who absorbs voluntary and involuntary migrants from where?

3) American strategists are able to define 'Western' Middle East policy in terms of a 'clash of civilizations' (to use Sam Huntington's phrase), of a developing confrontation between the Atlantic and the Muslim worlds. European policy-makers, much closer to Muslim countries and with substantial Muslim minorities already within Europe do not have the luxury of theorizing about grand clashes; but do face the immediate problem of managing relations with near neighbours (Algeria, Libya, Egypt, Sudan) with strong Islamicist movements either in power or potentially in power. We also need to continue to trade with these countries. Are there significant sources of tension or misunderstandings here, which need to be handled in a redesigned transatlantic dialogue?

WW, 25 January 1994.

Italy, the United States and the Transatlantic Relationship after the Cold War

by Gianni Bonvicini and Patrizia Prode
Istituto Affari Internazionali, Rome

Draft Outline
For Discussion Only

Introduction

Overview of Italian Domestic and Foreign Policy

Domestic Political Crisis. Before analyzing Italian assumptions and interests in the Transatlantic Alliance, and its relationship with the United States, it is essential to address the issue of the present deep political crises in Italy.

Positive aspects: Italy represents an important example of a radical renewal in domestic policy plan after the end of the Cold War (the other example being Germany). A new electoral law, more in line with the ones in other west European countries, has been approved; the old, corrupt, political class has collapsed as a result of the operation "clean hands" judicial action; new political forces are emerging; and the process of constitutional adaptation, again along traditional European models (more power to the Prime Minister, a clearer division of competences between the two Chambers, etc.) will most probably continue.

Negative aspects: there is considerable political confusion in the country and economic performance is very poor, except for those export-oriented sectors which profit (at least in the short term) from the devaluation of the lira; unemployment is rising rapidly; the next elections will not necessarily lead towards a bipolar party system; some political forces are undermining national unity.

Relationship of Domestic Crisis to Foreign Policy The crisis of the Italian political and institutional system comes at a time when Italy is increasingly becoming a front line actor in the new European environment; consequently, it contributes to ambiguity and a lack of transparency in the management and definition of Italian foreign policy in the following ways:

1. The seriousness of domestic problems turns attention away from foreign policy issues; the political debate on foreign policy choices is practically non-existent and this in the long run is going to produce confusion and, may be, a reversal in the list of Italian priorities; the emerging political forces are far from specifying their international interests and have made only a few generic statements.
2. Despite this lack of attention to foreign policy, Italy has continued with its international engagements, and Italy's military participation abroad, under UN

coverage, has tended to grow. But this armed presence in various crisis spots is not a source of comprehensive domestic debate, nor a means of getting advantages in terms of a credible authority and prestige abroad: Italy remains a marginal international actor.

3. A crisis at Italy's borders, in the Balkans, has transformed the country, for the first time in many years, into a front line actor in a period in which a Common European Foreign and Security Policy (CFSP) is showing its limits in terms of decisional power, and a new, national defence policy has not yet emerged. The combination of these two weaknesses is heavily affecting confidence in the traditional pattern of our foreign policy;

4. The risk is that of the emergence of positions in Italy which are in contrast with both its original integrationist attitude and the firm preference for a multilateral approach in foreign policy. The present European and Italian crises have led towards the birth of new kinds of internal political tendencies:

(a) *Neo-mercantilist*. Proponents of this approach seek to exploit the relative advantage for trade of a policy of competitive devaluation for the lira. This is contrary to a longstanding conviction in the country that participation in the ERM, at any cost, would be a long-term advantage for the Italian economy; the reluctance of then-Prime Minister Giuliano Amato and the former Governor of the Bank of Italy, Aurelio Ciampi, to leave the ERM (September '92), was a result of that political philosophy. Presently there is no discussion about the re-entry into the ERM.

(b) *Neo-nationalist*. The aim of this approach is that of reopening some of the contested agreements signed after the second World War, particularly those referring to the eastern border of Italy. Proponents of this approach advanced the geopolitical concept of "spheres of influence", as in the case of Somalia.

(c) *Neo-neutralist*. Advocates of this approach would like to see a lesser engagement of Italy in the Western camp, favoring full assignment of authority to the UN, as a kind of world government;

The common elements in these three approaches is a policy of progressive disengagement of Italy from Europe, and support for greater national freedom in international affairs.

What must be underlined is that in comparison with the beginning of the 1980s, today Italy suffers from an identity crisis in relation to its famous pro-European spirit. For the time being, these positions do not represent real alternatives to Italy's traditional attachment to Europe; rather, they are limited to a group of intellectuals, who wish to add a geopolitical approach to Italian foreign policy, and to a few political forces--the MSI (traditional, extreme-right wing party) which shares the neo-nationalist attitude (the party voted against the ratification of the Maastricht Treaty); Rifondazione Comunista (the extreme left-wing party) which still favors a neutralist view and disengagement from NATO.

Even if not generalized, these tendencies provide a first important sign of a possible radical change in Italy's international behaviour. Their prospects for success are still very low, but they could gain ground in the future.

There are two preconditions for Italy to remain on its own traditional track of transatlantic and European engagement, despite the above tendencies:

1. The solution of its domestic crises and the homogeneity of the next government coalition;
2. A favourable development of the international scenario towards a higher degree of multilateralisation; in particular, as far as Europe and NATO are concerned, of the effectiveness of their coverage function and the creation of credible security mechanisms.

Italy, the US and the Transatlantic Dialogue

As outlined above, economic and political crises have kept the Italian political élite focused on the domestic front. Reporting on the Italian debate on transatlantic and US relations is therefore an exercise that cannot be based on continuity, in terms of clarity of political attitudes. It is more the outcome of reactive and occasional actions on individual political episodes, than the result of strategic thinking at either the government or party level.

It is therefore difficult to see any substantial change in the traditional Italian commitments of the postwar period. The two main pillars, Europe and Atlantic Alliance, still continue to constitute the official policy of the Italian government and a source of generic consensus among the principal political actors.

For several years, Italy has enjoyed a condition of geopolitical privilege under the American protectorate. NATO has granted external security. The end of the bipolar world leaves Italy a greater room for autonomous responsibility. And the solution of the present economic and political crises will certainly help to define the status of Italy among nations. Nino Andreatta, the current foreign affairs minister, has recently stated that "The end of the Cold War has not caused a revision of the basic choices: Italy's membership in the EU and the Atlantic Alliance. It has implied, however, the end of rents and free riding. Membership is no longer enough in the new international conditions : one has to qualify oneself through presence and hard work".

This does not mean that Italy has completely lost its ability to influence the international framework or act within it, but simply that it needs to revise its position. There may be uncertainties about the purpose of its action (e.g. in NATO), or delays in integration (e.g. in the European Union), but participation in these institutions has not been put into question. Italy continues to perform important institutional functions such as the Presidency of the G7 and that of the CSCE.

But because of its internal crises, it feels the risk of losing credibility and, therefore, diminishing its participation as an equal in the groupings of its traditional partners.

There is a fear of being excluded from the emerging core of the European Union, or of being marginalized in the G7. The same risks of exclusion are felt in a reformed UN Security Council or in new defence initiatives. (e.g. the Eurocorp), in which Italy, if accepted, fears it will be considered a second-class country.

This means that if the multilateral framework continues to be considered the best solution to serve Italian national interests, there is a risk of exclusion which could foster the emergence of unilateral positions.

Italy, the US and the Security of Europe.

As late as 1991, Italy was playing its traditional role of mediator between the extreme positions of France and Germany, on one hand, and Great Britain, on the other, with regard to the future of European Defence, and its relationship with NATO and US. The British-Italian Declaration as opposed to the German-French "entente" on the to be attributed to the WEU is a case in point.

The same attitude of suspicion towards the Franco-German Brigade has partly to do with the traditional Italian reluctance to isolate the US from the European defence scenario.

More recently, Italy has witnessed a progressive transition towards a greater emphasis of the European contribution within NATO. During the last Atlantic Council, President Ciampi underlined the need to rebalance the responsibilities between Europe and the US in the European theater. The Bosnian case and, most probably, the bad experience in Somalia under US leadership may have convinced Italy about the appropriateness of a different share of responsibilities with the US. In short, Italy has fully aligned itself with the front of those in favor of giving Europe a different weight within NATO and the possibility of acting autonomously in presence of a US decision to stay out of certain actions. Italy is still absent from the Eurocorp, but this is likely to be for a short time and for reasons which have nothing to do with the US attitude on the old Franco-German initiative.

In general the Italian government, and particularly its foreign minister Nino Andreatta, are in favor of a new pact between Europe and the US, the so called "Transatlantic Chart Two", which should address the whole range of relations between the two parties, including economic and political dimensions. This proposal, which never became an official request of the Italian government, reflects concern about a possible American retaliation against restrictive attitudes of some European countries, as has been the case during the final stage of Gatt negotiation. Now that Italian exports towards the US have become one of the most important elements of the former's economic survival, Italy fears a transatlantic trade war.

At the same time, Italy would prefer to maintain privileged links between Europe and the US, in order to avoid a progressive shift of Washington towards the Pacific-APEC.

Italy and Yugoslavia in Transatlantic Relations.

There is no doubt that public opinion is still in favor of Western solidarity, but it is felt that

there is a need to reassess the Italian policy towards the Balkans on the basis of a clear definition of national interests at stake. The Italian government has always been very reluctant to consider military intervention in the absence of a global political agreement among the parties at war. However, Italy repeatedly manifested its willingness to participate in humanitarian or peacekeeping missions. In the autumn of 1991, Italy was ready to participate in the FORPRONU in Croatia with a force of 3000 men, and one year later an Italian contingent of 1300 men was ready to be sent to Bosnia for a UN humanitarian mission.

In both cases, a veto from the Serbs kept these plans from being realized. Moreover, the UN continued to rule out the participation in military missions of countries bordering on the crisis area. Andreatta has recently declared that Italy is ready, should the UN request it, to participate in operations in Bosnia aimed at implementing a peace plan agreed on by the parties. In the course of 1993, Italy made its most important contribution in the field of logistics, by offering use of its airbases to the allies for various missions. The use of those bases was also scheduled in the event of a NATO bombing of the Serbs in Bosnia.

Italy's progressive transformation into a "propulsive platform" for intervention in the former Yugoslavia naturally poses a number of problems. The Italian government insists that each operation departing from Italian soil must have UN coverage and that it must be informed in detail of the plans of every mission to be carried out. Although Italian troops are not deployed on Yugoslav territory, Italy is providing a significant contribution to the implementation of the new measures adopted by international organizations and therefore finds itself in a front line position. Moreover, as it borders on the former Yugoslavia, Italy will have to find a *modus vivendi* with all the successor states.

This explains Italy's difficult position in light of Washington's oscillations--first the US reluctance to enter the Yugoslav conflict, second the opposite US attitude to launch the "Lift and strike" military action by air and not with a parallel engagement on the ground. Italy also had reservations about Christopher's opposition to the European "Safe areas" plan. In the Yugoslav case, although Italian national interests were rather evident, Italy has normally supported the positions of its European partners avoiding any prevalence of national behaviour.

The Case of Somalia in the Context of Italo-American Relations.

The Italian and foreign press defined the tensions between Italy, the US and the United Nations over the intervention in Somalia as "the conflict between Rambo and Machiavelli". The original goal of the mission "Restore Hope" was to ensure the distribution of humanitarian aid to the Somali population. The development of new and unclear goals highlighted the different national perceptions about how to deal with crisis-management. Moreover it offered a chance to rethink the role of the UN and that of individual countries in peace-keeping and peace-enforcing.

The participation of Italian troops in the UN contingent in Somalia (UNOSOM), which was originally composed only of US military troops, was not initially welcomed by the US because of the Italian historical and political involvement in the country.

In addition, the case of General Bruno Loi, who did not want to take orders from the UN that conflicted with the Italian perception of the aim of the peace mission raised several delicate questions:

- the role of the single members of the UN and of who should exercise authority over the military troops;
- the frequent subordination of UN troops to the US military position.

The above clashed with the Italian perception of how the UN should intervene in peacekeeping operations.

In Somalia, the US has demonstrated how difficult it is for a leading country not to be in a commanding position. This has added to the contradiction between national interests and the management of collective interests. Faced with the difficulties associated with this ambiguous US role and an unclear mission, the UN proved unable to set up an efficient chain of command and could find no better way out than to put the blame on the Italians. The latter, who had largely justified misgivings about the US approach and UN confusion, were unable to get their views through the decision making mechanism and gave in to the old Italian temptation of attempting unsolicited mediation.

An assessment of what has happened should help to avoid the repetition of such an unpleasant situation, in which the Italian participation in peacekeeping received little reward.

More generally, the Somali case has highlighted relations between the international institutions and national responsibility. In particular what has not been clarified is the transfer of sovereignty to international institutions in the management of peace keeping operations.

In the case of Somalia, Italy has tried to raise the question international institutions vs national responsibility, but finally it decided to adopt a national behaviour. The collapse of a multilateral approach has thus led to the temptation of affirming national interests as a priority in the participation of a multinational initiative; the concept geopolitical approach and the concept of "spheres of influence" was almost adopted in the case of Somalia.

Italy's Southern European Role

The dichotomy related to the Italian commitment to Europe and/or the Mediterranean raises a false dilemma. Italy is a European country located in the Mediterranean Basin; clearly its responsibility must therefore be that of bringing a Mediterranean perspective to Europe and the EU.

Italy's sphere of operation before the fall of the Berlin Wall comprised three areas: the Atlantic, Europe, and the Mediterranean. These three areas protected and circumscribed Italian policy. In this sense, a future European security system is seen as important, but not sufficient, to cover Italian security requirements if it is unable to confront crisis situations in the Mediterranean region. The Atlantic area conditioned the European one, and both conditioned the Mediterranean.

During the Cold War, Italy's foreign policy was aimed at contributing to the consolidation of both the NATO and the EC. The attainment of these objectives was identified as the essential condition for involving the allies in the Mediterranean dimension. With the new scenario the situation has changed, and each area must be treated separately.

Southern Europe seems to count less now than in the past. This is particularly true with regard to competition from Eastern Europe for economic assistance from the West, particularly from the EU. The opening towards the East has become a high priority for continental Europe.

With the rise of nationalism and fundamentalism, the main Italian goal is to create a cohesive framework which would facilitate some kind of aggregation: problems and rivalries are more easily solved in a multilateral framework.

Italy's relations with the countries of the Mediterranean region have long ceased to be considered in narrow economic terms and now represent a facet of the overall national security policy. Italy's Mediterranean policy is based on a comprehensive concept of security that regards political, cultural and economic factors as more important than purely military ones. Consequently, Italy's foreign policy strives to develop a strategy of cooperation with the countries of the area.

In accordance with the above considerations, the old CSCM project, which included four European countries (France, Italy, Spain and Portugal) and five Arab countries, members of the Arab Maghreb Union (Algeria, Libya, Mauritania, Morocco and Tunisia), was formally presented by Italy and Spain at the Mediterranean environment conference of the CSCE in September 1990. The idea was to extend the logic of cooperation to the whole Mediterranean area, using the framework of rules and principles adopted in Europe with the CSCE as a model.

The CSCM failed essentially because the US was more concerned with ensuring that the nascent peace process in the Middle East was not disrupted, and because Europe adopted a rather cool attitude toward it. In particular, the leading position of the US in the Mediterranean is a factor that could also give rise to sharp contrasts between Italian national interests and the US initiatives in the region in the future.

This is why Italy has tried to launch new initiatives for the Mediterranean in the context of the transatlantic relations. In fact, during the last NATO summit, Ciampi stated that the Alliance should contribute more directly to the establishment of stability in the Mediterranean. Italy proposed the creation of a high-level, non-governmental study group with the participation of the Allies and some non-NATO Mediterranean countries. The purpose would be to promote stability and cooperation in the region.

Concluding Remarks

Relations between Italy and the US have not changed significantly since the end of the Cold war. Italian political leaders and parties, old and new, seem to look at US in the traditional way, as a kind of credit card to be used for domestic purposes. Prime ministers, party

representatives, and emerging leaders continue to visit Washington or NATO in order to get political backing from the US administration and from the "West" in general.

But in reality new challenges and responsibilities in the international arena, from Europe to Somalia, from the UN to the Balkans, have forced a slight change in the attitude of the Italian government in practice, which could turn into a different strategic position with respect to the US and the transatlantic dialogue in the future.

What is emerging, in fact, is a rather strong difference, depending on whether Italy is dealing with the US in the European theater or outside Europe. In this latter case Italy has found it difficult to follow the US leadership, not just in the Somali experience, but generally speaking in the Mediterranean, as demonstrated by the failure of the CSCM initiative.

In the Mediterranean, where Italy does not have a multilateral umbrella (e.g. European Union or NATO), there is a real risk of disagreement with the US; and Italy could be less neutral and conciliatory than as it used to be. A new wave of nationalism could more easily erupt, now that the block-to-block policy of the Cold War has ended.

As a result, the possibility of Italian unilateral moves in the Mediterranean and in other extra-European areas cannot be excluded. This could also negatively affect Italian attitudes and solidarity within the Atlantic Alliance.

This is why we consider the second precondition mentioned above, that of an effective transformation of multilateral institutions, like NATO and the EU, a decisive element for preventing unilateral moves by Italy (and probably by other European countries) and for preventing neo-neutralist and neo-nationalist attitudes from gaining strength.

The basic initiative to be taken is that of clarifying the role of NATO and the EU in the Mediterranean and neighboring regions. A strict linkage between the European and Mediterranean theater has to be established.

More generally, for a country strategically located at the crossroads between Europe and the Mediterranean, the end of the Cold War has to be accompanied by an additional strengthening of the coverage of multilateral institutions--not just in Europe, but also in the Mediterranean. Only in such a framework can we ensure that Italian-US relations do not enter period marked by considerable friction.
trouble.

Implications of NAFTA for U.S.-European Relations

presented by:

Franco Fornasari
Aspen Institute Italia
Rome

on the occasion of
the Seminar:

Transatlantic Policy Network (TPN)
European Strategy to the United States

Rome, Tuesday, February 1, 1994

I PREMISE

In the past few years, the end of the Cold War and the growing intensity of global competition in the world economy have accelerated the collapse of the old international order that characterised the entire post-war period. In the new scenario of the Nineties, the need to re-examine the status of transatlantic relations has become more urgent in order to see how these relations might evolve and whether they might still represent the backbone of the new international order.

Although transatlantic relations maintain a central role - as stressed during the recent (and first) European trip of President Clinton to Europe - they are indeed changing. The American Powerhouse is threatened by new economic superpowers and it is increasingly concerned about its economic security. New and unmanageable issues have emerged around the world and particularly in Europe, while ethnic conflicts in the former Yugoslavia are challenging the ability of the Western World to enforce any new and credible international order.

Beyond any considerations concerning the dangers implicit in the use of force and its regional or global implications, there is a feeling that something else is missing in transatlantic relations. One might be tempted to say that transatlantic relations suffer for the lack of broadly shared "unifying goals". Goals such as the "fight against communism" or the "faith in a global trading and financial system based on the Bretton Woods Institutions" are no longer relevant nor credible. Despite all efforts, the old unifying principles have not yet been replaced by anything comparable in terms of cohesive power.

On the contrary, developments in the sphere of trade - and particularly the emerging of regional blocs - can be perceived as divisive elements, detrimental to the relations within the Triad. Against this background, the creation of the North American Free Trade Association (NAFTA) among the USA, Canada and Mexico is worth special attention in order to evaluate its global impact and the appropriate policy response on the European side.

In presenting an Italian or southern European perspective on NAFTA and how it influences transatlantic relations I will touch upon three aspects:

- i the meaning and implications for the USA, both in economic and political terms;
- ii the meaning and implications for Europe (EU) in general and for southern European countries in particular;
- iii the implications for transatlantic relations - i.e. what is left of the "special relationship with Europe".

II. THE USA AND NAFTA

For the USA, the NAFTA agreement appears particularly rich in positive implications from a political point of view, although the positive effects on the economy should not be underestimated.

From the political point of view, the following points can be stressed concerning NAFTA:

- i it gives credibility to the economic model promoted by the U.S. vis-à-vis developing countries and the developed world alike: In effect, the approval of NAFTA not only fits the political agenda of President Salinas and his party, but at the same time it fulfils the expectations of a country - Mexico - that unconditionally endorsed the "free-market approach" to economic reform - i.e. with a series of unilateral trade liberalisation measures since 1986;
- ii it stabilises the southern borders of the USA by enhancing Mexico's status and international credibility. De facto, NAFTA opens the doors to considerable flows of capital which are needed to modernise its infrastructure. And by integrating its economy with the U.S. market, Mexican industries will be restructured and prepared to face the high competitive standards of the U.S. market. At the same time, Mexican industry will diversify its production and "specialise" in the framework of a continental economy with enormous potential for economies of scale, competitiveness and genuine growth;
- iii it builds a credible framework for co-operation with all the countries willing to follow the same approach to reform - from South America to Asia. The dialogue initiated at the latest APEC meeting in Seattle could well lead to an expansion of NAFTA into Asia. De facto, President Clinton could succeed in extending the concept of the 1990 initiative called "Enterprise for the Americas" well beyond South America;
- iv and finally, it gives a strong warning to Europe and Japan not to drag their feet in ongoing and future trade negotiations. NAFTA's conclusion is a forceful example of the U.S. capability to pursue the parallel track of "regionalism and bilateral agreements" as opposed to the traditional "multilateral track" - the track which encountered so many difficulties in Europe and Japan during the Uruguay Round.

From the economic point of view, the USA will gain, although on a limited scale. At the same time, one could say that the United States does not have much to lose either - despite the heated debate stirred by Ross Perot before the NAFTA approval by the U.S. Congress. There are various considerations:

- i the relatively small size of the Mexican economy - its GDP is less than 4 percent of the American GDP - suggests that the positive effects of NAFTA on the labour market and on income will be marginal in the U.S. economy.
- ii similarly, import penetration of Mexican products into the USA should be modest due to the modesty of U.S. trade barriers against Mexican goods. With an average import tariff of about 4 percent, the Mexican products can access the US market very easily even without NAFTA.

Nevertheless, the economic impact of NAFTA should be significant in the long term:

- i Mexico is a sizeable country in terms of population and should quickly develop its internal market. In a few years the U.S. firms will be ideally placed to exploit this growth potential - about 70 percent of Mexican (as well as Canadian) imports come from the USA. In the short term, the considerable volume of public works and infrastructure investment is likely to benefit U.S. Construction and TLC firms. Automotive exports will also grow considerably in connection with the progressive removal of Mexican import ceilings.
- ii in view of the increased transparency and security offered to foreign investors, Mexico should become vastly more attractive for foreign firms - particularly for those industries trying to exploit the low Mexican wages and the modest environmental standards - despite the rhetoric of the Side Agreements to the NAFTA treaty. Overall the proximity of the Mexican Market is likely to represent a strong element of competitiveness for U.S. firms competing both abroad and in the domestic markets.

III. EUROPE AND NAFTA

From the European point of view, the creation of NAFTA spawns a multitude of direct and indirect implications in response to the new challenges and opportunities offered by the emerging regional market of the NAFTA countries.

On the one hand, a few categories of European exports could suffer from the direct consequences of the new and stricter "rules of origin" and "local content requirements" introduced by the NAFTA. Nevertheless, most of the "trade diversion effects" should fall on those Latin American and Caribbean countries competing with Mexico in such industries as textile, automotive sector components and others.

On the other hand, the American subsidiaries of European firms (about 57 percent of DFI in the USA has European origins) would benefit from the National Treatment which the NAFTA extends to foreign investors. The potential benefit of such treatment opens the door to new flows of European investment. In some cases, these investment flows from Europe could help European industry cope with the enhanced competitiveness of American firms - both in the U.S. domestic markets and abroad (in third markets where the Americans compete with European industry).

Italy is present with a group of firms with a good tradition of contacts with Mexico and the region in general, but there is no reason to believe that Italy, in extending its presence in Mexico, enjoys any specific advantages. FIAT is present in Mexico with plants producing tractors and automotive components - the key competitive aspect is the possibility of reducing productions costs of various lines of products sold in the USA or other US\$-denominated markets.

Southern European countries do not appear in a particularly strong position to take advantage of the opportunities offered by NAFTA. However, they could certainly be strong candidates to fill the demand for non-American capital in a country which might suffer from an excessive American presence, a result of an integration process which could look increasingly like a virtual colonisation of Mexico. Those countries, such as Italy and Spain, with greater affinity with Mexico could find a special window of opportunity to enter the NAFTA market.

IV. NAFTA AND TRANSATLANTIC RELATIONS

Despite everybody's best intentions, it will be difficult to preserve the special transatlantic relations of the past. The USA is inevitably bound to redirect part of its diplomatic and strategic resources toward those parts of the world where the action is: this is the effect of the growing buoyancy of Asian and American markets versus the stagnation of the European region. All this calls for a reorientation of America's attention - despite the enormous potential of East European countries.

NAFTA is likely to contribute to speeding up this re-balancing in transatlantic relations, mainly by adding a credible framework (both on political and, to some extent, on security grounds) to the dynamic economies of the Asia Pacific Region.

The extent to which Europeans will resent this change in relations will also depend upon the implementation of the NAFTA accords:

- i the emerging discriminatory practices against European industries, particularly in the delicate areas of services, public works procurement and others could be a serious irritant;
- ii other tensions could arise with the World Trade Organisation, the new institution which was envisaged in the context of the Uruguay Round. The failure of this institution to function could become another potential irritant in Transatlantic relations particularly if the USA and NAFTA keep using their own specific multilateral mechanisms of dispute rather than relying on the new multilateral mechanisms on the verge of creation.



Aspen | Institute Italia

EXECUTIVE REPORT

ROUNDTABLE

What about the future of the transatlantic partnership?

Rome, December 9, 1993

Introduction

Decades of Cold War have left Europeans and Americans a common inheritance of habits, values, principles and machinery for managing the international order that ensured peace and prosperity for more than three generations. This positive balance may now be threatened by growing conflicts of trade, political and economic interest that, in the long term, risk undermining the principles of transatlantic partnership. Today, the Atlantic partners must examine the reasons and objectives behind their relationship.

As a transatlantic institution, Aspen Institute Italia aims to analyse the bases for a clear and realistic consensus. In this context, the Institute organised an informal closed-door debate which highlighted the need to reinforce the communality of values and interests of the partnership that should form the basis for future action.

The meeting recognised the importance of NATO, albeit with a different role and different objectives than those of the past, and the need to identify new instruments for cooperation in the economic field. There was a proposal to create permanent institutions to monitor and prevent conflicts in Euro-American economic relations, and to set up bilateral organisations to jointly manage economic affairs.

The following summary outlines the major proposals expressed by the participants in the debate.



Aspen | Institute Italia

Summary of the debate

Europe and the United States are committed to maintaining an historical partnership that has exhausted some of its original motives and should be renewed. The transatlantic partners should draw up an agenda of common political objectives and identify new formulae for cooperation to re-launch a privileged relationship that has given very positive results in the past. There is a need for a close examination of the common values and interests that were once the basis for joint action, but have today apparently lost their incisiveness and farsightedness.

The two sides of the Atlantic share deep-rooted democratic systems founded in a culture of tolerance. Their economies are also increasingly coming closer together. In fact, while in Europe, and Italy in particular, the typical American model of less state intervention and greater opening up to market forces is gaining ground, the Clinton administration in the United States has launched a series of social programmes that recall more European concepts of governmental intervention.

In terms of interests there are similarities and differences. The two economic areas remain solidly compatible, since the potential conflicts and contrasts between Europe and North America are very limited compared to those with the developing regions. There are still common economic interests, running from industrial competitiveness through the need for technological development to an increase in employment.

In particular, on both sides of the Atlantic there is a call for a greater commitment to professional training, above all at the lowest levels of the education system, as a way of creating jobs that are not excessively specialised even in a technologically advanced society. Other common interests include issues such as the multinationalisation of business and the freedom of direct foreign investment in both continents, which would increase competition between Europe and the United States but bring them up against the economies of Asia which are experiencing continuous growth.

Divergences of course, such as those at the level of trade, have always existed. The recent case of the audiovisual industry that raised many difficulties during GATT negotiations is symbolic. Meanwhile, in the United States, a bitter confrontation is brewing between the proponents of multilateralism and free trade, and those who, in the face of growing unemployment, would like to see more or less hidden forms of regional protectionism.

European public opinion feels a certain lack of attention on the part of the American administration towards relations with Europe. In addition, European governments and business fear that the United States is concentrating too heavily on a demanding domestic agenda that envisages investment in infrastructure and improvements to social structures. For their part, the Americans feel that Europeans lack a perception of the Atlantic community that goes beyond that of the structure of NATO, a limitation that could undermine their capacity for joint action.

President Clinton's forthcoming trips to Europe demonstrate the priority the U.S. administration gives to relations with Europe. In particular, Americans hope Europe will not concentrate solely on the search for its own identity, which risks compromising the past values of transatlantic partnership. Nevertheless, the Clinton administration also appears set on checking isolationist tendencies present in the United States which could weaken willingness for joint action in the medium and long term.

European concern about a cooling off in relations is heightened by the difficult economic situation. While in other areas of the world, Asia in particular, employment levels continue to rise, in Europe they are falling. For the most pessimistic, Europe has lost the great technological battle, and its social protection and market rigidity are such that it has lost competitiveness. The consequences of globalisation have not yet completely surfaced, and even Germany, which has high labour costs and a considerable level of rigidity in the labour market, risks becoming a giant with clay feet. The compatibility of the European and American economic systems is threatened by high labour costs, which are also one of the reasons for difficulties vis-à-vis the Asian economies: Japan, South Korea and China continue to offer very low-cost labour.

Furthermore, Europe is still looking for its own identity and no single country is able to compete with the United States and Japan. The strongest countries are currently profiting from the weaknesses of the others to win an advantageous position without worrying much about the competitiveness of the European economic system as a whole.

The danger of continuing in this fashion is that it could lead to a paradox. Europe in fact finds itself at the centre of an area of major interests not only from a geo-political but also from a geo-economic point of view. Most of the world's energy resources are distributed throughout neighbouring areas, namely Russia, Iran, the Middle East and North Africa. However, Europe is unable to draw the benefits from this situation. In the current phase of international transition marked by an influx of new conflicts such as in the former Yugoslavia, or direct threats such as Islamic fundamentalism, Europe still finds itself in a position of difficulty and weakness.

Against this backdrop, eventual political changes could lead to another closing of markets. The swing of the pendulum towards the left could, for example, lead European governments to re-introduce protectionist ideas as a way of not disappointing the electorate. In this case, Europe would find itself cut off from the market economy, with a return to state assistance in the name of solidarity.

Despite the end of the Cold War, Europe still needs support and, above all, partnership with the United States which, for its part, believes continental stability is a primary objective. What is needed, therefore, is to make European and American public opinion more aware of the transatlantic partnership: the partial withdrawal of American troops from Europe has actually helped increase the mistaken view that joint action is less necessary today than it was yesterday.



Aspen | Institute Italia

One of the major instruments of the partnership continues to be NATO. Both the Russians and the Europeans, distrustful of each other and afraid of German power, need the guarantee of an American presence. A positive hearing was given to the American proposal which, reconciling both regions' interests, defines the Atlantic Alliance in terms of a new model that prohibits involvement in the internal affairs of member countries. In fact, the proposal for a *Partnership for Peace* offers bilateral guarantees to each individual Central European country in line with its contribution to joint security. As far as its new role is concerned, NATO military intervention outside its own area, as in the case of the Gulf War, should not be one of the organisation's institutional tasks. If necessary, such interventions should be the responsibility of a wider alliance and supported by a general basic consensus. It is evident that where such a consensus does not exist, as in the case of Yugoslavia, Europeans and Americans are not yet ready to tackle such situations.

In addition, NATO should assume new functions in sectors other than defence, working for example to safeguard the scientific and technological system of the former Soviet Union from the current threat of disintegration. It should therefore develop a monitoring capacity and its own scientific-technological activity detached from defence in the strict sense of the word.

It should not be forgotten that the rapid growth of the Far Eastern economies is primarily the result of resources earmarked for scientific and technological research. By the year 2000, the Research and Development sector in South Korea will have exceeded the level of 5 percent of GNP, while in Italy it is stalled at 1.4 percent, and in Europe as a whole at 2 percent, compared with 2.9 percent in the United States and 3 percent in Japan.

The United States has begun to redefine its own scientific strategy, converting many Defence Ministry laboratories into centres for developing peace technology, in line with the needs of American industry. In fact, the strength of American public research is being used to increase the competitiveness of the system in an international context, a demonstration of the existence of a clear industrial policy.

However, on the research front Europe is highly disorganised, with the Germans trying to come to the forefront in a generally weak context. The meeting therefore called for a complete evaluation of human resources and their research potential. The differing positions of individual European governments is the major obstacle to developing European competitiveness as a whole. Faced with the British and the German desire to limit their resources, the French maintain the middle ground, while the Italian government has reiterated its wish to increase financing for this sector.



Aspen | Institute Italia

A number of participants identified close examination of common cultural roots as another possible instrument for reinforcing the transatlantic partnership. Assuming that free trade also includes cultural exchanges, there was a call for the defence of cultural identity without, however, falling back on autarkic protectionist measures or rejection. Cultural diversity should lead to constructive dialogue, thereby avoiding often mistaken parallelisms.

The transatlantic partnership is thus threatened by incomplete European integration and the risk that the United States will pay greater attention to areas of growing development such as the Pacific. If, as appears likely, China becomes the powerful antagonist of the United States, Europe could find itself in difficult circumstances, particularly if it does not manage to keep internal "bursts of subjectivity" under control.

The United States and Europe, which in the past founded their partnership on joint values, must in the future find agreement at the level of operative action rather than at the level of philosophical theories whose differences are rooted in the distant past. Based on this premise, it was proposed that permanent institutions be created to monitor and prevent conflicts in Euro-American relations, and to set up bilateral organisations to jointly manage economic affairs. A number of participants argued that it is in the interests of the United States to support the growth of a strong regional European pole because this could help avoid serious political and economic repercussions, even within the United States itself.

Unless Europe makes a concrete effort to become a motor of development again and to draw the benefits of its geographic and geo-political position, then the partnership is destined not to survive, even in the face of common interests and values. It is not just a question of recovering the values of the past but of making a greater commitment. The communality of values constitutes the basis for future action.



List of participants

Giuliano Amato
President
Aspen Institute Italia
Rome

Reginald Bartholomew
U.S. Ambassador to Italy
Rome

Boris Biancheri Chiappori
Italian Ambassador to the U.S.
Washington, D.C.

Giampiero Cantoni
President
Banca Nazionale del Lavoro
Rome

Umberto Colombo
Minister of University and
Scientific Research
Rome

Francesco Cossiga
Senator
Rome

Giuseppe Glisenti
Vice President
SAFFA SpA
Rome

Franca Gusmaroli
Director Policy Programs
Aspen Institute Italia
Rome

Andrea Ketoff
Director Seminars and Research
Aspen Institute Italia
Rome

Antonio Maccanico
Undersecretary of State
Presidency of the Council of Ministers
Rome

Rainer Masera
Director General
IMI SpA
Rome

Mario Pirani
Columnist
"La Repubblica"
Rome

Cesare Romiti
Chief Executive Officer
FIAT SpA
Turin

Sergio Ungaro
Director General
Citibank N.A.
Milan

**TRANSATLANTIC POLICY NETWORK
(TPN)**

Sixth Floor, 133 Rue Froissart, 1040 Brussels
Tel: Brussels (2) 230 6149 Fax: Brussels (2) 230 5896

"EUROPEAN STRATEGY TO THE US"

**SUMMARY OF PHASE II MEETING
ROME 1 FEBRUARY 1994**

With Compliments

TPN

European Strategy towards the United States in the 1990s.

Transatlantic Policy Network.

Note on Rome Seminar, 1st February 1994.

There was general agreement that attitudes towards the USA in Italy and in Spain had changed remarkably over the past ten years. In the early 1980s relations with the USA were a touchstone issue between left and right in Spanish politics, and still a sensitive issue in Italian; though the Italian left had already started to shed its anti-Americanism in the late 1970s. Membership of NATO and the EC were now consensual matters in Spanish politics. Concern among policy-makers in both countries was focussed on attracting US attention towards southern Europe; perceiving the USA as having downgraded the Mediterranean as a foreign policy and security concern.

The most striking characteristic of contemporary Italian politics is the lack of attention to foreign policy and international questions. Foreign Minister Andreatta was quoted as remarking that the end of the Cold War has meant the end of the period in which Italy and other southern Mediterranean states could hope to be 'free riders' and 'security consumers': passive members of a US-led alliance. Italian and Spanish military participation in international peacekeeping has risen substantially, without yet arousing much domestic debate or opposition. Italian ministers and military have found it increasingly difficult to follow the shifts and turns of American policy on post-cold war peacekeeping and security, in Somalia as over former Yugoslavia: strengthening their belief that closer European cooperation is needed in the Mediterranean region if European states are to avoid being buffeted by 'a further shift towards unilateral assumptions and actions'.

Hostility towards the USA is now to be found on the right of Italian politics, rather than the left: focussing (as in France) on resistance to American cultural and economic predominance. This is traditional nationalism, resisting perceived foreign hegemony. The USA, it was argued, has now lost its traditional fear of the Left dominating government in Italy, which sustained Christian Democrat-led coalitions throughout the Cold War. But any future government in Italy was likely to wish 'to play the autonomy card': to demonstrate greater independence from the Western Alliance in foreign policy.

The widespread perception of the cold war era that US policy-makers approached southern European states more as a patron to clients, while accepting more of a partnership relationship with Germany, France and Britain, however remains the perspective of Rome and Madrid. 'Southern Europe has a much weaker position in transatlantic relations'. US attention to Europe had now switched from the central front to Russia and eastern Europe; southern Europe remained the at the periphery of Washington's view. It was argued that this had now given Spain and Italy specific shared interests in their approach to European union: looking for stronger common institutions (in order to

present a coherent position to its transatlantic partner), for further moves towards common defence (as an alternative to dependence on US unilateralism) and for 'cohesion, not just compensation - for a sustained commitment to southern European and Mediterranean development and security, not just a short-term package of measures as the attention of the states of north-western Europe and the USA shift eastwards.

Multilateral political and economic cooperation.

The USA's shift towards regional cooperation within NAFTA and APEC were not seen as major threats to European interests in themselves. The greatest unease was expressed about whether 'the new multilateralism' in US foreign policy disguised a hidden agenda, intended to rearrange patterns of global and regional organizations to serve US unilateral interests. 'The US may actually have a very specific agenda' in its sponsorship of NAFTA and APEC, one participant warned, 'compared to the incoherent European agenda'.

An associated source of unease was identified in American ambivalence to clear multilateral commitments in security: 'multilateralism à la carte', evident in the US approach to the UN and in its preference for looser joint task forces over integrated all-alliance forces within the re-designed NATO. There was a risk that the US would slip out of full commitment to shared security, already evident in former Yugoslavia. It was clearly a shared European interest to keep the USA as closely engaged in multilateral commitments to maintain both European and Mediterranean security; that, it was argued, would require further integration of West European foreign and security policies to demonstrate comparable commitment to common security to a wavering US Congress and public opinion.

The shift of emphasis in US foreign policy away from Europe as its first priority to a spread of relationships with different partners and regions should lead European governments (it was argued) to reformulate the transatlantic relationship as a key link within a broader set of multilateral relations. The old image of a Two Pillar Atlantic partnership is no longer appropriate. Some doubts were also expressed (quoting Peter Sutherland's Davos speech) as to whether G7 was still a useful or appropriate forum for transatlantic economic cooperation: overweighted as it is with European governments competing for the attention of the US President and Cabinet members, presenting a picture of incoherence while excluding increasingly important players from Asia and elsewhere.

No specifically southern European interests at stake in the development of NAFTA were noted; the historical links with Spain and Italy had had with Latin America were no longer paralleled by extensive economic interests.

Foreign Policy and Defence.

Southern European dependence on US military power had been far greater and more direct than north-western Europe. US

attention to the Mediterranean and Arab worlds was now focussed on broad issues of fundamentalism and the Middle East balance, as opposed to the direct concerns of Western Mediterranean countries for the Maghreb. The original proposal for a CSCM (Conference on Security and Cooperation in the Mediterranean) had been too large in scope and geographical coverage; the USA had opposed it. Many Italians were anxious to revive a smaller CSCM proposal, which would involve the USA in discussions over regional security with its European partners and other Mediterranean littoral states.

NATO was not a viable framework within which to develop a new security strategy for the Mediterranean; nor could southern European states look to the US to continue to provide them with extended forces to provide their own security, rather than providing the policy and the forces themselves. This raises difficult questions of political leadership, and of resources available for defence and security. Italy and Spain thus had a strong shared interest both in promoting closer West European engagement in Mediterranean security and in developing new multilateral structures such as the revised proposals for a CSCM. It was noted that this analysis fits well with the tone of President Clinton's speeches at the Brussels NATO summit of January 1994; but that it has not yet been accepted fully in Paris.

Bilateral economic issues.

Divergent approaches to unemployment and industrial adjustment on the two sides of the Atlantic were seen by some as a potential source of tension - and as a 'structural impediment' for the EU, a competitive disadvantage in relation to a USA which was regaining both its competitiveness and its industrial and economic self-confidence, and was likely to bargain with the EU much more aggressively in pursuit of its own economic interests. The USA as a country with high internal mobility was naturally unsympathetic to EU arguments in favour of the preservation of communities and of support for local employment measures within those rooted communities, rather than allowing (or forcing) the unemployed to move to find work elsewhere. As against this it was argued that divergent US and European rhetoric now disguised a trend towards convergence in transatlantic social and employment policies, as European governments cut back on provision while the US Administration extended state involvement.

Some also saw migration as a potential source of transatlantic misunderstanding: as West European states adjusted to the immense shift of demographic balance from north to south across the Mediterranean, and as migration from the south pushed harder against southern European borders and lapped over across the Atlantic. US preoccupation with fundamentalism diverged from West European preoccupation with numbers in themselves. European policies towards all the states around the Mediterranean's southern and eastern shores would have to be governed increasingly by demographic and migration concerns; which might well push European policy in a different direction from American.

WW, 7th February 1994.

**TRANSATLANTIC POLICY NETWORK
TPN**

133 Rue Foissart 1040 Brussels

Tel: Brussels (2) 230 6149 Fax: Brussels (2) 230 5896

WITH COMPLIMENTS FROM TPN

SUMMARY OF DISCUSSION

**"EUROPEAN STRATEGY TO THE UNITED STATES"
PARIS MEETING**

Thursday, March 17, 1994

April 8, 1994

TRANSATLANTIC POLICY NETWORK

TPN

Sixth Floor, 133 Rue Froissart, 1040 Brussels

European Strategy towards the United States in the 1990s

Transatlantic Policy Network.

Note on Paris Seminar, 17th March 1994

The opening paper set out the complexities of French perceptions of the USA and the transatlantic relationship. The Gaullist, Communist and intellectual anti-Americanisms of the 1960s had given way at the end of the 1970s to a much more relaxed approach to the USA among the French elite and to a greater emphasis on strategic partnership in opposition to an expansionist USSR. With the end of the Cold War there had been a certain revival of anti-Americanism among political and economic elites - partly because of the sense that France has to define itself in terms of its resistance to (and distinctiveness from) the dominant superpower. Many in the younger generation of the French elite shared the perspective of their predecessors that 'anti-Americanism is the measure through which the French see themselves in the world'. But this perspective is not shared by the broader French public, which has grown steadily more open to American culture, style, even food.

French elites took an ambivalent approach to transatlantic relations for two reasons; first; that the USA was a necessary partner for France (and for Europe) in security terms, a partial partner and partial competitor in economic terms and in high technology, and an adversary in cultural terms, second, because they saw the USA itself as uncertain about its role and strategy after the cold war. The contradictions of US foreign and international economic policy today, several participants argued, make it all the more necessary for its European partners to engage in an active transatlantic dialogue, to explain European interests to the USA and to encourage Congress and the Administration to confront the contradictory impulses of engagement and disengagement.

There was a further ambivalence about Europe-American, as against Franco-American relations. Several participants contrasted the equal transatlantic relationship in the economic field with the unequal leader-follower relationship in security matters. European solidarity in economic relations, projected through the Community, made for an equal partnership round which the GATT, Uruguay Round had revolved. European disorganisation on security and foreign policy issues necessitated (for the present, at least) a bilateral Franco-American partnership; which some saw as having worked well over Bosnia in recent months.

There was widespread concern about a loss of direction in American foreign policy, above all towards Europe; a hesitation in redefining its global role, which necessarily confused the signals it gave its European allies about the partnership it wanted them to share or the leadership it wished them to follow. US policy towards Bosnia had wavered from deliberate non-engagement to unilateral demands for action, undermining European efforts. 'We must not forget the element of anti-Europeanism' in the USA, which can only be controlled by positive European engagement' in the American domestic debate, and by getting across the positive aspects of European common policies - for example in assistance to Eastern Europe - to the American elite and public.

Several French participants saw their countries' emphasis on European solidarity as a basis for transatlantic partnership as a transfer for the French universalist vision to the European level - of 'a French-led Europe in global partnership with the USA'. But they noted that there was a French vision of a future transatlantic partnership, in contrast to the confusion or passivity within some other European countries. The absence of Britain from the transatlantic dialogue was regretted the British dream of the special relationship, and do nothing about the transatlantic relationship. When Americans look to Europe for partnership, it was claimed, they now look to Bonn and Paris but no longer to London.

Security relations

French attitudes to NATO have shifted considerably over the past two years: partly from the experience of the Gulf War and the Yugoslav crisis, partly from scepticism as to prospects for closer West European cooperation, partly from concern at the deadline in US commitment. "We have no choice but to ally with the USA, because there is no European alternative in prospect." Here again there was an admitted ambivalence. "France needs the US in Europe to balance Germany, and Europe as a power in the world to balance the USA."

Some saw the messages which the Clinton Administration had been giving on the redefinition of NATO, above all in the context of the NATO Summit of January 1994, as 'music to the ears of the French government' signalling US support for a stronger European security identity. Closer relations with Britain were an important aspect of developing such an identity; within the defence field relations had in reality been growing closer, but this had not yet broken through to the political level. The lesson of European and NATO incapacities in Bosnia, it was argued, was that the European Union needed to move much faster and further towards an effective foreign policy. 'We need now an organization comparable to the Commission in the political-security field, with an effective Secretary General closer to the NATO Secretary-General than to the current (EU) Council Secretary-General'. Common foreign policy, it was authoritatively argued, is the first essential for a stronger European Union; which required greater solidarity, and stronger institutions, among the 12. 'France is in favour of enlargement, but not at the cost of the effectiveness of the EU, above all in foreign policy.'

Against this, it was noted the 12 has no consensus over security interests now that the Soviet threat had gone; France was 'almost the only country which worries about Algeria'. Germany is by far the most preoccupied with the Baltics, etc. Europe had developed a relatively strong sense of common economic interests, but there is as yet no comparable sense of political-security shared interests on which to build.

Economic interests.

Participants remarked on remarkably few concerns in the economic sphere, in the wake of the Uruguay Round settlement. The hard bargaining over agricultural trade concessions was seen as natural, 'between the world's largest agricultural exporter and second largest'. The shift of emphasis in American industrial policy under the Clinton Administration was welcomed by some, as supporting the preferred French approach to industrial policy within Europe, but worried others as a potential source of transatlantic friction - in which American determination to maintain supremacy in high technology would clash more openly with European ambitions, in aerospace in particular. Boeing's attempt to 'woo DASA away from Aerospatiale' over cooperation in future large civil aircraft was cited; as was American-Russian cooperation to undercut Ariane in satellite launching.

It was however advanced against this that the French commitment to a European high technology strategy, in competition with the USA, was primarily tactical; intended to line up other European companies behind France, except when it was more to the French advantage to pursue strategic partnerships with the USA or Japan. 'In reality the French play the European card when it suits them, and the bilateral US/French card in aerospace and high technology when it suits them better.'

Culture and values

Audio-visual products, it was noted, are the second largest category of US exports to the EC (after aerospace); accounting for 83% of the European market - an indisputably dominant position. It was the very weakness of the European audio-visual industry which had provoked the GATT row. It was entirely justifiable to seek to promote a European industry within the European market, in spite of the intensive lobbying of the US industry in Washington and in Brussels. There were evident differences between the values promoted by American entertainment of hope, opportunity, of the 'American dream' and the more subtle and ambiguous European cultural messages typically portrayed in films and TV; more appropriate (it was claimed) to the ambiguities of a post-cold war world.

Against this, it was argued that one of the greatest strengths of Europe is its very cultural diversity. "We don't have a European culture; there is a French culture, a German, a Dutch and Italian, but not a European." The idea of 'common values' was a Western/Atlantic one, which depended on the perception of a common (Soviet/Communist) threat to those values. The characteristic nostalgia of much French and British audio-visual output was noted 'working class struggles and chateaux', looking back to lost Golden Ages while more American output dealt with the present and the future. The argument over audio-visual trade was a self-interested one on both sides of the Atlantic, in which French TV and film producers were exploiting the prejudices of the French elite while failing to cater for the French mass public. In any event, developments within the industry, with a much wider variety of material available on more channels and types of media, are making this argument redundant; wider consumer choice will make protection much more difficult.

The largest cultural challenge of Europe, it was argued, came from the impact of immigrants on national identities and societies. Here the French have taken the opposite position from that which the USA adopts; uniculturalism, as against multiculturalism (with the British and the Dutch somewhere in between). Moves towards a more common European approach here would involve painful adjustments of national assumptions. The divergence of assumptions about immigration and citizenship across the Atlantic could exacerbate US European relations in the event of further disorders around Europe's borders leading to an influx of refugees, immediate European reactions would be likely to be portrayed unsympathetically in the US.

WW - 28th March 1994