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RESEARCH REPORT

THE CHANGING FACE OF CENTRAL EUROPE
OVER THE NEXT DECADE

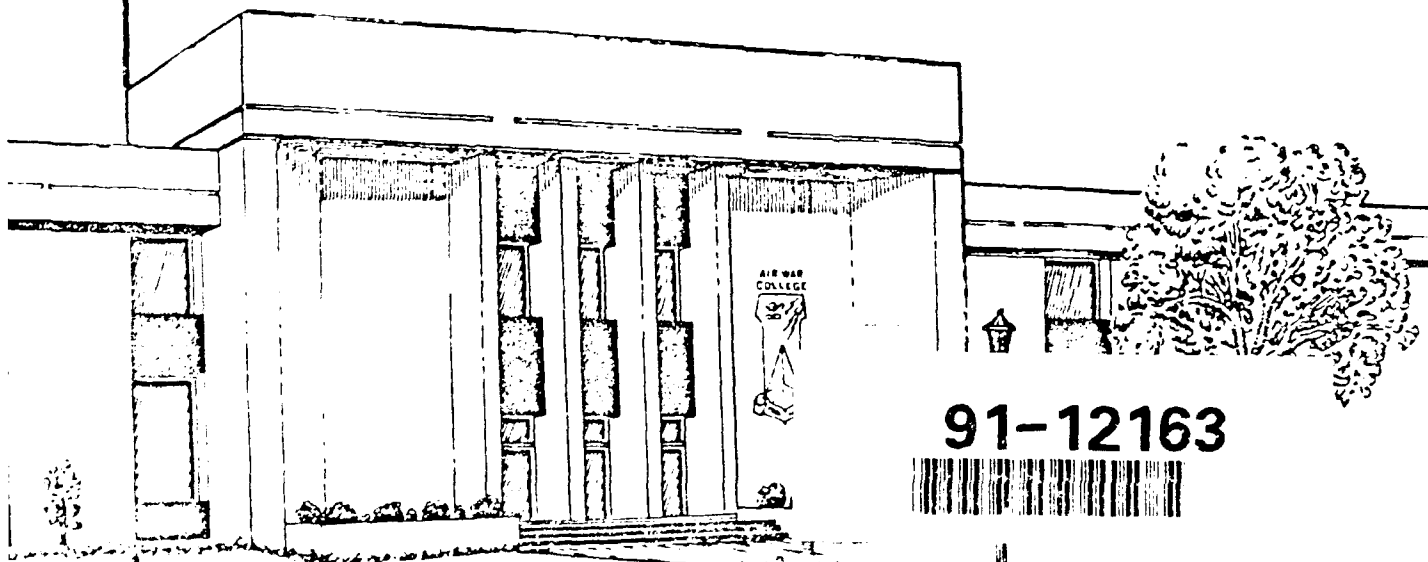
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UNITED STATES AIR FORCE
MAXWELL AIR FORCE BASE, ALABAMA

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THE CHANGING FACE OF CENTRAL EUROPE
OVER THE NEXT DECADE

by

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Wing Commander, RAF

A DEFENCE ANALYTICAL STUDY SUBMITTED TO THE FACULTY
IN
FULFILLMENT OF THE CURRICULUM
REQUIREMENT

Advisor: Group Captain John H. Spencer, RAF

MAXWELL AIR FORCE BASE, ALABAMA

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EXECUTIVE SUMMARY

TITLE: The Changing Face of Central Europe over the Next Decade.

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The next decade will see many changes in the political, military and economic structure of Central Europe. Many factors will have contributed to that change, but no one person will have had a greater impact on events than Mikhail Gorbachev, the charismatic leader of the Soviet Union. This paper examines the impact that the events of the past five years will have on Central Europe. Specifically, it addresses the changes in East/West relations both militarily and politically; it analyses the problems facing Eastern and Western Europe as they move closer towards financial integration in the 90s. Finally, it assesses the effect that the European Community's 1992 programme will have on U.S. economic relations in the years ahead.

BIOGRAPHICAL SKETCH

Wing Commander David G. Morris has served in the Royal Air Force since 1960. Although he has spent the majority of his service time in the United Kingdom, his last three tours spanning nine years have all been NATO associated: first, at Royal Air Force Headquarters Strike Command as a member of the NATO Contingency Planning Staff; second, at Headquarters TWOATAF in West Germany as a staff officer in the Offensive Operations Division. Finally, his most recent tour was as the United Kingdom Representative on the Air Board for the Military Agency of Standardization at NATO Headquarters in Brussels. He attended the Royal Air Force Advanced Staff College Course at Brachnell, England in 1976, and is a graduate of the Air War College, class of 1990.

TABLE OF CONTENTS

DISCLAIMER.	.II
EXECUTIVE SUMMARY	III
BIOGRAPHICAL SKETCH	IV

Chapter

I. INTRODUCTION.	1
II. EAST/WEST RELATIONS	3
The Perceived Threat.	3
Troop Levels in Western Europe.	4
Troop Levels in Eastern Europe.	5
The Future of the Alliances	5
III. AN INTEGRATED EUROPE.	8
The European Community.	8
The Economic Future of Eastern Europe	9
The Future of East/West Economic Relations.	11
IV. THE GERMAN QUESTION	14
The West German Plan for Reunification.	14
Effect on European Security	14
The Role of a Unified Germany in the 90s.	16
V. THE EUROPEAN COMMUNITY AFTER 1922	18
Broadening the Community.	18
The Lowering of Trade Barriers.	19
U.S. Views on the European Community.	19
VI. CONCLUSION.	22
LIST OF REFERENCES.	24

CHAPTER I

INTRODUCTION

In March 1985, Mikhail Gorbachev came to power in the Soviet Union. His arrival heralded a new era in Soviet diplomacy for which the world and the Western nations in particular were totally unprepared. In his efforts to bring about domestic and foreign policy changes, he introduced the world to "glasnost" and "perestroika". On defence matters, he talked of a new "defensive" policy and, more recently, "reasonable sufficiency" both of which reflect a major shift in Soviet military doctrine. However, it has only been in the last nine months that the greatest impact of these reforms has been felt. By December 1989, communism had almost certainly lost five countries: Poland in June, Hungary in October. East Germany in early November, Czechoslovakia a fortnight later and finally Romania in December. By mid-1990, all the Soviet Union's Warsaw Pact allies except Romania will have held at least semi-free elections and Soviet troops will have been withdrawn from many of these Eastern European countries (1:14). All these events will have a profound effect on the shape and future domestic and foreign policies of both Eastern and Western Europe.

This paper will assess the impact that the events of

the past five years will have on Central Europe over the next decade. Specifically, it will address the changes on East/West relations both militarily and politically; it will look at the problems facing Western Europe as it moves towards financial and political integration in the 90s. Finally, it will assess the effects that the European Community's 1992 programme will have on both U.S. relations and world trade in the years ahead.

CHAPTER II

EAST/WEST RELATIONS

Over the next ten years, the problems facing Europe's political leaders will centre on the stability or instability of Eastern Europe and on the economic and political developments within the European Community. However, more importantly, it will depend on the progress made in reshaping Europe's security arrangements to counter the reduced perceived threat from the East (2:80).

The Perceived Threat

Already, fewer people on both sides of the central European divide feel threatened by each other. The Intermediate Nuclear Forces Agreement, the ongoing Conventional Forces in Europe (CFE) negotiations, the breaching of the Berlin Wall and the "social democratization" of Eastern Europe have demonstrated just how much the situation has changed. Even Americans now believe that the military threat to Western Europe is over. In Washington recently, the U.S. Defence Secretary in justifying proposed reductions to the Pentagon budget stated that it was now safe to cut spending because the threat from the Warsaw Pact was diminishing rapidly (3:A17). So what effect therefore will these new perceptions of the threat have on the balance of forces in Europe?

Troop Levels in Western Europe

Even without a further arms reductions breakthrough, it is inevitable that troop levels within Europe will reduce. Agreement on current CFE negotiations would mean that the US would withdraw some 30,000 troops from Western Europe and the Soviet Union would have to demobilise about 275,000. Effectively, this would limit American and Soviet troops in Europe to 275,000 on each side. In late November 1989, the Bush Administration even went further by admitting that in the next round of talks on CFE, it did not discount the possibility of a reduction in U.S. troop levels down to 150,000 (3:A16). Many Western European nations are also under continuing political and economic pressures to reduce their active forces: the United Kingdom is committed by the Western European Union to maintain 55,000 troops in West Germany, however, financial pressures may lead to a change in her attitude. The Benelux countries contribute 4 divisions to the defence of West Germany, but, here again, a perception of a reduced Soviet threat coupled with fiscal problems will certainly lead to a review of their current commitments. Finally, West Germany itself is encountering demographic and domestic problems that will lead both to a reduction in their armed forces and to an increasing call for a reduced Allied military presence in their country: a declining population will certainly mean a reduction in their active armed forces and, as the threat appears to recede further, greater will become the call for a lowering of the 400,000 Allied troops

currently deployed in West Germany (4:24).

Troop Levels in Eastern Europe

In Eastern Europe, there are clear signs that increased democratisation is also leading to reduced military expenditure: Hungary and Poland have both announced defence cuts of 25% over the next two years (2:82) and, even in the Soviet Union, cuts of 1% in the 1988 military budget show a reversal of the trend in military spending. Equally importantly in terms of East/West tensions are the recent calls by certain Eastern European countries for reductions in the scale of Soviet forces based in Warsaw Pact territories: Hungary, on 16 January 1990, requested that all Soviet troops be withdrawn. Czechoslovakia's Foreign Minister recently pointed out that, since Moscow had admitted that the 1968 invasion was "illegal", then there was no valid reason for the 70,000 to 75,000 Soviet troops to be stationed in his country. Finally, Poland has requested that cuts in Soviet forces are made and that existing treaties are revised. All of these events point towards not only a significant change in force levels in Europe but also to possible changes in the structure of the NATO and Warsaw Pact Alliances themselves.

The Future of the Alliances

NATO, despite continuing debates on defence budgets and how member nations should share the collective burden, will remain vital to European security for many years to come. However, changes are inevitable in the size, structure and function of the Alliance (5:36). If the Soviet Union pulls its

forces back within its borders, as now seems quite likely, and the Warsaw Pact reduces its armed forces significantly, then there could be a 15% to 20% reduction in NATO forces over the next five years (6:53). The Belgians have already expressed a wish to withdraw their 25,000 troops from West Germany (7:16) and economic pressures from within the U.S. will certainly lead to even greater reductions in American forces in the near future. However, whatever the cutbacks, the Alliance will remain the central link between the U.S. and Western Europe and, to this end, there must always be American troops in Europe until such time as Europe establishes for itself a solid new stability (8:13). Even then, some Europeans will continue to want a U.S. presence in Europe both to counter not just a still very powerful, nuclear Soviet Union but also to provide a counterbalance to what by 1995 could be a reunified, or maybe even, neutral Germany (6:54).

But what of the Warsaw Pact? Poland has almost reached democracy; Hungary is likely to get there later this year and East Germany and Czechoslovakia are not far behind. Of these four, Poland, Hungary and Czechoslovakia have already requested the Soviet Union to withdraw forces from the territories; yet it is they that are the very heart of the Warsaw Pact outside the Soviet Union (6:53). The Commander in Chief of the United Armed Forces of the Warsaw Pact must now wonder just how responsive those countries would be to Soviet bidding (5:38). However, although the Warsaw Pact is experiencing great internal turmoil, it is needed if for no other reason than to

maintain peace in Eastern Europe particularly during the present period of resurgent nationalism. Also, despite the impression given by Gorbachev that he has virtually written off Eastern Europe politically, it is very unlikely that he would allow any of these countries to leave the Warsaw Pact at least in the foreseeable future (9:A17).

Both Alliances will be with us throughout the next decade although not perhaps in their present form and certainly not for the same reasons. In the immediate future they will continue to be needed to oversee continuing arms reductions. However, in the long-term, the Alliances will in all probability become more politically orientated institutions with less emphasis on military functions.

CHAPTER II

AN INTEGRATED EUROPE

Changes in the military structure of both Eastern and Western Europe during the 90s are inevitable. Furthermore, as the east European countries move further away from Soviet military dependance, they will begin looking towards the West, particularly the European Community (EC), for greater financial support and eventual economic integration. Already, there is talk within the Community of "broadening" its membership to include some Eastern countries. However, any such move could lead to a delay in the creation of the single market in 1992 to which the President of the European Commission and the majority of members are now committed.

The European Community

1992 should see the adoption of the Single European Market when all trade barriers between the states of the EC should come down. In addition, it could see the establishment of economic and monetary union (EMU) as well as the acceptance of a "social charter" of employment rights. The current President of the European Commission also wants to take integration a stage further. He wishes to make a European government more accountable and for it to become responsible for establishing a single foreign policy embracing both

security and defence - his aim is to create a deeper Community leading eventually to a Federal Europe (10:55). Currently, only the British Prime Minister is strongly opposed to "deepening" the Community. She dislikes the idea of monetary union, believes that Europe's defence should rest with NATO and is against relinquishing national sovereignty to a European parliament (11:58). Furthermore, although not advocating immediate entry into the Community, she has stated that she would prefer to see the EC assisting in the democratization of Eastern Europe by establishing some form of associate trading status within the EC. However, her preference for "broadening" is seen by sceptics as a way of deferring EC acceptance of EMU and the "social charter" beyond 1992 rather than a deliberate effort at Eastern European economic integration within the EC.

The Economic Future of Eastern Europe

So what does the economic future hold for Eastern Europe? Despite the EC's apparent reluctance to open its doors to Eastern European countries before 1992, it would not be in the long-term interests of either the Community or Western Europe as a whole to deny Eastern Europeans the economic support that they so desperately seek. So in the meantime, the problem is how best to assist them in their efforts at democratization whilst at the same time preparing them for the realities of economic competition in a free European market. In the opinion of many within the Community, merely injecting foreign capital into Eastern Europe is not the answer (12:11). It requires more than that. First, it is essential for the

Western European nations to open their borders to trade and to participate fully in technological, cultural and economic exchanges with their East European neighbours. Second, it will require a corresponding commitment by the East Europeans to reform their economies and to adopt a more free-market approach to commerce. But then even after proving their economic and democratic credentials, there will still be many obstacles to successful integration within the EC. They will still have to wait their turn behind Turkey and Austria both of whom have already applied for Community membership and, more importantly, they will need to reflect on how they see their future as defensive allies of the Soviet Union. This they will need to do because if the EC does "deepen" its political base in 1992 and includes both defence and common security in its charter, then clearly applicants for membership to the EC would have to be at least neutral. Even in the present circumstances, that might be too much for the Soviet Union to take as it would in time inevitably lead to the dissolution of the Warsaw Pact as a defensive alliance (11:58).

Another option to the Eastern Europeans might be to apply for entry into the European Free Trade Association (EFTA): four of its members are neutral - Austria, Finland, Sweden and Switzerland - and two are members of NATO - Iceland and Norway, and it has virtually none of the policy machinery of the EC. However, EFTA members are richer and their economies are more market-orientated than many of those within the Community. Economically therefore, there would exist an

even greater gap between the EFTA nations and those of Eastern Europe (11:58). A third and possibly more plausible option open to the East Europeans could be to seek some form of Association Agreement with the EC so that, even if the Community did "deepen" in the coming years, East European countries would not be required to adopt a neutral status. Although such agreements are normally more difficult to acquire than cooperation agreements - they need unanimous approval of Community members - they are in the long term more valuable economically to the associated country.

The Future of East/West Economic Relations

The development of East/West economic relations in the 90s will depend on the path that the EC elects to take over the next two years. The Community has two options: it can follow the line advocated by the President of the European Commission and adopt a "deepening" policy to include security and defence or it can look to "broadening" the Community with the acceptance of new members. The strongest supporters for "deepening" are from France, Italy and from within the European Commission; all of them believe that the current upheaval in Eastern Europe should not slow down the process of EC integration (13:50). They want the present 12 members to form a tighter union just as soon as is possible. However, if the Community does elect to "deepen", then it risks alienating the British and the West Germans both of whom wish to see a broader not deeper Community. Britain is totally opposed, but West German concerns are centred upon the issues of defence and

European security which, if included in EC policy, could bar neutral countries from EC membership. She would prefer to see a "neutral" Community that keeps its doors open to neutral states such as Austria and Sweden and also to those East European nations that reform their economies enough to join (14:2). In the final analysis, West Germany would certainly reject any deepening that for political reasons prevented East Germany from eventually joining the EC (15:14).

On the other hand, "broadening" would slow down the process of integration. A Community of 16 or more would find it even less easier to agree than the current 12 members and so the chances of reaching a consensus on such issues as monetary union or on a common defence would be inevitably delayed. However, those in favour of "broadening" believe that now is not the time for the Community to turn its back on an ex-communist East. They argue that a closed door policy towards Eastern Europe could encourage nationalism and intolerance towards their rich Western neighbours (13:50).

The President of the European Commission therefore faces a very difficult decision. Does he pursue his preferred "deepening" policy which would now meet with strong opposition from West Germany as well as Britain or does he defer to those who wish to "broaden" the Community? Although the EC would be prepared to turn its back on Britain, it needs West Germany. Already, West Germany alone accounts for 25% of the entire gross national product of the EC and is the single most important trading partner of almost every other European

country. Furthermore, it would not be in the interests of the Community to adopt policies that ignore the consequences of the "German Question" and so force West Germany to adopt possibly a neutral status outside the EC.

On balance, therefore, the seemingly best course of action for the EC to take over the next two years will be to pursue a limited "deepening" policy whilst at the same time negotiating Association Agreements with the nations of Eastern Europe. The Community will probably agree to EMU and to the "civil charter" but will defer the issues of common security and defence until a later date. This approach will offer the best compromise and will satisfy the interests of both parties. It will leave open membership to neutral countries thus lessening some of West Germany's concerns. At the same time, it will also allay some of Britain's doubts over loss of sovereignty. For the Eastern Europeans, it would mean access to the wealth of Western Europe without political strings.

Over the next decade, the EC must open its doors to all European nations that meet the necessary membership conditions. In the process, it will help to transform European security as neutral countries become more closely involved in Europe's political structure and as Warsaw Pact countries begin to develop economic ties with NATO nations (2:82).

CHAPTER III

THE GERMAN QUESTION

The West German Plan for Reunification

The greatest obstacle to a truly integrated EC is the question surrounding the future of East and West Germany. Prior to the breaching of the Berlin Wall on 9 November 1989, the vast majority of Germans saw unification as a distant aim. Now West Germans in particular see it as an achievable goal within the next five years. At a meeting of the West German parliament in late November, their chancellor announced his three stage plan for unity. The first would have to be free elections in East Germany. In the second stage, he envisaged the establishment of a loose confederation involving government committees to co-ordinate policy and a body drawn from the members of both parliaments. The final stage, unification, would be the integration of both states into a Federal Republic within the EC (16:56). He neglected to mention, however, the timescale envisaged or what role a united Germany would or could expect to play in an integrated Europe or NATO.

Effect on European Security

Whatever the time-scale, the thought of a reunified Germany is to some a very unattractive if not destabilising proposition. Neither the European powers, the Soviet Union nor

the U.S. are totally in favour of a single Germany but, if it is the wish of the German people, there is very little they can do to prevent it. Their concerns are not based on historical fears but rather on the impact that reunification would have on NATO, the Warsaw Pact and the security of Europe. It is inconceivable to imagine a Germany part of which is still aligned with NATO whilst the rest remains within the Warsaw Pact. A unified Federal Republic of Germany either has to be neutral, totally aligned with NATO or with the Warsaw Pact. There can be no middle road.

A neutral Germany would not be a demilitarised one. It would possess the biggest army in Europe outside of the Soviet Union and, even if it remained non-nuclear, would give considerable cause for concern to both West and certain East Europeans alike (8:14). German neutrality might suit the Soviet Union provided that a new Federal Germany accepted its post-war borders as final. It would not, however, meet with the support of all West Europeans. NATO would lose both West German territory as well as one of her strongest military allies. Furthermore, unless France decided to allow American troops back on French soil, U.S. forces currently stationed on West German territory would return home. If this did happen, NATO could find itself unable to resist a surprise attack by the Soviet Union even without the support of its Warsaw Pact allies (17:52). A unified Germany aligned to NATO alone would under the present circumstances prove totally unacceptable to the Soviet Union. The latter would lose its best and largest

non-Soviet army as well as access to the only country bordering NATO that is still prepared to tolerate Soviet troops (17:52). Furthermore, it would even have to face the prospect of NATO troops moving into East Germany. However, it is not inconceivable, although in the author's view unrealistic, that an agreement by NATO not to position troops in an eastern Federal Germany might prove sufficient to gain Soviet support for such an alignment. The final option would be for a reunited Germany to be aligned solely with the Warsaw Pact. In the present climate, this is unthinkable. As a military alliance, the Warsaw Pact has virtually ceased to exist and, furthermore, such an alignment would be totally unacceptable to all but the Soviet Union. The most likely outcome is that a unified Federal Republic of Germany will become neutral. Although such a move would not meet with the wholehearted approval of all concerned parties, it is the only realistic option to the two Germanies now that reunification is inevitable.

The Role of a Unified Germany in the 90s

The question that now remains is what role will a unified Germany of 80 million people have to play in the Europe of the 90s. A reunited Federal Germany with more than 660,000 people under arms will be a daunting prospect, even in today's climate, and so every effort must be made now to anchor West Germany into Western Europe. Should a reunified Germany elect to become neutral, then the only option open to the West Europeans is to ensure that the new Germany is bound firmly

into the EC. It is therefore extremely important that current decisions affecting the future of the Community should not ignore the German view. This means that the subjects of foreign policy, defence and security should continue to remain outside the Community's political control at least for the foreseeable future. Economically, it also makes sense. The EC needs West Germany almost more than she needs the EC. With a gross national product (GNP) that exceeds both Britain's and France's and a currency that is Europe's strongest, the German economy is central to Europe's success in the years ahead (2:80). A united Germany outside of both NATO and the EC would not necessarily be a military threat, but, with her industrialised might and a GNP estimated at \$1.4 trillion, she would become the overwhelming economic power within Europe.

German reunification is no longer a dream. It will become reality and the rest of Europe must be prepared for it. Although it will take the Germans some considerable time to achieve total reunification, a loose confederation as suggested by the West German chancellor in November 1989 cannot be far away. The EC must be ready. The members of the EC must now defer to German wishes and shelve any ideas they may have about shaping a single foreign policy embracing both defence and security at least for the immediate future. This will permit the EC to anchor either the loose confederation or a neutral Federal Germany firmly within the Community. This integration is essential if, as would seem likely, West Germany is forced to withdraw from NATO as a result of reunification.

CHAPTER IV

THE EUROPEAN COMMUNITY AFTER 1992

Notwithstanding the progress that has already been made towards economic and political union within the EC, many barriers still exist. The question of EMU remains as does agreement on the "civil charter" and well as on the future of the EC's single foreign policy. Disagreements are also still in evidence on automobile production and within the energy, transportation and telecommunications industries (18:17). However, these problems are not unsurmountable and with a population approaching 320 million and a combined gross national product of \$4.2 trillion, the EC will in the coming years become one of the world's strongest economic communities ahead of Japan at \$3.0 trillion and approaching the U.S. at \$4.8 trillion (19:17).

Broadening the Community

Already many European nations outside of the EC including some of the neutrals are beginning to see the possible penalties of exclusion. Of the EFTA countries for example, Austria has now applied for membership, Norway will follow suit after 1992 and Sweden, Finland, Iceland and even Switzerland are all looking to develop closer ties with the Community (2:80). Not forgetting of course the East European

nations all of whom are looking towards the EC for an improvement in trading relations. However, if the EC is to benefit fully from a more integrated and competitive internal market then it must continue to remain neutral and to keep its doors open not just to Europe but to the world.

The Lowering of Trade Barriers

Within the EC, 1992 will herald a significant move towards a lowering of internal, intra-European barriers. It will therefore lead to a freer flow of goods, services and capital throughout the Community. However, if the advantages gained through the lowering of internal barriers are not to be lost, then there must also be a corresponding lowering of external economic barriers. The EC must not become "Fortress Europe". It would be wrong both from a political and economic standpoint for the EC to isolate itself from world markets. This would only lead to protectionist policies and a world trade war in which everyone would be a loser (20:18).

U.S. Views on the European Community

U.S. economists' views on the subject of the new Europe vary considerably. Some see 1992 as an important opportunity for American industry, others view the outcome with some apprehension. A few sceptics fear those barriers removed internally in Europe will simply be re-erected externally to restrict U.S. access to the EC market.

The optimists believe that a strong European market will open up new opportunities for American firms and investment (21:492). Since 1970, U.S. exports to the EC have

increased eight-fold and direct investment has jumped from 25% to 40% (22:15). The optimists predict that this trend will continue throughout the 90s and that the prospects for those firms already established in Europe could not be brighter.

The pessimists view the situation somewhat differently. They point to five areas where the EC will pose a major challenge to U.S. exports to the Community. First, they see a unified European market creating an industrial competitiveness that will enable it to undersell many American goods and services thus weakening rather than strengthening an already troubled U.S. trade position. Second, many exporters believe that access to the European market may be restricted in order to give European industry preferential treatment. Third, they predict that the Community is likely to use its new-found economic power in support of its exporters (23:107). Fourth, they are concerned that even those American companies already established within the EC may find that distinctions will be made between native European companies and those that are foreign-based (22:15). Finally, some contractors within high-tech industries fear that the lowering of trade barriers throughout Europe will lead to the transfer of critical technologies to the East.

Undoubtedly, the establishment of a new economic superpower in 1992 will not be without its problems, but the U.S. has more to gain than to lose from Europe 1992. It will provide the U.S. with a very strong trading partner which will be capable of providing both support when things go

wrong with the rest of the world's economies and a bigger and better market for U.S. products and services. The latter should help significantly to reduce the U.S. balance of trade in the years ahead (23:108). However, if American firms are to make the best of these opportunities, they must act now to establish themselves within that new market. The competition will be very tough, but the results in the long term will be worth it.

CHAPTER V

CONCLUSION

The next decade will see many changes in the political, military and economic structure of Central Europe. Many factors will have contributed to that change but no one person will have had a greater impact on events than Mikhail Gorbachev the charismatic leader of the Soviet Union.

Over the last nine months, communism has lost five countries. In the months ahead, "social democratisation" throughout Eastern Europe will continue to effect the political scene and also the level of forces available to the Warsaw Pact. As the perceived threat to Western Europe recedes, so will the commitment of forces to NATO. These events will inevitably lead to changes both in the structure and functions of the Alliances in the future.

Recent events in Eastern Europe will also affect the process of economic and political changes within the European Community. As more East European nations look to the west for improved trade relations, so their attention will become focused on the EC. However, it would not be in the interests of either party to rush into things. Issues such as a common EC defence and security policy, economic and monetary union and the "social charter" will need to be resolved by the Community.

first. Even then, the East Europeans cannot expect immediate and automatic entry. Other nations are already ahead of them in the queue and, as yet, the economies of the East Europeans are no match for those of the market-orientated Western nations. Despite the distractions from Eastern Europe, the Community is continuing to press ahead towards full economic integration in 1992.

The only really major obstacle remaining is the issue of German Unity. German reunification is inevitable. The neutrality of a new Federal Germany is a distinct possibility. Therefore, any decision taken by the EC which would include defence and security as part of its common defence policy must be considered very carefully otherwise a reunited neutral Federal Germany could be driven out of the EC as well as NATO. This cannot be allowed to happen. The EC must take account of West German wishes and adopt a foreign policy which ensures that a reunited Germany stays anchored to the Community.

A fully integrated European Community in 1992 will herald the arrival of a new economic superpower. Some American economists view the prospects with apprehension; others see it as a opportunity for the U.S. to improve its balance of trade and to strengthen its commercial links with Europe. However, whatever the problems, the U.S. must be ready to accept the challenge and so take advantage of a market that, by the turn of the century, will be expanding not just within the Community but into Eastern Europe as well.

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