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Managing Disorder. A Stronger Transatlantic Bond for More Sustainable Governance

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Executive Summary

Governance of global and regional challenges has become an increasingly difficult task. The emergence of new protagonists on the world stage has complicated efforts to achieve the international consensus needed to address global imbalances, fight climate change, and tackle new threats. Tensions between great powers have risen, regional crises have deteriorated, and non-state actors such as jihadist groups and criminal organizations have proliferated. Reflecting these systemic changes, the ability of the United States and its allies in Europe to shape governance structures has dwindled. Adding to these difficulties, political polarization has often resulted in gridlock within the United States, while the European Union is mired in a severe crisis of confidence.

Nevertheless, the US-European partnership remains indispensable to effectively address some of the most pressing regional and global challenges. The United States and European Union countries retain still considerable – indeed massive – resources. Critically, they share normative and strategic interests in a broad range of issues, from restoring security to Europe’s troubled neighbourhood to addressing challenges such as global trade and economic governance, as well as fighting global warming.

As much as transatlantic cohesion is necessary, it alone is not sufficient. The US and Europe should leverage stronger transatlantic ties to engage other countries, including those who behave like rivals, from a position of strength. This approach should guide transatlantic cooperation in critical regional contexts as well as on the global stage.

Specifically, the United States and European countries should:

- Maintain a multi-tier approach towards Russia that combines the bolstering of defence and deterrence assets, as well as diplomatic and economic sanctions, with engagement in high-level talks on ways to prevent uncontrolled escalation and re-create a more stable security environment in Europe.
- Coordinate efforts to address the multiple crises in North Africa, the Middle East, and the Gulf. In particular, the United States and its European allies should promote inclusive politics, isolate jihadist groups and coordinate with rival powers. In the long term, they should pursue the creation of an inclusive security governance architecture involving Iran and the Sunni Arab states.
- Bring negotiations over the Transatlantic Trade and Investment Partnership to a successful conclusion. The agreement should be the basis for an open regionalism in which trade and investment practices enshrined in the treaty can be extended to other partners.
- Reduce the imbalance in voting rights in the international financial institutions and undertake a renewed effort to ensure that new financial bodies, such as the Chinese-led Asia Infrastructure Investment Bank, follow high-quality transparency and accountability standards.
- Intensify networks, including fortifying contacts between individual US states and EU countries, to exchange best practices on fighting climate change, as well as reaching out to countries such as China to gain the international consensus needed to push forward ambitious and verifiable targets in the aim of reducing polluting emissions.

Introductory Note

In 2011, the European Commission awarded a grant to a consortium of 13 research and university centres from the European Union, the United States, and Turkey, to study the evolution of the transatlantic relationship and its role in global and regional governance. The research activities were organized in a project, ***Transworld***, coordinated by the Rome-based Istituto Affari Internazionali (IAI). This paper is the project's final deliverable.¹

The paper sets forth an agenda for cooperation between the United States and European Union member states to strengthen global and regional governance structures. The recommendations in this paper, as well as the underlying assessment of current trends in transatlantic relations and global governance, draw from the various lines of analysis and policy-relevant research carried out by ***Transworld consortium members*** over almost three and a half years of work.

Specifically, the research activities on which this paper is based include:

- **Forty-five research *papers*** and **other *publications*** on transatlantic relations and the global economy, international security, climate change, and the promotion of human rights and democracy.
- **A *survey* of US and EU political leaders, opinion-shapers, and representatives from business and trade unions** about the state and future trajectory of transatlantic relations.
- **Four policy Delphi exercises** involving up to 100 experts from the United States, Canada, six EU countries (France, Germany, Greece, Italy, Poland and the United Kingdom), Turkey, Brazil, China, India, and Russia, who were asked to provide their opinion about how economic, security, environmental, and other governance challenges should be addressed. The Delphi exercise consists of the submission of a questionnaire to a panel of experts several times, with experts required to review their initial position based on the opinions expressed by the others in the previous rounds. The Delphi method is thus able to trace the areas of greater convergence, which in turn serve as a point of reference in the elaboration of strategic recommendations.

While heavily indebted to the work of Transworld research team, the author of this paper nonetheless remains solely responsible for its contents.

¹ Information about Transworld is available on the project's website: <http://www.transworld-fp7.eu>.

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Riccardo Alcaro*

Transatlantic Relations

Global Governance

Power Shift

1. The Crux of Governance

The world has always been in a state of flux. Yet, there are times in which change happens faster and in a more disconcerting manner than usual, reflecting revolutionary technological advancements, increased societal interactions, and shifts in the economic and political balances of power. Such are the times we live in. Globalization has given new relevance to the question of how to govern change. The notion of “global governance” has gained currency as a catchword for a world in which international cooperation is made up of a complex set of multiple power centres acting on different levels. These include multilateral institutions, ad hoc forms of intergovernmental cooperation, regional organizations, and transnational arrangements involving non-state actors such as corporations and civil society groups.

Governance has truly become the challenge of our times. The tasks are titanic: ensure peace, particularly among great powers; facilitate the spread of wealth and knowledge; protect and empower the individual; and guarantee the social and environmental sustainability of economic growth. For a while – more or less coinciding with the last decade of the 20th century– the trajectory of international relations seemed encouraging. Wealth was finally reaching areas of the world from which it had long been absent, climate change became a first-order priority, and tensions among great powers were at historic lows. However, with the onset of the new millennium, ever-widening fissures began to show in governance architectures, at the global as well as at the regional levels. Great power tensions have since risen, the economic outlook has become more volatile, regions have fractured, and the environment has continued to deteriorate.

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One key factor that has made governance such a hard task is the declining ability of the United States and its allies, particularly in the European Union, to exert international leadership. This has had wide-ranging implications because the transatlantic relationship has historically been a pillar of global governance.

2. The Declining Influence of the West

The United States and Europe have promoted and supported the creation and expansion of rules-based international organizations, including the United Nations, the World Bank, and the International Monetary Fund (IMF), as well as a number of multilateral treaties and regimes in various policy domains, from the non-proliferation of weapons of mass destruction to trade and the environment. The trend peaked in the aftermath of the Cold War, when US-European efforts were instrumental in shaping the building blocks of a governance architecture that would supposedly reduce risks and mitigate challenges amplified by globalization, while at the same time furthering the cause of liberalism. The 1995 establishment of the World Trade Organization (WTO) was meant to curb protectionism, the 1997 Kyoto Protocol to fight climate change, the 1998 Rome Statute establishing the International Criminal Court (ICC) to deter mass atrocities – just to mention a few examples.

As years passed, however, the role of the transatlantic partnership in shaping governance started to diminish.

Since the early 2000s, the United States has experienced a period of divisions as to how it should act in the world. The consensus that characterized US foreign policy during the Cold War and its immediate aftermath, according to which the United States remained deeply involved in world matters via alliances and multilateral institutions, has largely faded away. Disagreements hinge in part on ideology. Ideology, for instance, certainly played a role in leading former US President George W. Bush to withdraw support from the Kyoto Protocol, as his administration was sceptical about the scientific validity of the alleged man-made nature of global warming (although the formal reason was that the protocol imposed limits to US emissions but not on developing countries such as China). However, diverging strategic assessments are as critical as ideological differences. Many in Washington believe that the emergence of jihadism and the rising tensions with great powers warrant policy responses that do not fit well in established multilateral mechanisms. They continue to advocate a more power-driven foreign policy, even in the face of two drawn-out and ultimately inconclusive military interventions in Afghanistan and Iraq. They also share Bush's opposition to joining the ICC and discomfort in working through multilateral institutions unless strictly needed. Others, including US President Barack Obama, argue that restraint and reliance on allies and partners better serve America's long-term security interests, and insist on the need to find a balance between the use of power and the promotion of international rules. Coupled with the problems that the United States has confronted since the 2008-9 Great Recession, which include widening inequality and high public debt, the unresolved debate about the US's role in the world casts a shadow of uncertainty about America's ability to exert international leadership.

The European Union has tried hard to keep the momentum behind global governance efforts. It was instrumental in having the Kyoto Protocol enter into force and continued to support the ICC. However, the European Union has never managed to exert leadership in an effective and enduring way in the absence of coordination with Washington. Intra-EU divisions, first on foreign policy matters and later, more critically, on economic governance, have compounded Europe's difficulties. Several EU countries have not yet recovered from the 2008-9 recession, which for some countries in the EU periphery has degenerated into a sovereign debt calamity of historic proportions. The policy response put in place to address Europe's predicament has

generated an unprecedented degree of mistrust and resentment between fiscally solid EU member states and countries in financial distress, as the former have agreed to support the latter only on the condition they carry out severe fiscal consolidation and structural reforms. The crisis in confidence is so severe that it might cost Greece, the country most affected by the crisis by far, its membership in the eurozone and perhaps even in the European Union. Consequently, popular exasperation towards EU economic governance has grown, and the commitment to European integration has weakened. Further complicating matters, the United Kingdom might voluntarily leave the European Union after a referendum on its EU membership is held in 2017. The result of all this is a diminished ability of European states to make full use of the amplifying effect of EU cohesion to promote stronger rule-based governance mechanisms and cooperative efforts to address emergencies.

America's and Europe's domestic challenges are only part of the explanation of their diminished ability to attain effective governance. Systemic changes matter as well.

Globalization has turned long-standing underperformers into dynamic, often vibrant, economies. Renewed foreign policy assertiveness has followed economic growth almost naturally, as more countries have now the resources to challenge, if not to re-shape, existing global and regional arrangements with which they disagree. Consequently, consensus on how to adapt governance structures to new realities and challenges has decreased dramatically. The stalemate in global trade and climate change talks, as well as the failure to reform the international financial institutions (IFIs) and the United Nations Security Council are all strong cases in point. This dynamic is complicated by the fact that the most resourceful of the emerging powers are putting forward alternative solutions to organize international cooperation to those promoted by the United States and European countries. Examples include the Chinese-promoted Asian Infrastructure Investment Bank (AIIB), Russia's project for a Eurasian Economic Union (EEU), and the plans by the BRICS group (Brazil, Russia, India, China, and South Africa) to set up a new development bank and move away from dollar-denominated assets.

The proliferation of governance institutions is not a bad thing in itself, but it certainly makes the governance architecture more fragmented, particularly if such mechanisms are in competition with one another and expound diverging ideological undertones. Democracies such as Brazil or India see the BRICS and related institutions as means to expand their foreign policy options and increase their international leverage (as well as manage intra-BRICS relations, which are often fraught with problems, including unsolved territorial disputes between India and China). However, for Russia and China, the creation of multilateral arrangements in which Western powers either are absent or play a secondary role is part of a broader design to push back against the influence of the United States and its allies.

Of particular concern to Russia and China are their respective neighbourhoods, the control of which they perceive as essential to both their security interests and the stability of the regimes in power. Russia has not hesitated to resort to the use of force and land grabs in the attempt to prevent Georgia and Ukraine from developing closer ties with the North Atlantic Treaty Organization (NATO) and the European Union. China has refrained from going as far, yet its growing assertiveness in territorial disputes with US allies and partners in the East and South China Seas puts it on a collision course with the United States. As a result, security governance in Europe and the Asia-Pacific has become more a function of great power competition than cooperation. To a certain extent, this is also true for other regions such as Africa and especially the Middle East, where another rival of the United States, Iran, is also fighting to carve out a sphere of influence at the expense of the United States and its Sunni Arab allies amid growing instability in the region.

3. The Problem of Leadership

The declining role of the United States and Europe in global governance raises the question of whether an alternative leadership is taking shape. The simple answer is no.

The availability of more resources has allowed several states to pursue a more assertive foreign policy. Yet they are far from acting as effective leaders capable of rallying large numbers of countries and shaping and sustaining global governance. The rising powers lack essential assets for leadership, such as military superiority, a large system of alliances and partnerships, and a credible normative project around which international politics can be organized, such as the Western-promoted liberal order. In fact, Russia, Brazil, and India struggle to establish themselves as leaders even in their neighbourhood, let alone globally. China's much greater cash availability has allowed it to set up regional financial and development institutions that are likely to raise its regional profile, albeit not to the point of developing into an uncontested leader.

The idea that leadership might emanate from an alliance of new powers, such as the BRICS, is equally groundless. Even if the BRICS were to act as a single player, they would still find in the United States and its various allies in Europe, Asia, and elsewhere a formidable opponent that would make their claim to global leadership void of any meaning. At any rate, this is a hypothetical question, since the BRICS countries lack strategic cohesion.

A further option concerns the possibility of the United States to engage China, the most powerful rising power by far, in a two-strong condominium to run international affairs. However, this option is as far-fetched as the other ones. Competition, not cooperation, seems to be the prevailing pattern in US-Chinese relations. China's ambition to extend its military projection into the high seas of the Pacific Ocean has raised the stakes in the Asia-Pacific strategic theatre, as the United States has closed ranks with its allies and partners in the region. The worsened outlook of Asia-Pacific security has added new currents of conflict to US-Chinese relations along with the unsolved issue of Taiwan, defending the autonomy (though not the independence) of which has been a pillar of US Pacific policy for decades. Even if the United States and China were to find a way to work around the disputes (as they have long managed to do in regards to Taiwan), the extent of their pragmatic interaction would in any case stop short of any project for joint leadership. It is not simply a matter of conflicting interests. The gap between the two countries' political cultures and visions of the world is also too wide for a "G2" to be sustainable. Unsurprisingly, neither country has ever expressed the ambition to form a G2, although they both recognize that on issues such as climate change, a stronger US-China understanding would serve as a sort of global benchmark.

A more realistic evolutionary pattern of international relations is a leaderless or multipolar scenario, one in which no single country will be capable of steering global governance, and where great powers will rally allies and partners in a mutual attempt to limit one another's influence. The United States is certainly well placed to do that, given that it still has the edge in terms of military, economic, technological, and soft power, as well as a vast system of international alliances and partnerships. However, even if China (for now), Russia, and Iran lack the power to establish a lasting hegemony over their neighbourhoods, they still have enough resources to frustrate US attempts to keep order and, in certain instances, to push back against American influence. Great power competition is moreover likely to complicate pragmatic cooperation aimed to bring stability to troubled areas, as well as thwart efforts to tackle asymmetric threats such as nuclear proliferation, jihadism and organized crime.

While the above scenario is plausible, it is by no means pre-determined. Key to breaking the impasse is a shift of emphasis from great power competition to salvaging what is possible of governance structures (or establishing new ones, if needed). No single country can achieve this shift of focus; rather, only a coalition of resourceful, like-minded states that can flaunt converging interests, shared norms, and a well-established tradition of cooperation would have that power. Even if they have seen their influence dwindle, the United States and its allies in the European Union and NATO are still the best available candidates. This statement seems to contrast with what has been stated above about the West's reduced ability to exert global leadership. However, the contradiction is more illusory than real when the West's declining influence is put into perspective.

The fundamentals of US power – military might, economic and demographic growth rates, technological edge, educational excellence, and soft power – are strong. Europe's problems are bigger and harder to solve, yet European countries, individually and through the European Union, still possess resources and foreign policy assets unmatched by most countries around the world. This will remain true even if the European Union were to suffer a reduction in its membership, should Greece or the United Kingdom eventually leave. In short, even an embattled America and a declining Europe retain massive power, particularly if they wield it together. The United States and Europe have a vital strategic interest in strengthening transatlantic coordination to address governance challenges.

4. A Transatlantic Cooperation Agenda

Politically, transatlantic cooperation is feasible. Opinion polls continue to record generally positive mutual views among the majority of the public, just as they demonstrate continued commitment to cultivating friendship among political elites and opinion-makers. None of the recent challenges to transatlantic relations – including the rift over the US-led invasion of Iraq, European resentment against the US National Security Agency's massive surveillance programmes on EU citizens, and American frustration at Europe's persistent tendency to free-ride on US security guarantees – seem to have permanently dented domestic support for more cooperation.

US and European leaders should seize on this and concentrate on the policy areas in which transatlantic action is most needed. Europe's troubled neighbourhood tops the list, but global issues, such as international trade, financial institutions, and climate change are a close second place. In all cases, the West's approach should entail two components. The first is reactive, in that it involves the strengthening of US-European ties to achieve greater protection from threats, risks, and challenges. The second is proactive and warrants a mix of bargaining, balancing, and selective cooperation with other powers, including rivals.

5. Restoring Order in Europe's Neighbourhood

Nowhere has the collapse of Western-promoted or -supported governance structures been more evident than in Europe's troubled eastern neighbourhood and the tormented region across the Mediterranean.

Post-Cold War Europe's multi-layered architecture aimed to achieve two main strategic goals. The first one was to promote security, prosperity, and democracy in Central and Eastern European countries by integrating them into NATO and the European Union. The second was to stabilize relations with Russia through improved economic ties, an array of arms control arrangements, formal cooperation links with NATO, and co-optation of

Moscow into the Group of Eight (G8). The upgrade of the Conference for Security and Cooperation in Europe into a full-fledged Organization (OSCE), as well as the expansion of the Council of Europe's membership, served both purposes.

The main pillars of this edifice – the enlarged NATO and European Union – still stand, but the overarching architecture has crumbled. The edifice's plan, it is now safe to say, was premised on unfounded expectations that Russia would follow a pattern of domestic evolution that would bring it closer to the Western model of liberal democracy, and that Russia would develop a sense of ownership of Europe's post-Cold War order. However, only a tiny fraction of Russia's establishment bought into the Western liberal discourse, and even fewer people shared the view that Europe's post-Cold War order suited Russia's security concerns. Nationalism, authoritarianism, and assertiveness grew hand in hand as a period of sustained high energy prices gave Russia the resources and self-confidence it needed to counter what it perceived as the West's influence in Eastern Europe and the South Caucasus. The ongoing crisis over Ukraine is the culmination of a long process started in the early 2000s during which Russia's dissatisfaction with Europe's post-Cold War architecture – which Russia saw as tilted in exclusive favour of the West and, worse still, expanding – has become ever more evident.

North Africa and the Middle East (MENA), as well as the Gulf region, were also the target of repeated attempts by the European Union and the United States to promote reform and create a degree of self-sustaining regional governance. First came the Europeans and their plan to promote stability and democracy in the MENA region through forms of cooperation that partly replicated the dynamics of EU integration. However, neither the EU-promoted Euro-Mediterranean Partnership (EMP), with its emphasis on bloc-to-bloc relations and Mediterranean integration, nor the later European Neighbourhood Policy (ENP), with its lofty ambition to have EU countries share "all but institutions" with willing partners, achieved much. The United States tried a different path. Instead of inspiring domestic change via incentives and rewards, it used force to check Saddam Hussein's expansionism in Kuwait, diplomacy to broker the Oslo peace deal between Israel and the Palestinians, and a more assertive military posture to contain both Iraq and Iran. As peace failed to materialize in the region and the "dual containment" of Iraq and Iran seemed inconclusive, the United States eventually forced a regime change in Iraq by intervening militarily. Washington claimed that the establishment of a democratic government in Baghdad would trigger political reform in other countries. Yet far from delivering the expected results, the US intervention in Iraq exacerbated sectarian and ethnic tensions and contributed to destabilizing the region. When popular uprisings erupted in several Arab states in 2011, neither Europe nor the United States were prepared to adapt accordingly, and when turmoil and civil conflict ensued, they could only deal with the consequences.

The crises in Europe's eastern and southern neighbourhood have one point in common, in that they have shifted the focus of US and European policies. A proactive approach premised on promoting stability and reform has given way to a reactive one predicated on the need to improve defence and deterrence capabilities in Europe and contain the risks emanating from extremist anti-Western militant groups in the MENA and Gulf regions. The complexity of the crises and severity of the threats have focused minds in Europe and the United States on the short-term goal of ensuring territorial defence and protecting civilians. While understandable, this approach is not sufficient.

The crises in Europe's neighbourhood can be better managed if EU countries and the United States orientate their policies towards a longer-term objective, namely that of laying the foundations for new forms of security governance. Since neither the United States nor EU member states can credibly maintain that their previous approaches should be replicated anytime soon, a shift towards a more sober and realistic paradigm is warranted. The establishment of sustainable governance structures presupposes trade-offs between strategic and

normative interests as well as compromises with countries that are generally perceived as being more part of the problem than the solution. There is no guarantee that such countries will be willing to cooperate. However, the United States and its allies, particularly in Europe, still maintain the ability to affect the strategic calculations of their rivals through a combination of pressure, selective engagement, and the prospect of a governance structure which also accommodates their security interests.

6. Europe's Security

The relationship between the West and Russia seems to be inevitably bent on confrontation. The Russian government has annexed Crimea, destabilized Ukraine, sharpened its anti-Western rhetoric, violated NATO countries' airspace and international waters, and allegedly supported political parties critical of EU integration and the transatlantic alliance in several European countries. As a result, Europe's security and long-term stability is in jeopardy.

The United States and Europe should not dodge the challenge. They should take steps to bolster their defence and deterrence assets within NATO as well as bilaterally, and keep pressure on Russia through sanctions and diplomatic means. At the same time, the West should also be proactive and attempt to engage Russia's leadership in high-level talks aimed at exploring ways to pursue the future normalization of relations.

US and European leaders should emphasize that the West is willing to take Russia's strategic and security concerns into account, as well as acknowledge that both sides suffer from confrontation. Nevertheless, they should also insist that the West is better equipped than Russia to sustain it.

EU and US sanctions have damaged Russia's economy, not least because they have accelerated the flight of foreign capital that had begun even prior to the outbreak of the Ukraine crisis. The sharp decrease in energy prices has added to Russia's financial troubles. Russian President Vladimir Putin claims his government is willing to endure economic duress, and there are good reasons to believe him, since he has made it a point of honour not to bow to foreign pressure. Yet Putin is not oblivious to the risks entailed in prolonged military engagement in Ukraine, as shown, *inter alia*, by his obsession with keeping the human costs of the war there hidden to the Russian public. In light of this, the notion that the West can affect Russia's strategic calculus is plausible. Pressure alone, however, is unlikely to be adequate. Pragmatic engagement is also necessary.

Currently, Germany and France are the main brokers of the Ukraine-Russia talks. This dynamic is not sufficient. What is needed is a broader, high-level group that includes the United States, the European Union (in the person of the EU High Representative for Foreign Affairs and Security Policy), and possibly other EU member states, such as the United Kingdom, Italy, and Poland. This group, loosely modelled along the Contact Group for the Balkans, should concentrate not only on Ukraine but also on re-designing Europe's security outline.

The West would not lose anything by setting up a platform for regular, high-level talks with Russia. Instead, the formation of the contact group would send a message of transatlantic and intra-EU cohesion. Participation by the OSCE and, if Russia so wishes, EEU, could be envisaged. Talks between the West and Russia should follow three interrelated tracks: the former Soviet space in Eastern Europe and the South Caucasus, West-Russia relations, and Europe's security architecture. The group should be the first locus where relevant issues are discussed, with details delegated to other appropriate venues, such as US-Russia and EU-Russia bilateral meetings, a reactivated

NATO-Russia Council, and the OSCE.

The European Union should redouble efforts to bolster the statehood prerogatives and support the legitimate aspirations of the former Soviet republics compatibly with any legitimate concerns Russia may also have. This means that the United States and EU countries should be ready to contemplate a constitutional set-up in Ukraine that addresses some of Russia's stated concerns, provided they are not detrimental to Ukrainian sovereignty, sustainability, and democracy. The West should keep repeating that it sees political change in Ukraine and other former Soviet republics as reflecting domestic demands and not as a tool to detach them from Moscow. On the contrary, the West should insist that it does not harbour desire to interfere in Russia's domestic politics, and that it welcomes Russia's friendly relations with neighbouring countries in light of their longstanding historic and cultural ties and economic interdependence.

The United States should urge Russia to resume military-to-military contacts to explain changes in military postures so that dangerous miscalculations could be avoided and escalation risks kept under control. Another opportunity would be to attempt to resume arms control talks, particularly on the now suspended (by Russia) Treaty on Conventional Forces in Europe (CFE), and the correct implementation of the Treaty on Intermediate-range Nuclear Forces (INF), which Russia has allegedly breached. The West should continue to engage Russia on issues of mutual concern, ranging from exerting vigilance on Iran's nuclear activities to fighting violent Islamic extremism in Iraq, Syria, and Libya. Finally, bilaterally as well as within the contact group, the West should urge Russia to engage in a dialogue on Europe's security governance, for example through a strengthened oversight role of the OSCE or even through the creation of an entirely new institution.

There are good reasons to be sceptical that any offer of engagement can persuade President Putin to change tactics. The United States and the European Union should therefore brace themselves for difficult years ahead. At the same time, they should accompany any escalatory move with statements which stress that confrontation is a lose-lose situation, and that the West is ready to step back if Russia does the same. Ultimately, the West has no interest in a weak Russia. Should its financial and economic troubles become so severe to cause Russia to lose control over areas of its territory, a spiral of instability could ensue, which in turn would threaten Europe's security and US interests. Therefore, the West has a strategic duty to try to re-establish a degree of security governance in Europe, with Russia as part of it.

7. North Africa, the Middle East, and the Gulf

In the MENA region and the Gulf, civil conflicts and sectarian tensions have precipitated a humanitarian catastrophe of immense proportions and generated multiple threats. Political fragmentation in Iraq and Syria and the collapse of state authority in Libya and Yemen have created huge power vacuums that a myriad of jihadist groups, militants, and criminal organizations have exploited. The sheer number of these groups, coupled with the violent and extremist religious ideology most of them profess as well as the terrorist tactics they employ on a massive scale, has elevated them into a critical transatlantic, and indeed global, challenge. The crises in Iraq and Syria jeopardize the US's ability to keep a regional balance tilted in its favour and simultaneously fuel a terrorist menace that directly involves the security of US citizens. The Europeans have serious concerns about the spill-over effects of the crises, particularly in Libya, which make them more vulnerable to terrorism and further exposed to migration pressures. The rationale for transatlantic cooperation in the MENA is hence strong indeed.

The main route to bring some stability to the MENA and Gulf regions is to reduce political fragmentation and restore functioning state apparatuses. To this end, a three-pronged action plan is needed: this should include promotion of power-sharing arrangements among local warring parties; marginalization and isolation of extremist groups such as Al-Qaeda's local branches and the Islamic State; and pragmatic cooperation between external actors, regional and extra-regional alike. Moreover, it is necessary to link these actions to a broader plan for the eventual creation of a system of regional governance supported by committed external powers, including the United States, European countries, as well as non-Western nations such as Russia and China.

In the Middle East and the Gulf, the United States has the diplomatic and military assets required to initiate and sustain such a process, but it cannot do it alone. Washington needs support from all sides if it is to persuade its Sunni Arab allies and Israel, as well as its rivals, most notably Iran but also Russia, to buy into the plan. While EU countries are not nearly as influential as the United States, they have sufficient political and economic resources to help Washington in the effort.

Undoubtedly, the engagement of Iran is an extremely difficult proposition, given its decades-old antagonism with the United States, Israel, and Sunni Arab countries. Yet it is also necessary due to the Islamic Republic's role in Iraq, Syria, and the wider region. It is vital to stress from the start that "engagement" does not amount to "rapprochement," and that the nuclear deal, while a potential facilitating element, would not by itself transform US-Iranian relations into becoming friendly overnight. The engagement's rationale is the opening of regular channels of communication that can facilitate ad hoc forms of cooperation on regional dossiers, while also paving the way for a dialogue on security governance in the Gulf. The engagement would proceed in a gradual way, focusing first on short-term urgencies where interests converge, and then on longer-term strategic concerns, including those where current positions collide.

In the short-term, the engagement of Iran cannot be anything but limited. As the United States and Europe continue to exert vigilance over Iran's nuclear activities, they should seek more coordination with Tehran on Iraq and attempt a dialogue on Syria and Yemen. At the same time, they should contrast Iran's divisive objectives, such as the promotion of sectarianism and provocative actions in the Straits of Hormuz. In addition, the United States should condition reassurances to the Arab Gulf states on their acceptance of the principles underlying the engagement of Iran. EU countries with important links and military presences in the Gulf, such as France and the United Kingdom, should do the same.

The long-term goal of US-EU engagement policy in the region should be to set up an inclusive security dialogue involving Iran and the Arab world, and eventually Israel, too. This forum would address maritime security, set parameters for the peaceful resolution of disputes in the Gulf waters, promote an understanding on the treatment of religious and ethnic minorities within national borders, and launch negotiations over a Nuclear Weapon Free Zone in the Gulf. The forum would ultimately serve the purpose of creating a balance of interests between the region's main rivals, Iran and Saudi Arabia, guaranteed by US power and supported by EU countries. However distant this prospect might seem in the present circumstances, there is no other way for the region to gain long-term stability.

EU countries are more exposed than the United States to the spillover effects of instability from North Africa, most notably from Libya. The major responsibility to act, then, falls on the Europeans' shoulders, even though such action is contingent upon coordination with Washington. EU countries and the United States should increase their support for the United Nations' efforts to broker national reconciliation between Libya's warring parties.

If this occurs, the European Union should assist Libya's new authorities in the management and control of borders, the provision of security in key Libyan towns, and in institution-building in both the civilian and military domains. The United States, for its part, should urge Egypt and the United Arab Emirates (UAE) to support EU and UN efforts, and abandon any hope to create a sort of sphere of influence in Cyrenaica by supporting their Libyan allies there with weapons and cash handouts.

Once again, the odds for this overall strategy to succeed are not favourable. Yet, the chances that any other alternatives could bring about a better outcome are even less likely. Europe cannot afford to allow that to happen, and the United States should help the Europeans if they showed resolve and committed to reducing Libya's political fragmentation and restoring some order in North Africa's most tormented hotspot.

8. Global Governance

While working on restoring stability in Europe's neighbourhood, the United States and Europe should remain focused on the broader global picture.

In their aspiration to have a greater say on world politics, emerging countries tend to equate an increase in their influence with the loss of someone else's, particularly that of the West. Reducing the fragmentation in governance structures to a "West vs. the rest" contest is inaccurate, as disagreements exist also among non-Western countries. Yet these countries undeniably regard the liberal order, notably the Bretton Woods institutions, as disproportionately favouring the West. The United States and Europe have at times contributed to strengthening this way of thinking, insofar as they have failed to accommodate the emerging countries' legitimate claims. As a result, the tendency to look at world politics in competitive terms has taken root, with potentially nefarious consequences for global governance.

The United States and EU countries should contrast this dynamic by making transatlantic cooperation a vehicle to better engage other countries as well. Apart from the regional issues considered above, the United States and Europe should keep the rising powers engaged on functional threats of mutual concern, such as jihadism, nuclear proliferation, and organized crime. The same should apply to other fields, too, including trade, economic governance, and climate change.

9. TTIP and Global Trade Rules

Of all of the instruments that the United States and the European Union can use to strengthen bilateral ties while also fostering global governance, one of the most promising is the major EU-US economic accord currently under negotiation known as the Transatlantic Trade and Investment Partnership (TTIP). It is ironic, then, that the negotiations might fail due to internal opposition and the inability of TTIP's many promoters to explain its strategic and economic importance.

In Europe, scepticism of free trade deals and lingering mistrust of the United States, two independent strands of opinion that have nonetheless often mingled in the past, have combined with the mounting sense of disempowerment amongst large sections of the EU public to create the perfect storm. To the extent that TTIP has entered the public debate in EU countries, it is depicted as an opaque process led by the unaccountable

elites who drive EU integration and merely respond to the interests of large corporations and powerful lobbies. The debate about the merits of free trade is more balanced, although equally polarized, in the United States. However, it is not TTIP that Americans are currently discussing. Instead, the focus is on the Obama administration's sister project, the Transpacific Partnership (TPP). One reason that TPP has unseated TTIP as the priority goal of US trade policy is that TPP is centred on Asia and is about closing ranks with a number of countries that could otherwise feel the irresistible attraction of China, the United States' potential main global competitor.

While opponents to TTIP have legitimate concerns and sometimes compelling arguments, they often fail to recognize that TTIP could be negotiated in a way that mitigates potential social costs while bringing benefits to the wider public. Moreover, the geopolitical rationale for TTIP is as compelling as that of TPP.

The United States and the European Union remain each other's biggest export market for services. Further, combined EU-US investment dwarfs any other investment relationship in the world, and European and American companies support about fifteen million jobs across the Atlantic. Such a high level of interdependence means that the benefits accruing from common rules or harmonized standards, a fundamental objective of TTIP, could indeed be substantial. Regulatory convergence would bring down production and testing costs, which in turn would result in lower consumer prices. Companies would be able to better allocate resources, thus freeing up more money for investment and consumption. TTIP would give US and EU firms longer-term guarantees that they would continue to have access to cutting-edge technology and sustainable jobs, thanks to continued investment flows. Further, the gradual development of an EU-US energy relationship would ensure a stable and lucrative market for US exporters and advance Europe's energy security.

Regulatory approximation would also lessen the discrepancy between rules that the United States and the European Union push for in their trade agreements with third countries. This would hinder the fragmentation of global trade governance, as EU- and US-promoted trade deals would eventually reflect the higher degree of regulatory convergence achieved at the transatlantic level. Here lies the geopolitical significance of TTIP: the treaty has the potential to establish the United States and the European Union as the world's ultimate standard-setters, as companies and governments from third countries would have to comply with benchmarks set by US and EU regulators in order to access the largest markets on the planet.

The strategic rationale for TTIP is therefore strong indeed, and negotiators should pursue a successful conclusion of the talks.

The automotive, chemical, and pharmaceutical industries are among the sectors in which progress is possible and the benefits are potentially significant. However, agriculture and investment rules remain intractable issues. EU farm lobbies understandably fret about the US reluctance to recognize European rules protecting the geographical indication of EU agricultural products, which make it impossible for others to use the same name. Americans consider EU sanitary and phytosanitary rules too rigid. Possible solutions to circumvent such problems are feasible, such as equivalence (a lesser form of mutual recognition) of export products and a smart and honest use of labelling, and negotiators should explore them all. As for investment rules, the negotiators should define the discriminatory practices towards foreign firms by national governments in restrictive terms, so that foreign companies would not be allowed to sue governments on decisions they take for public safety, social justice, environmental protection, or national security.

Some Western policymakers, including former US Secretary of State Hillary Clinton, have referred to TTIP as an "economic NATO." While the phrase is evocative of deep historic ties, it also reflects a broader risk, namely that of

fuelling the perception that the West is ganging up to fend off competition from emerging economies. EU and US policymakers should disprove such perceptions by including specific provisions in TTIP that facilitate trade and investment relations with other countries willing to abide by the treaty's terms. They should begin with those countries that already have free trade or customs union arrangements with either the European Union or the United States, and possibly move beyond these countries as well. In so doing, the transatlantic partners would encourage others not only to embrace their own standards but also to recommit to the principle of an open, rules-based global trade order.

10. International Financial Institutions Reform

Dispelling the perception that TTIP's ultimate goal is to build a transatlantic fortress is even more important as the United States and European Union face the challenge of accommodating emerging market economies into the global financial governance architecture.

Thus far, the West's response to the challenge has been utterly deficient. The US Congress' stubborn refusal to sign off on the 2010 plan to reform IMF governance, limited as it was, discredits the credibility of the Bretton Woods system in the eyes of non-Western countries. The Obama administration's haphazard and ultimately failed attempt to dissuade European states from joining the China-launched AIIB has further fuelled the perception that the United States would not tolerate financial institutions in which it does not enjoy a dominant position. The Europeans are not blameless either, as some smaller states in Europe also oppose the IMF reform.

The proper course of action for the transatlantic partners is to embrace the challenge of incorporating rising economies into the IFIs. The US and EU should promote IMF reform because it is in both of their interests that the IMF continues to function as the ultimate guarantor of the global financial system. At the same time, the transatlantic community should welcome the establishment of new institutions to ensure that they remain complementary to the Bretton Woods system and follow transparency and accountability standards in line with the existing IFIs.

The United States should endorse participation in the AIIB by EU countries, and even consider applying itself. Washington's fear that the AIIB would force the World Bank or the Asian Development Bank (ADB), in which the United States has a prominent role, out of Asia is misguided. The goal for which the AIIB was ostensibly created, funding Asia's infrastructure, requires greater resources than the prospective 100 billion dollar capital the new bank is expected to raise. The World Bank and the ADB will continue to be needed in Asia. Importantly, participation in the AIIB by the larger EU member states – and possibly even by Washington – means that Western nations will have a role to play in influencing the development of the new bank.

The same criterion should guide US and European policymakers' response to China's "One Belt, One Road" initiative, Beijing's grandiose plan to invest in land and maritime infrastructures connecting China to Europe. The AIIB is likely to invest heavily in the new land and maritime "silk roads," and EU countries or the European Union itself will likely be invited to join in the development of certain projects. This means that EU countries – and the United States, too, if it gets more involved – will have some room to shape the process by pushing to include high standards regulating procurement as well as protection of workers and the environment in the AIIB's lending rules.

It is important to acknowledge that the West does not have the power to block China's plans to build goodwill in Central Asia and beyond by funding badly needed transport networks and facilities. Critically, there is no compelling reason why the West should oppose such plans. EU countries and the United States would be wise to accept China's bid to play a leading role in rules-based regional regimes while working to ensure that these are in keeping with high-level standards. Greater coordination on the AIIB should in turn be just a component of a broader strategic dialogue between US and European leaders on their respective interests and priorities regarding China.

11. Climate Change

As is the case with the reform of the IFIs, transatlantic action on climate change should also be understood in geopolitical terms. Global warming is already affecting numerous areas of the world, prompting mass movements of people and greater competition for natural resources. But climate change governance can only be truly effective if great powers manage to find some common ground and secure support from several other countries.

Here, too, EU and US policymakers should operate on multiple levels, including increasing the compatibility of European and American policies, strengthening bilateral contacts, and intensifying outreach towards other countries.

President Obama lacks the domestic support to alter the US opposition to setting international binding limits to the emission of the heavily polluting greenhouse gasses (GHG), which the European Union continues to support staunchly. Yet the US president has used his executive powers to advance a climate change agenda that has narrowed the gap with that of the European Union, opening up the possibility for more transatlantic cooperation.

The Obama administration has steered the energy of the US Environmental Protection Agency (EPA) toward the recognition of carbon emissions as a form of environmental pollution in need of corrective measures, going as far as to set a goal of a 30 percent cut in carbon pollution by 2030. In addition, it has pushed forward regulations aimed at stimulating investments in renewable energy sources and increasing energy efficiency. These initiatives fit well into the EU's more ambitious climate change policy, which includes a commitment to reducing GHG emissions by 40 percent below the 1990 level, an EU-wide binding target for raising the threshold of renewable energy to 27 percent, as well as renewed emphasis on energy efficiency. The US administration and EU governments, both in Brussels and in national capitals, should capitalize on the commonalities of their respective agendas and exchange best practices on how to incentivize investment in renewables while avoiding distorting effects on the market, and how to harness the private sector in climate change-related action. The transatlantic partners should also start a conversation about the feasibility of imposing a wide-ranging carbon tax and extending the cap and trade system in force in the European Union. To this end, EU governments should intensify contacts with individual U+S states that have already adopted advanced climate change policies, such as California.

Further, the European Union and the United States should continue to reach out to other countries to win over their consensus for more robust action against global warming at the Paris conference on climate change in late 2015, and beyond. One of the bright spots of Obama's actions in this regard has been the launch of a US-

Chinese climate change dialogue. Since China and the United States are the world's largest GHG emitters, the importance of a joint commitment on their parts to reducing carbon emissions is hard to exaggerate – without commitment from both countries, there is little hope for effective action on global warming. At the same time, the sheer magnitude of a US-Chinese coalition entails the risk that Washington and Beijing would call the shots in global climate change talks, frustrating Europe's attempt to push forward more ambitious goals.

The European Union's aspiration to give a binding nature to internationally agreed commitments to reducing GHG emissions might be unrealistic. Yet, the United States – and even China, for that matter – has shown the willingness to contemplate a solution that would contain some legally binding elements while allowing countries to determine the scale and pace of reductions. The Europeans should consequently engage the Americans in an effort to define this hybrid solution on terms closer to EU benchmarks than China'. EU leaders could accomplish this, for instance, by pushing for a binding core agreement combined with provisions allowing for differentiated commitments in separate protocols. In parallel, the European Union and the United States should continue to help developing countries to limit or reduce their GHG emissions and adapt to the effects of climate change via such instruments as the Green Climate Fund. Finally, they should work on reinvigorating international consensus for increasing monitoring and verification of GHG emissions reductions (a key concern in the United States), including the establishment of an independent international oversight body.

Conclusions

As emerging countries increasingly gain a greater voice in world politics, tensions between great powers rise and jihadist groups and criminal organizations fill the vacuum left by fragile and collapsing states in the Middle East and elsewhere, global governance has become increasingly fragmented. An illustration of this state of affairs is the diminished ability of the United States and Europe to exert international leadership and to steer and shape governance.

No credible alternative has emerged to replace Western leadership, however. Even China, the most resourceful and ambitious of the rising powers, lacks the assets needed to turn its increasingly relevant regional role into global leadership. The United States remains exceptionally powerful politically, militarily, and economically, while Europe, in spite of the difficulties it is experiencing in its integration process and the crises around its borders, still commands considerable resources. Thus, a transatlantic coalition remains a credible vehicle for re-creating governance structures that can restore some stability to Europe's troubled neighbourhood and harness consensus for cooperative responses to global challenges.

Contrary to the period that followed the end of the Cold War, when they enjoyed undisputed pre-eminence, the United States and its allies now have to share the burden of governance with countries that are not aligned with Western interests. The challenge, for Americans and Europeans, is twofold. On the one hand, they need to protect themselves from challenges and risks; on the other hand, they need to shape the international environment in such a way to prevent those challenges and risks from emerging in the first place. The United States and Europe have a better chance to meet these two goals if they, first, strengthen bilateral ties and, second, turn a stronger transatlantic relationship into a platform from which they can engage other countries, including rival ones.

The imperative for stronger transatlantic cooperation entails that the majority of American and European interests are compatible. Undoubtedly, there are issues on which the Americans and Europeans are far apart, or on which the Europeans are divided; however, these should not necessarily be seen as impediments to broader strategic coordination. Building bridges can make up for a lack of consensus on joint action, provided there is a systematic effort to strengthen transatlantic ties and bring a greater degree of order, stability, and predictability to international relations. Clearly, this implies political choices, which are politically feasible and, above all, rely on a compelling strategic rationale.

A strong partnership is essential to preserve Europe's security and US power; recalibrate relations with Russia along a more constructive pattern; manage crises and conflicts in North Africa and the Middle East; address threats such as nuclear proliferation, jihadism, and organized crime more effectively; and contribute to facilitating the evolution of China into a globally responsible stakeholder. A vibrant EU-US economic relationship is key to supporting EU and US exports, attracting foreign investment, supporting job creation, and setting standards and rules that have a better chance to regulate the world economy. Finally, stronger EU-US ties hold promise for re-shaping governance structures in a way that simultaneously diminishes the risk of great power conflict and spreads ownership and burden of governance to emerging countries.

The "golden years" of the 1990s, when the United States and its allies built and consolidated governance structures into which the emerging powers could be co-opted, are long over. Governance today can only work as far as the consensus underlying it extends. With more countries able and willing to assert their interests, finding such a consensus has become increasingly difficult, and the exercise of governance more complicated. Yet even an imperfect governance architecture is preferable to unconstrained great power competition and, for the United States and European countries, a prize worth joining forces and fighting for.

THE PROJECT

In an era of global flux, emerging powers and growing interconnectedness, transatlantic relations appear to have lost their bearings. As the international system fragments into different constellations of state and non-state powers across different policy domains, the US and the EU can no longer claim exclusive leadership in global governance. Traditional paradigms to understand the transatlantic relationship are thus wanting. A new approach is needed to pinpoint the direction transatlantic relations are taking. TRANSWORLD provides such an approach by a) ascertaining, differentiating among four policy domains (economic, security, environment, and human rights/democracy), whether transatlantic relations are drifting apart, adapting along an ad hoc cooperation-based pattern, or evolving into a different but resilient special partnership; b) assessing the role of a re-defined transatlantic relationship in the global governance architecture; c) providing tested policy recommendations on how the US and the EU could best cooperate to enhance the viability, effectiveness, and accountability of governance structures.

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