

NAVAL POSTGRADUATE SCHOOL

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EUROPEAN UNION: US HEGEMONIC COMPETITOR

by

Ronald Leslie Kellar

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Thesis Co-Advisors:

Robert Looney
Tjarck Roessler

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Ronald Leslie Kellar
MAJOR, United States Army
B.A. English, Texas A & M University, 1989
B.A. History, Texas A & M University, 1989
A.A. Russian Language, Monterey Peninsula College, 1999

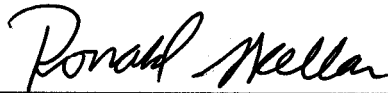
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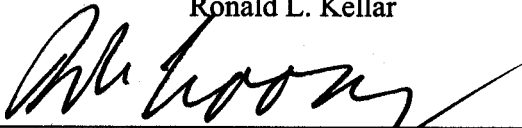
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Author:



Ronald L. Kellar

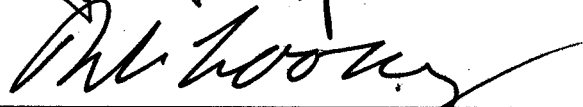
Approved by:



Dr. Robert Edward Looney, Thesis Co-Advisor



Jarck G. Roessler, Thesis Co-Advisor



James Wirtz, Chairman
Department of National Security Affairs

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ABSTRACT

Since World War II, Europe has evolved from the Westphalian international system into a consociational, supranational state system opting to trade sovereignty for collective economic, political and military security. Intergovernmentalism in the European Community has evolved into an economic form of supranationalism with the persona change from Community to Union after ratification of the Treaty of Maastricht in 1993. The transition to supranationalism and its governance is a result of the integration and interdependence of Europe realized through institution building and the resultant evolution of cooperation. After WWII, the United States developed a unipolar hegemony toward Europe through the implementation of a number of US-led initiatives — Bretton Woods, the United Nations, the General Agreement on Tariffs and Trade, the European Recovery Plan, and the founding of the North Atlantic Treaty Organization. In the interim, the United States waged a Cold War against the Union of Soviet Socialist Republics (USSR), which served to strengthen US resolve to support rising free-market democracies and eclipsed the rise of yet another contender for superpower status — the European Community (EC). The emerging “super” Westphalian state will prove to be the single economic rival to US hegemony in the post-Cold War era. The bipolar struggle between the United States and the European Union will play out on the economic battlefields of regional markets.

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EXECUTIVE SUMMARY

Since the founding of the European Coal and Steel Community in 1952, Europe has been on track to achieve a new form of government in the international community of nation-states, one of a consociational, supranational-type, accomplished through the incremental pooling of portions of state sovereignty. This trend of intergovernmentalism and interdependence has created a new form of polity, which threatens the unipolar status of the United States in the post-Cold War era.

The United States realized a decline in hegemony in the international system since 1973, a fact supported by the decline in the prestige and effectiveness in a number of US-instituted and led regimes during the interim between 1973 and the collapse of the Soviet Union — Bretton Woods, the General Agreement on Tariffs and Trade, and Containment policy. The Korean and Vietnam Wars, US monetary policy, the Third World Movement, and the Middle East Oil Crisis exacerbated the decline of these US-led regimes and initiatives.

As a result of the decline of US prestige in the international community, coupled with the proliferation of democracies in the latter half of the 20th century, especially in Eastern Europe following the USSR's collapse, the European Union has developed into the second largest economy in the world — the sole, immediate rival to US economic stature in the 21st century. The emerging bipolar, economic struggle is taking place in regional markets throughout the world today and the United States is clearly losing the battle to the European Union over emerging marketshare.

The results of this bipolar struggle have great implications for US-Transatlantic relations and, more importantly, for US influence within regional security structures throughout the world. US policy towards the European Union must come to terms with the emergence of the European Union as a new polity within the international community and a political force vying for US global influence.

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I. INTRODUCTION

A. DESCRIPTION OF THE TOPIC

The evolution of the international system, from the Treaty of Westphalia through the collapse of the Communist experiment in Russia in the early 1990s, has made the new millennia ripe with promise for economic contenders to US hegemony. The remarkable cooperation of European nation-states following World War II has led to the development of an economic contender to rival the United States.

This research explores the rise of the European Union as a contender for US marketshare and political influence in regional markets and suggests implications for revising US foreign policy to respond to declining US influence in regional markets. Evaluation of the contentiousness of European competition for regional marketshare, analysis of the economic threat and its implications for US economic and political policies toward regional markets addressed by this thesis

B. IDENTIFICATION OF RESEARCH QUESTIONS

This research will focus on the following questions:

1. How has the evolution of the European community of nation-states posed a new threat to US hegemony?
2. How has the evolution of US domestic and foreign policy contributed to the weakening of US hegemony in the post-Cold War era?
3. Has US-EU economic competition in regional world markets led to the development of competition within regional security architectures?
4. What are the implications for US economic and foreign policy for the post-Cold War era?

Chapter II will focus on Europe within the context of the developing international system following the Treaty of Westphalia. Chapter III will explore the transition of European states in the post-Imperial era from intergovernmental to supranational governance. Chapter IV will describe the integration, institution building and cooperative evolution process among the European states, describing the legalization and economic cooperative efforts, which led to the political integration of the European communities. Chapter V will explain the growing divergence of US-European interests and the hegemonic instability theory, which characterizes US-European economic relations. Chapter V will also describe the economic resurgence of Europe and its contention for marketshare with the United States in regional markets. Chapter VI will describe the policy implications for the United States to stave off further entrenchment by the European Union and describe counter-measures to promote US economic hegemony into the twenty-first century. Chapter VII will review the conclusions to be drawn from the research.

II. PEACE OF WESTPHALIA $\frac{3}{4}$ BRAVE NEW WORLD

The post-World War II international system is not altogether different than the one that preceded it — states continue to struggle for power and interest within an evolving international system. One of the epochs of history was the introduction of the Westphalian international system in 1648. Although Europe had never been united, and its history was one of fragmentation, conflict, and changing administrative boundaries, “in the economic sphere, the development of capitalism and industrialization provided the necessary resource basis for the modern Westphalian state, while the separation of the private sector and the public sector is a feature of Westphalian statehood; there is no such separation in earlier forms of state.”¹ The Peace of Westphalia sought to separate the powers of church and state.

In so doing, it transferred to nation-states the special god-like features of church authority. States inherited sovereignty, and with it an unassailable position above the law that has since remained the central element of international relations.²

After two world wars in the 20th century, the international system transitioned from one of imperialism to an era with democracy and globalization as system elements. The United States led in the efforts to democratize and liberalize free markets. This goal was bolstered by a US-led effort to “contain” the forces of communism in all theaters and to support fledgling democracies and free markets wherever they took root and flourished. The post-WWII international order saw the rise of US hegemony, with US implementation of international reforms at Bretton Woods in 1944, the General Agreement on Tariffs and Trade (GATT) in 1947, the European Recovery Program

¹ Alagappa, Muthiah and Takashi Inoguchi, ed. *International Security Management and the United Nations*, New York: United Nations University Press, 1999, p. 27.

² Lyons, Gene M. and Michael Mastanduno, *Beyond Westphalia? State Sovereignty and International Intervention*, Baltimore: John Hopkins University Press, 1995, p. 97.

(ERP) or the Marshall Plan in 1948, and the North Atlantic Treaty Organization (NATO) in 1949. These US-sponsored reforms ensured the US place as the hegemonic superpower in the post-WWII era and offered security for a war-ravaged Europe to begin healing. In the interim, the United States waged a Cold War with the Union of Soviet Socialist Republics (USSR), which served to strengthen US resolve to support rising free-market democracies and eclipsed the rise of yet another contender for superpower status — the European Community (EC).³

Larry Diamond depicts the European Union as the most important community of democracies in the history of the world.

Two of the highest strategic priorities for the advance of democracy in the world are (1) to expand that union to incorporate the post-communist states and (2) to bring about a true common market in the Americas⁴ —the latter, a competitive goal to US leadership in the western hemisphere.

In the space of just forty years, the European Community implemented a body of treaties and laws and developed a set of institutions that have altered the political, economic and social landscape of Western Europe and redefined the balance of power in the world by creating a new economic superpower.⁵

³ Oudenaren, John Van, *Uniting Europe: European Integration and the Post-Cold War World*, New York: Rowman & Littlefield Publishers, Inc., 2000, p. 10. European Economic Community/European Community generally is used to refer to the historical development of the Community up to 1993; European Union generally is used to refer to these organizations after 1993.

⁴ Diamond, Larry, *Developing Democracy: Toward Consolidation*, Baltimore: John Hopkins University Press, 1999, p. 275.

⁵ McCormick, John, *Understanding the European Union: A Concise Introduction*, New York: St. Martin's Press, 1999, p. xii.

The European Union is the world's biggest economic power, is one of the two largest markets in the world, expresses itself ever more forcefully in global trade negotiations, and has planted the seeds of a common foreign and defense policy.⁶

The European Union has emerged as a transnational player at least in the international economic system, exercising a new form of supranational governance achieved through partial sovereignty sharing and complex interdependence. Peter Herrmann describes, "The EU as a whole block of institutions can be regarded as a new emerging 'super state': political power is centralized to an extent that its control is nearly impossible."⁷ As a supranational competitor to US hegemony in the post-Cold War era, the European Union threatens the unipolar order, which the United States currently dominates, and the struggle for future dominance will certainly play out on the regional, economic battlefields of developed and developing markets alike.

⁶ McCormick, p. xii.

⁷ Herrmann, Peter, *European Integration Between Institution Building and Social Process*, New York: Nova Science Publishers, Inc., 1999, p. 82.

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III. BEYOND WESTPHALIA ¾ THE RISE OF A SUPRANATIONAL POWER

A. INTRODUCTION

European ascendancy, territorial states claiming exclusive rights over territory within their boundaries and freedom from external interference, “dominated European politics and conquered much of the rest of the world.”⁸ Nevertheless, even during this state-centric era, the actual content of sovereignty, declares Stephen Krasner, was repeatedly contested and persistently challenged by other institutional forms, and the exercise of authority within a given territory, generally regarded as a core attribute of sovereign states has been problematic in practice and contested in theory.⁹

An unconventional focus on the state led to the neglect of private sector economic actors like multinational/transnational corporations.¹⁰ In the post-WWII era, the international system evolved under the hegemonic umbrella of the United States, which waged a hegemonic, bi-polar war with the Soviet Union. World War II ushered in many structural changes, which redefined American interests, but international institutions like the European Community ensured the implementation of a new US strategy toward Europe.¹¹ Europe began to develop an integrated identity, responding to the rebalancing of power in the international system.

We label the political form that emerged from medieval Europe and that was legitimated by the doctrine of sovereignty the ‘Westphalian polity’.

⁸ Hewson, Martin and Timothy J. Sinclair, *Approaches to Global Governance Theory*, State University of New York Press, 1999, p. 197.

⁹ Ibid, p. 197.

¹⁰ Ibid, p. 200.

¹¹ Hoffman, Stanley, et al., *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, Cambridge: Harvard University Press, 1993, p. 104.

History is having its revenge on the Westphalian polity, and there are also shocks from a future that is as yet only partially perceived.¹²

B. WESTPHALIAN SYSTEM AND EUROPEAN NATION-STATES

Due to the Westphalian influence on the international system, sovereign nation-states have managed their affairs through negotiation and war without answering to any higher authority.¹³ Following the second world war in less than half a century, war-torn Europe began the healing process. The US-sponsored transnational regimes of GATT, the International Monetary Fund and International Bank for Reconstruction and Development (IBRD) began to interact with European subscriber nations to develop “transnational microeconomic links.”¹⁴ Europeanization drew from economic cooperation first with US transnational actors, then through cooperation and intergovernmentalism through institutions and treaties. With the introduction of the Brussels Treaty in 1948, the transformation of the Westphalian System began its evolution in Europe. If one defines nationalism as governmental policies that are designed to control, reduce, or eliminate a wide range of foreign influences and transnational processes on a society, the Brussels Treaty failed to defend European nation-states from the infringement by US hegemony. The “Brussels Treaty of Economic, Social and Cultural Collaboration and Collective Self Defence,”¹⁵ signed on 17 March 1948, was a more effective response to the Communist coup in Czechoslovakia and the Berlin blockade in 1948, because it entered into force the Brussels Treaty Organization, which later became the Western European Union.¹⁶

¹² Hewson, p. 203.

¹³ Lyons, p. 209.

¹⁴ Hewson, p. 208.

¹⁵ Anstis, Christopher and Alexander Moens, eds. *Disconcerted Europe: The Search for a New Security Architecture*, Boulder: Westview Press, 1994, p. 5.

¹⁶ Oudenaren, p. 4.

To invoke relief from the US-hold over world economic affairs, the European nations sought to develop a transnational regime — the OEEC (Organisation for European Economic Co-operation) — to coordinate transnational and intergovernmental monetary exchange. Due to the “perceived shortcomings”¹⁷ and the “limited intergovernmental cooperation”¹⁸ that the OEEC offered subscribing nation-states, the European nation-states founded a new set of organizations and began a process of “deeper integration involving the transfer of sovereignty to new ‘supranational institutions’”¹⁹ — beginning with the European Coal and Steel Community (ECSC). Although the establishment of EURATOM²⁰ and the EEC (European Economic Community) followed in 1958, which formed the basis of today’s European Union, Britain initially chose not to join these communities and, together with several smaller countries that also were wary of supranational integration, formed a much looser organization, the European Free Trade Association (EFTA), in 1960.²¹ With the fulfillment of the EPU (European Payments Union) mission in 1958 of restoring full convertibility of European monies with the dollar, the European Economic Community abolished the EPU and the OEEC transformed into the Organization for Economic Cooperation and Development (OECD), with the United States and Canada as founding

¹⁷ Ibid, p. 8.

¹⁸ Ibid, p. 29. Intergovernmentalism is an approach to integration in which national governments establish institutions and procedures to pursue common interests, but in which those governments retain the ultimate authority to pursue an independent policy if they desire.

¹⁹ Ibid, p. 8. Supranationalism is an approach to international integration under which national governments cede sovereignty over certain matters to transnational institutions.

²⁰ The European Atomic Energy Community (EURATOM) is a regional organization established in 1958 to create conditions necessary for the establishment and growth of nuclear industries. The United States promoted its establishment to benefit sales of US nuclear power reactors and related equipment, fuels and technology in Europe.

²¹ Oudenaren, p. 8. Britain, Portugal, the Scandinavian countries, Austria and Switzerland formed the EFTA. Finland became an associate member in 1961.

members.²² John Van Oudenaren explains, “The OECD took on a new mission of promoting economic and social welfare in all developed countries through analysis of policy problems and coordination of economic policies.”²³

EC-policy is focused on economics —this is true despite and in consideration of all political, social, cultural ... implications and it is still applicable after Maastricht....But at the same time we find — starting with the economic orientation —a permanent widening of processes of regulation in all concerns.²⁴

1. Evolution of European Westphalian States in Post-Imperial Era

Beginning with the Brussels Treaty, the European community started a trend towards the development of a European Union “through a series of celebrated intergovernmental bargains, each of which set the agenda for an intervening period of consolidation.”²⁵ Following the 1948 Brussels Treaty, the Council of Europe was the first attempt to build a consolidated Europe and to safeguard its political and cultural heritage by promoting human rights and democracy. Ten European states formed the Council of Europe, striving for “closer unity between the like-minded countries of Europe” and calling for “common action in economic, social, cultural, scientific, legal and administrative matters.”²⁶ The Council began the inroads to the development of a European tradition of intergovernmentalism.

²² Ibid, pp. 9, 10. Japan, New Zealand and Austria later joined.

²³ Ibid, p. 10.

²⁴ Herrmann, p. 14.

²⁵ Sandholtz, Wayne and Alec Stone Sweet, *European Integration and Supranational Governance*, New York: Oxford University Press, 1998, p. 7.

²⁶ McCormick, p. 65.

2. From Intergovernmental to Supranational Governance

In 1952, the French Foreign Minister Robert Schuman and French diplomat Jean Monnet initiated a new form of integration, focusing on “practical steps in the economic field, the building of permanent institutions, and the harnessing of day-to-day economic cooperation to a long-term political vision,”²⁷ and founded an independent, supranational coal and steel industry. Belgium, Italy, Luxembourg and the Netherlands joined France and Germany in this enterprise, focusing on an “*upward* relocation of authority,”²⁸ thereby, establishing the European Coal and Steel Community (ECSC) after the Treaty of Paris, marking the beginning of a new, supranational European entity. John McCormick described, “The founding of the ECSC was a small step in itself, but remarkable in that it was the first time that any European government had given up significant powers to a supranational organization.”²⁹ The new development assured a long-term constitution of a new socially functioning international organization.³⁰ Following the signing of the Treaty of Rome in 1957, the founding nations of the already successful ECSC established the European Atomic Energy Community (Euratom) and the European Economic Community. The European Economic Community strove to eliminate all barriers to the free flow of goods, capital, services, and people among its member states.³¹

The development of the European Community from its outset continued along “a continuum that stretches between two ideal-typical modes of governance: the

²⁷ Lyons, p. 208.

²⁸ Ibid, p. 208.

²⁹ McCormick, p. 67.

³⁰ Herrmann, p. 36. The argument for social-functional rationality builds the case for constitutive and constructivistic views. Sovereignty is a constitutive norm, whereby, nation-states create a treaty, i.e., the Treaty of Maastricht, which, in turn, constitutes the European Union. Constructivism posits that international organizations (IOs), non-governmental organizations (NGOs), or regimes redefined the interests and identities of the subscribing nation-states, which led to the socialization of the nation-states to make changes to the international system, i.e., construction of the European Union.

³¹ Oudenaren, p. 8.

intergovernmental and the supranational.”³² This continuum model best describes the application of governance in the European Community.

The continuum measures the movement from intergovernmental to supranational governance in three related dimensions: EC rules, EC organizations, transnational society — those non-governmental actors who engage in intra-EC exchanges — social, economic, political — and thereby influence, directly or indirectly, policymaking processes and outcomes at the European level.³³

In attending to governance, scholars consider government in the functional sense, in the capacity to regulate arrangements so that they remain routinized, in the absence of centralized authority, or, in the performance of functions normally associated with governance, performed without the institutions of government.³⁴ Consequently, governance and government are synonymous, and order is viewed as both a precondition and consequence of government.³⁵

European rules are products of intergovernmental treaties and conventions, most notably, the Treaty of Rome, 1957; the endorsement of the Stockholm Convention of 1960; the Single European Act, 1986; and the Maastricht Treaty, 1993. The significance of these intergovernmental agreements follows from the supranational structures that govern the European Community. Supranationalism follows from neofunctionalist integration theory.

Three supranational factors consistently recur in accounts of EC reform: pressure from EC institutions, particularly the Parliament and Court; lobbying by transnational business interest groups; and the political entrepreneurship of the Commission....Together these supranational

³² Sandholtz, p. 8.

³³ Ibid, p. 9.

³⁴ Hewson, p. 189.

³⁵ Ibid, pp. 189, 190.

factors offer an account of reform guided by actors and institutions acting 'above' the nation-state.³⁶

The Commission, the Court of Justice, the Parliament, and even at times the Council of Ministers are included among EC supranational organizations.³⁷ These institutions draw authority from the cession of sovereignty by the Member States. Stanley Hoffman and Robert Keohane contend, "For issues on which sovereignty is pooled, authority to make decisions is removed from individual states."³⁸ Although these supranational organizations affect intergovernmental agreements, for the most part, "supranational arrangements are influenced by transnational pressure groups,"³⁹ or transnational actors — "such as companies working in all EU countries or lobbying associations located in Brussels."⁴⁰ These groups lobbied governments for more cooperation both at home and in Brussels. Intergovernmentalism provides for cooperation by nation-state leaders and is compatible with a supranationalism that emphasizes how transnational pressure groups affect the interests of nation-state leaders.⁴¹

The functional approach of governance concentrates on the state's subjectification of governance to sovereignty. Martin Hewson and Timothy Sinclair explain, "Order, rules, institutions, regimes, law, and regulation become central concepts to explain the activity of government."⁴² The question of traditional sovereignty, affected by the intrusion of the European Union and transnational actors on national leaders and

³⁶ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, Boulder: Westview Press, 1991, p. 43.

³⁷ Sandholtz, p. 10.

³⁸ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 7.

³⁹ Sandholtz, p. 87.

⁴⁰ Oudenaren, p. 24.

⁴¹ Sandholtz, p. 87.

⁴² Hewson, p. 190.

sovereign nation-states, continues to influence the European Union on the implementation of EU measures.⁴³ The question posed by Muthiah Alagappa and Takashi Inoguchi suggests:

How then, should the consequences for state sovereignty be decided? Robert Keohane has suggested the term ‘operational sovereignty’, indicating a situation where states choose to limit their substantial, operational sovereignty through international agreements. According to Keohane, this points to a situation where sovereignty ‘is less a territorially defined barrier than a bargaining resource for a politics characterized by complex transnational networks’.⁴⁴

The difficulty for the European Union stems from the acceleration towards more binding law and arbitration away from states rights. Gene Lyons and Michael Mastanduno contend, “Movement away from the convenience-of-the-states extreme on the sovereignty continuum is likely to accelerate in the years ahead. The threshold beyond which a reversal is impossible may have already been passed.”⁴⁵ For more than four decades, the European Community maintained an economic “persona,” exercising multi-level governance through intergovernmentalism, confederalism, and consociationalism to achieve supranationalism.⁴⁶ Only in the early 1990s did the European Union begin to develop a comprehensive political “persona,” with the signing of the Treaty of the European Union in Maastricht. Through the Maastricht Treaty, the

⁴³ Alagappa, p. 31.

⁴⁴ Ibid, p. 31.

⁴⁵ Lyons, p. 225.

⁴⁶ Confederalism is a system of administration in which two or more organizational units retain their separate identities but give specified powers to a higher authority for reasons of convenience, mutual security, or efficiency. Consociationalism is a system proposed for societies with deep divisions involving government by a coalition that represents the different societal groups. Decisionmaking is delegated to the groups, power and resources are divided in accordance with the size of each group, and minorities may be deliberately over-represented and protected by the power of veto.

European Union also adopted a framework for expanding its foreign and security policy, as well as common domestic and legal policies.

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IV. EUROPEAN INTEGRATION, INSTITUTION BUILDING, AND THE EVOLUTION OF COOPERATION

A. INTRODUCTION

Europe was not the same after WWII. “First, on the eve of economic rationalization in Western Europe, the region had just emerged from the most destructive war in human history,”⁴⁷ explains George Alexander.

For the first time in three centuries, they had common systems of government. As the postwar period progressed, the governments of Western Europe all developed as stable market-oriented democracies with a relatively high degree of social protection. This combination of common values and similar political, economic, and social systems was also an important condition for integration.⁴⁸

The creation of the ECSC helped to resolve the ancient Franco-German enmity through incremental interdependence of their respective economies. Alexander further details, “Second, a real pan-European movement ... was developed in part to underline Europe’s separate identity from the United States.”⁴⁹ This pan-Europeanism sprang from a common aversion to a rising US hegemony and the “real sense of obligation former coalition partners had to America could not mask equally strong feelings of envy and fear for the future.”⁵⁰ Third, “nationalism throughout Europe in the late 1940s and early 1950s

⁴⁷ George, Alexander L., et al, *Change in the International System*, Boulder: Westview Press, 1980, p. 31.

⁴⁸ Cooper, p. 13. Some reservations may be expressed regarding Spain and Portugal, in this instance.

⁴⁹ George, p. 31.

⁵⁰ Schulzinger, Robert D., *U.S. Diplomacy since 1900, 4th Edition*, New York: Oxford University Press, 1998, p. 200.

was probably at its historical nadir” and, finally, Europe’s “motivation for the common market was to decrease dependence upon the United States and to create economic institutions that could compete effectively with US enterprises and exports.”⁵¹ Europeans accepted integration in order to distance themselves from and attain equality with a US hegemon.⁵²

B. INTEGRATION, INSTITUTIONALIZATION, AND LEGALIZATION

Much debate surrounds European integration and its social impacts. Hoffman and Keohane emphasize, “European integration is, contrary to some other statements, ‘a thread woven into the fabric’ of the European society — at least in the 1990s.”⁵³ Although European governments drove integration, the United States was a powerful force for European integration.⁵⁴ Uniquely, US government lawyers helped draft the treaty for the European Coal and Steel Community.⁵⁵ Additionally, through the creation of NATO, the United States made both a direct and an indirect contribution to European integration— direct, because NATO itself has been a major element in European integration, and indirect, because solving the security problem in Europe made the launch of the then-EEC possible.⁵⁶

Ironically, the United States contributed greatly to its own threatened hegemonic stability. The United States, in large part, achieved Europeanization through a series of

⁵¹ George, p. 31.

⁵² Ibid, pp. 31, 32.

⁵³ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 136.

⁵⁴ Cooper, Robert, The Post-Cold World: Integration and Disintegration, Journal of Democracy, Vol. 10, No. 1, January 1999, p. 13.

⁵⁵ Ibid, p. 14.

⁵⁶ Ibid, p. 14.

hegemonic initiatives after WWII beginning in 1944, though interdependence and cooperation were the eventual outgrowths of European integration, whose “institutions have some of the authority that we associate with institutions of sovereign governments.”⁵⁷

In response to US initiatives in the aftermath of WWII, the institutions formalized by European initiatives were foremost functional. The stretching of traditional sovereignty to achieve the supranationalism practiced by the European Union required innovative institutions. The Merger Treaty of 1965 combined these separate and independent institutions into a single set of institutions. The main institutions then, became the European Commission, the Council of Ministers, the European Parliament, and the European Court of Justice. As the central and most important institution, “the Commission can be seen as the ‘executive of the EU-government’ in a far reaching sense. So it is here where ‘politics in practise’ are to be found.”⁵⁸ The European Commission began in 1951 as the *High Authority* of the ECSC and leaned towards being executive in nature, with considerable autonomy, acquiring the term *supranational* because of governance style.⁵⁹

It is a “coherent executive body composed of over 10,000 professionals that is able to take initiatives and whose President plays a role at summit meetings of heads of government of industrialized countries.”⁶⁰ The Commission yields much power, inasmuch as it is here that bills are initialized and proposed to the Council of Ministers of the European Union. The Council of Ministers is the first and most prominent law making institution, although the European Parliament has incrementally enhanced and

⁵⁷ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 13. With the creation of the Single Market, the Community takes over only those functions the states cannot adequately perform.

⁵⁸ Herrmann, p. 70.

⁵⁹ Wallace, Helen and William Wallace, *Policy-Making in the European Union*, 4th Edition, New York: Oxford University Press, 2000, p. 11.

⁶⁰ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 11.

enlarged its role and position over the years. At the levels below Ministerial, hundreds of national civil servants have an impact on Community Decisionmaking — a system known as Comitology,⁶¹ which lends its credibility to “epistemic authority, or the ability to make knowledge claims that are perceived to be legitimate.”⁶² The hundreds of civil servants exercise authority from a position of knowledge about the intricacies of the European Union and its member parts — the epitome of an epistemic community.

Hoffman and Keohane explain, “The European Council, an institutionalized summit meeting of heads of state or government, which supplemented but did not replace the Council of Ministers, was established in 1974.”⁶³ The European Council decides to accept, change, or reject a bill before enactment. By the time a bill reaches the European Council, the result is a synchronized, harmonized piece of legislation that clearly passes the necessary parameters for surety in passing. Therefore, normally, the bill’s passing is a *fait accompli* at this point. Following passage of a bill into law, national parliaments “can only question and criticize after the event; the decisions can not be reopened.”⁶⁴

The European Parliament (EP), which actually consists of 626 members elected directly on a basis of proportional representation across the member states, received direct elections through treaty amendment in 1978, providing credibility and further separation from former member state parliamentarians.⁶⁵ The separation or, more specifically, the “‘democratic deficit’ is the gap between the powers transferred to the Community level and the control of the elected Parliament over them, a gap filled by national civil servants operating as European experts or as members of regulation and

⁶¹ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 158.

⁶² Hewson, p. 73.

⁶³ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 6.

⁶⁴ Ibid, p. 159.

⁶⁵ Wallace, Helen, p. 21.

management committees, and to some extent by organized lobbies, mainly representing business. These civil servants are acquiring a detailed knowledge of the Community, which complements their knowledge of their own country's administration."⁶⁶

These civil servants have contributed greatly to the development of epistemic communities, which ensure smoother intergovernmental operation between the Community and national governments overall. Through time, the European Parliament (EP) has acquired greater power by acquiring the rights to formally assent to agreements with third world countries and on matters of enlargement,, to approve the Commission's budget, to approve the Commission's Presidential choice, and through their right to request resignation of the Commission in full, which member's are nationally elected.⁶⁷ The Single European Act (SEA) conferred additional functions and powers to the European Parliament, inasmuch as when Commission proposals, reaching the Parliament, require further amendments to the common position and forwarding to the Council for further markup. When the marked up ammended position, again proposed to the Commission, returns to Parliament for a second reading the Parliament has the power to accept or reject it. If the Parliament accepts the position and the Commission agrees with Parliament's amendments, the position is finally submitted by the Commission to the Council and enacted by the Council, in *Pillar One Affairs*,⁶⁸ through qualified majority. However, should the Parliament reject the position, the Council can only override Parliament's rejection through a unanimous vote.⁶⁹ Parliament frequently uses the threat of rejection "to get pledges that Parliament's amendments will be accepted."⁷⁰

⁶⁶ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 162.

⁶⁷ Wallace, Helen, p. 21.

⁶⁸ Matters relating to economic integration by European nation-states require majority voting principles; other affairs require unanimous decisions.

⁶⁹ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, pp. 164, 165.

⁷⁰ Ibid, p. 165.

The European Court of Justice (ECJ) has been especially important in providing for a sense of “solidity and predictability” to the EU process as a whole.⁷¹ Helen Wallace explains, “The ECJ was established in the first treaty texts; these have been virtually unchanged since then, except to cater for the increasing workload and successive enlargements of the EU membership.”⁷² Through the Single European Act in 1986, the Court of First Instance was established, which provided “something like a supreme court, able to provide an overarching framework of jurisprudence, as well as to deal with litigation, both in cases referred via the national courts and in those that are brought directly before it.”⁷³ Beginning with a series of cases in the 1960s, European law has succeeded in establishing several important principles:

Its supremacy over the law of member states, its direct effect, a doctrine of proportionality, and another of non-discrimination. In doing so the ECJ has gone further in clarifying the rule and the role of law than had been specifically been laid down in the treaties.⁷⁴

Hoffman contends, “No other international organization enjoys such reliably effective supremacy of its law over the laws of member governments, with a recognized Court of Justice to adjudicate disputes.”⁷⁵

In recent years, the ECJ has taken great steps to legally move the Treaties of Rome further along in its evolution. The ECJ has gone further than any other Community institution in limiting national autonomy, by asserting the “principles of superiority of Community law and of the obligation of member states to implement binding national

⁷¹ Wallace, Helen, p. 22.

⁷² Ibid, p. 23.

⁷³ Ibid, p. 23.

⁷⁴ Ibid, p. 23.

⁷⁵ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 11.

acts consistent with Community directives.”⁷⁶ The main goal of the Court of Justice has been to *constitutionalize* the Treaty, to fashion a constitutional framework for a quasi-federal structure in Europe.⁷⁷

There is an undisputed supremacy clause in the Community framework, which sprang from the 1960s case of *Costa vs. Enel* presided over originally by a local magistrate in Milan, Italy and involving a shareholder of a nationalized power company challenging the legality of nationalizing the electric industry in the face of the European Community’s legislation. Although the Italian government claimed the Court of Justice had no jurisdiction over Italy’s nationalization law, the court ruled:

By creating a Community of unlimited duration, having its own institutions, its own personality ... and, more particularly, real powers stemming from a limitation of sovereignty or a transfer of powers from the states to the Community, the Member States have limited their sovereign rights ... and have thus created a body of law which binds both their nationals and themselves.⁷⁸

Additionally, Article 189 of the Rome Treaty provides for a category of Community norms that do not require nation-states to implement the measures but are binding on the states and their citizens as soon as the Community enacts them.⁷⁹

In dealing with the fundamental rights of Community citizens, the constitutional traditions of the Member States and international treaties for the protection of human rights supply the guidelines for the framework of Community law.⁸⁰

Under Article 173 of the Treaty, the Court has the power to review the legality of acts of the Council and the Commission in actions brought by

⁷⁶ Ibid, pp. 11, 12.

⁷⁷ Ibid, p. 178.

⁷⁸ Ibid, p. 180.

⁷⁹ Ibid, p. 181.

⁸⁰ Ibid, p. 188.

those institutions, by the member states, and even, albeit within certain limited circumstances, by natural and legal persons.⁸¹

Private individuals could invoke the ruling in *Van Gend en Loos* provided for the public, if Treaty provisions expressly grant them rights and impose on the member states “an obligation so precise and unconditional that it can be fulfilled without the necessity of further measures.”⁸²

The judicious use of the legal foundations present in the Rome treaty [Articles 113, 235, and 238] provides the EC with a basis for implementing relations with other groups.⁸³ The European Union most often subscribes to Article 235 when dealing with regional markets, such as the European Community of West African States (ECOWAS), the Association of Southeast Asian Nations (ASEAN), the Common Market of the South (MERCOSUR), and the North Atlantic Free Trade Agreement (NAFTA).

C. EUROPEANIZATION, ECONOMIC COOPERATION AND COMPLEX INTERDEPENDENCE

The aftermath of WWII, the collapse of the war-fighting coalition and the resulting antagonism between the bureaucratic-market oriented Western world and the Communist-centralized economy bloc, and the role the United States played in reorganizing the economic and political world order is tantamount to a clear understanding of the resulting international system. Post-war Europe was in a weak state and European markets were in shambles.

⁸¹ Ibid, p. 183.

⁸² Ibid, p. 181.

⁸³ Edwards, p. 35. Under Article 113, the European Community is competent to conclude commercial agreements with third countries, which, if initially limited to tariffs and quotas, have evolved to take in new elements that affect international trade. Article 238 provides for the conclusion of agreements with third-party countries, a group of states or an international organization, or of Association Agreements characterised by reciprocal rights and obligations, common actions and particular procedures. Article 235 allows the Community to take unforeseen actions in group-to-group relations.

The main victors on the Western side sought to establish a more open international economic system to replace the prewar order, which had been characterized by protectionism, competitive currency devaluations, and other policies by which the major powers sought to gain economic and political advantage at the expense of their rivals.⁸⁴

One of the two trends following WWII was the “Americanisation”⁸⁵ of Europe —the other, the marketization of social help, a thoroughly entrenched characteristic of European governments. As a ramp up to the war’s end, the United States stepped in and commenced several initiatives to undergird Europe, while ensuring US businesses access to European markets. At the Bretton Woods Conference in 1944, the US leadership initiated the International Bank for Reconstruction and Development (IBRD), eventually known as the World Bank, and the International Monetary Fund. The United States also initiated the General Agreement on Tariffs and Trade (GATT) in 1947, under which 23 “signatories pledged to lower barriers to trade through negotiations conducted in accordance with the ‘most favored nation (MFN)’ principle.”⁸⁶

In 1948, the United States implemented the European Recovery Plan or Marshall Plan, designed to rehabilitate all European economies and strengthen US marketshare. Herrmann explains, “The original April 1947 State Department proposal for the plan made clear that one of its ultimate goals was the creation of a western European federation.”⁸⁷ The Marshall Plan was a source of US leverage and forced liberalization and stabilization on participating European governments. The Plan also encouraged their implementation of the norms and standards of the Bretton Woods regime.⁸⁸

⁸⁴ Oudenaren, p. 1.

⁸⁵ Herrmann, p. 149.

⁸⁶ Oudenaren, p. 1.

⁸⁷ McCormick, p. 62.

⁸⁸ Oudenaren, p. 3.

Two trends are clear in Europe: *Americanisation*, and, paradoxically, due to the success of the implementation of Americanising strategies, a “corporate or co-operative model of society.”⁸⁹ While *Americanisation* of Europe was a conscious effort on the part of the United States to insure American interests, the Europeans also pursued Euro-centric interests in promoting the cooperative model of European society according to Parsonian theory. Parsons and structural functionalism stressed the integration and maintenance of given societies over the terms and bases of conflict and contradiction within them.⁹⁰ Crucial to Parsonian theory was the notion that “societal order requires clear and definite integration in the sense, on the one hand, of normative coherence and, on the other hand, of societal *harmony* and *coordination*.”⁹¹ The co-operative model became the impetus for the constitution of several European institutions, designed to cope with transnational and intergovernmental activities. The United States and the European states established the Organization for European Economic Cooperation (OEEC) in April 1948, which served to reduce tariffs and other barriers to trade, “considered the possibility of a free trade area or customs union,”⁹² and established the European Payments Union (EPU).⁹³ The Marshall Plan financed the EPU, which the Europeans “intended as a temporary solution to the problem of currency convertibility in Europe — a halfway house between the full dollar convertibility mandated in the Bretton Woods system and the rigid bilateralism that characterized trade and exchange in the late 1940s.”⁹⁴

⁸⁹ Herrmann, p. 149.

⁹⁰ Hewson, p. 31. Reference to Talcott, Parsons, *On the Concept of Political Power*, from *Class, Status, and Power*, ed. - Reinhard Bendix and S. M. Lipset, New York: Free Press, 1963.

⁹¹ Ibid, p. 31.

⁹² McCormick, p. 62.

⁹³ Oudenaren, p. 3.

⁹⁴ Ibid, p. 3.

The EPU regime played an important role, in that it was through the EPU that the Economic Cooperation Association in Washington deemed that the “OEEC nations would formally commit themselves to genuine ‘cooperative behavior’ and eventual economic integration.”⁹⁵

Additional solutions to economic problems manifested themselves, with US support, through regional markets, which “played an important role in reviving European economies.”⁹⁶ Through regional markets, we see the second trend, which followed WWII — “the orientation on a strict liberal model of society including the ongoing marketisation of social help.”⁹⁷ European citizenship is reduced to the market: Herrmann explains, “Inclusion takes place by selling the own labour force and purchasing goods respectively services. The idealistic *cogito ergo sum*, as announced by Descartes degenerates to the pseudo-materialistic *consumo ergo sum*.”⁹⁸

One major point in this development is that both on the national and supranational level the real economic disparities continue to exist while just the financial structure is united. Thus we find in fact at least 3 different modes of societal integration: the more or less unified ‘financial market’, the real economic processes which are separated from the financial developments and organized according to the national competitiveness and the processes of social structuration.⁹⁹

Nation-states accomplish real economic processes at the national level and conduct transfers of resources to and from the European Union through these *processes of social structuration*. In this way, the European Union attains a state of *interconnectedness*.

⁹⁵ Wexler, Imanuel, *The Marshall Plan Revisited: The European Recovery Program in Economic Perspective*, Westport: Greenwood Press, 1983, p. 155.

⁹⁶ Oudenaren, p. 3.

⁹⁷ Herrmann, p. 148.

⁹⁸ Ibid, p. 148.

⁹⁹ Ibid, p. 68.

George explains that this state of “interconnectedness has certain sources (technology, transportation and communication), it can be measured by looking at transactions, and it leads to sensitivity and vulnerability where conditions in country A become critically influenced by decisions, trends, and events in countries B ... X.”¹⁰⁰ As Cooper defines it economically, “interdependence, by joining national markets, erodes the effectiveness of [domestic] policies and hence threatens national autonomy in the determination and pursuit of economic objectives. Interconnectedness often, but not necessarily, creates interdependence.”¹⁰¹ Because of interdependence, individual nations lose the power to regulate completely the interactions within a given system. If a nation-state attempts to make decisions purely based on short-term national advantage — “increasing national autonomy— will result in trade wars, currency instability, decline of investment, unemployment, and ultimately recession or depression.”¹⁰² Effectively, interdependence necessitates cooperation. Hoffman and Keohane contend, “The higher the interdependence among European countries, the stronger the propensity to move to Community rather than national policy, but this propensity reacts adversely on national autonomy”¹⁰³ and the realization of joint gains.

For Morgenthau, state balancing of joint gains is [a] universal characteristic of the diplomacy of cooperation. He attributes this to the firmly grounded practice of states to balance power, and argues that given such a system, no nation will agree to concede political advantages to another nation without the expectation, which may or may not be well founded, of receiving proportionate advantages in return.¹⁰⁴

¹⁰⁰ George, p. 26.

¹⁰¹ Ibid, p. 26.

¹⁰² Ibid, p. 27.

¹⁰³ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 135.

¹⁰⁴ Grieco, Joseph M. *Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism*, International Organizations, Vol. 42, No. 3, Summer, 1988, p. 502.

As a matter of complex interdependence, European member states seem to favor joint decision making as a matter of state interest, perceiving that “there are times when rational, self interested calculation leads actors to abandon independent decision making in favor of joint decision making.”¹⁰⁵ Complex interdependence has fewer consequences regarding military issues than economic or ecological issues. It also seems to infringe more on advanced industrial states than communist and less developed states.¹⁰⁶ As a matter of choice, individual members affect cooperative interdependence through the harmonization of policy — economic, political, and military. To this end, rather than subjugating themselves to a perceived higher legal treatise, the members exercise the *principle of subsidiarity*.¹⁰⁷

D. “GRAND BARGAINS,” AND POLITICAL INTEGRATION

The European Union and its member states are largely enthralled in a two-level game. The member states’ leaders are both national and Community level policymakers, “both of which have sovereignty, though to different degrees,”¹⁰⁸ decisively engaged in politics at both levels. The decisions these policymakers pursue are based on the realities associated with each policymaker’s bureaucratic position: power and interests. Decisions,

¹⁰⁵ Krasner, Stephen D. Structural Causes and Regime Consequences: Regimes as Intervening Variables, *International Organizations*, Vol. 36, No. 2, Spring, 1982.

¹⁰⁶ Keohane, Robert O. and Joseph S. Nye, *Power and Interdependence: World Politics in Transition*, Boston: Little, Brown and Company, 1977, p. 226.

¹⁰⁷ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 11.

¹⁰⁸ Ibid, p. 137.

under these conditions, follow from Mile's Law— "Where you sit depends upon where you stand."¹⁰⁹

At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments. Neither of the two games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign.¹¹⁰

The result of these two-level games has been a series of *grand bargains*, struck by the member states, which have facilitated the *grand experiment* of the European Union. As a base of reference, Hoffman and Keohane believe, "bargains are spurred by actors seeking to protect gains achieved by expanding into new sectors."¹¹¹ In the case of Europe, these bargains were formalized as treaties, which "as a rule ... devise systems of checks and balances whose main function is to keep under control the powers of the organization they set up."¹¹² The first *grand bargain* was the Brussels Treaty of Economic, Social and Cultural Collaboration and Collective Self Defence of 1948, which

¹⁰⁹ May, Ernest R. and Richard E. Neustadt, *Thinking in Time: The Uses of History for Decision-Makers*, New York: Free Press, 1986, p. 157.

¹¹⁰ Evans, Peter B., et al, *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, Berkeley: University of California Press, 1993, p. 436. EU evolution from intergovernmental to supranational is easily likened unto Putnam's Two-level Game theory. Nation-states and their representatives manage state's interest at the lower level, gaining and harmonizing national consensus to cede national powers to the supranational polities of the European Union, while balancing returns to the nation-states. This is the method of governance that led to the striking of several "grand bargains," which coalesced the political integration of the European Union.

¹¹¹ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 20.

¹¹² Ibid, p. 178.

established the Brussels Treaty Organization, the later-known Western European Union, after the modified Brussels Treaty of 1954 entered into force, as a response to the Czechoslovakian coup and the Berlin Blockade of 1948. This Treaty showed a solidarity of the European nation-states and also led to the formation of the Council of Europe in 1949, which began the tradition of intergovernmentalism.

The second *grand bargain*, the Treaty of Paris (1952), established the supranational ECSC, a new, supranational polity. The movement from intergovernmental to supranational governance took root and the third *grand bargain* was struck in 1957. Unlike standard treaties, “in the case of the Rome Treaty,” two basic shortcomings existed: (1) the “fundamental rights of the individuals affected by its application” and (2) recognition of “a constitutional right to European citizenship,” was lacking.¹¹³ For this reason, there has been much speculation concerning the intention of the writers regarding further integration of the EEC beyond Rome. The Treaty of Rome did not formalize a goal to provide for deepening as a result of Community integration. Hoffman and Keohane emphasize, “Anyhow we have to consider that the necessity of such a deepening had been included.”¹¹⁴ The fact that the Community continued its efforts at deepening, extending its functions and strengthening its institutions, after 1957 shows there was a propensity and a shared goal for growth.¹¹⁵

Following the Treaties of Rome, the necessity to pursue a legal framework to further solidify the economic gains of the Community became an apparent need. This legal framework followed from the formation of institutions. The Treaties of Rome, the constitutional framework of the new European Community, established a Council to conduct Community decisionmaking on all major source issues, whether budgetary, legislative, or treaty making. The decisionmaking practiced by the Council approaches a system of cooperative federalism such as that in the United States and the Federal

¹¹³ Ibid, p. 178.

¹¹⁴ Ibid, p. 36.

¹¹⁵ Ibid, p. 9.

Republic of Germany.¹¹⁶ Haas likened the supranationalism practiced by the EC as a close archetypical federation regarding decision-making, in that “participants refrain from unconditionally vetoing proposals and instead seek to attain agreement by means of compromises upgrading common interests.”¹¹⁷ For the most part, Community authorities use directives to harmonize national laws on such matters as “taxes, banking, equality of the sexes, protection of the environment, employment contracts, and organization of companies.”¹¹⁸ Directives are intended to have the force of law. This system, assisted by cooperation, paved the way for further development of the Community.

In 1960, the European Free Trade Area (EFTA) was formed, lending weight to the perception that “Europe should be seen as nations that have successfully moved from interlinked national economies to an integrated regional economy.”¹¹⁹ With the implementation of a new regional market, the Community began to experience the effects of “spillover,” which explains the process of Community enlargement versus the deepening promulgated by “bargains.” Spillover does not adequately account for major decisions such as those that led to the Single Act.¹²⁰ The Single European Act (SEA), ratified in 1987, “called for a genuine internal market by the end of 1992, and sharply improved the coherence and speed of EC decision making by providing for qualified majority voting on issues concerning the internal market.”¹²¹ By 1989, Europe was substantially larger in population than the United States and of comparable economic size.

¹¹⁶ Ibid, p. 137.

¹¹⁷ Ibid, p. 15.

¹¹⁸ Ibid, p. 181, 182.

¹¹⁹ Sandholtz, Wayne, et al, *The Highest Stakes: The Economic Foundations of the Next Security System*, New York: Oxford University Press, 1992, p. 44.

¹²⁰ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 19.

¹²¹ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 114.

The Single European Act also provided for limited foreign policy cooperation.¹²² SEA authorizes the Council to decide on issues pertaining to the internal market by qualified majority, thereby, restricting the Luxembourg Compromise of 1966, an informal agreement that required unanimity on all questions a member deemed important to national interest.¹²³ The SEA, therefore, provided more transparency to the voting process and provided more leverage to the Commission than they possessed earlier. Hoffman contends, “Particularly important were the European Commission (EC), which had pooled members’ sovereignty on major economic issues through the Single European Act of 1985.”¹²⁴

The SEA is by far the most far-reaching *bargain* struck to date, inasmuch as, Article 8a of the SEA states, “The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured.”¹²⁵ This infers that the Union is like a state, without borders to its member states. The SEA heralded a promise of continued growth.

The Cecchini report, published in 1988, concluded that implementing the Single European Act would provide a substantial one-time boost to European output (between 2.5% and 6.5% above what would otherwise have been achieved), and subsequent studies have concluded that growth rate increases would be significant.¹²⁶

¹²² Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 7.

¹²³ Ibid, p. 7.

¹²⁴ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 382.

¹²⁵ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 190.

¹²⁶ Cooper, et al, pp. 10, 11. Report presented by Paolo Cecchini, *The European Challenge, 1992: The Benefits of a Single Market, before the EC Commission*, 1998.

The Single Market program was fueled by European realization that Europe could only compete with American and Japanese firms by operating on a continental scale.¹²⁷

Arthur Cockfield, Commissioner for the internal market in 1984, wrote in his 1985 White Paper, “‘The achievement of the single market’ is not the ultimate goal, at best it is the precursor’ — to, of course, ‘the ever closer union among the peoples of Europe’.”¹²⁸ Cockfield’s plan for the Single Market included proposals for harmonizing excise taxes and establishing a low and a high band for value-added tax. Hoffman and Keohane describe, “Each band allowed limited flexibility for national VAT rates, within the same kinds of constraints that apply to state taxes in the United States.”¹²⁹ With the realization of the SEA, “governments decided to strike a bargain on deregulation, which seemed to them to require, were it to be effective, reform of the Decisionmaking system.”¹³⁰ The nations of the EC would realize this reform in the Treaty of the European Union.

A prelude to the final *grand bargain* was realized when the European Parliament called for the Draft Treaty of the European Union, which was published on February 14, 1984 — a move toward qualified voting and the pooling of sovereignty.¹³¹ The final *grand bargain* was struck at the Maastricht Intergovernmental Conference in 1992. The convergence criteria of the Maastricht Treaty on the political Union greatly affected the Community’s political structures, limiting political maneuver space at the national level, while creating a political vacuum rather than just a shift between national to

¹²⁷ Cooper, p. 14.

¹²⁸ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, pp. 166, 167.

¹²⁹ Ibid, p. 167.

¹³⁰ Ibid, p. 21.

¹³¹ Ibid, p. 157.

supranational political levels.¹³² As a result European polities, rather than national polities are incrementally filling the vacuum. This has led to the development of a the Common Foreign and Security Policy (CFSP) and, following the Helsinki European Council in December 1991, a Common European Security and Defense Policy (CESDP), answering to the promises made at Maastricht, dealing with the up-to-then last resort of sovereignty of the nations. With the solidification of the Treaty at Maastricht, and its successor, the Treaty of Amsterdam, in force since 1999, the European Union moved closer to the realization of a new identity — a *Super* Westphalian state, including also the security dimension.

1. Western European Union (WEU) and the Treaty of Brussels

Between 1947 and 1949 a series of dramatic political events took place, which included direct threats to the sovereignty of Norway, Greece, Turkey, and also affected other Western European countries; most prominently mentioned, the February 1948 coup in Czechoslovakia, and the illegal blockade of Berlin which began in April of the same year. The signing of the Treaty of 1948 marked the determination of five Western European countries — Belgium, France, Luxembourg, the Netherlands and the United Kingdom to develop a common defence system and to strengthen the ties between them in a manner, which would enable them to resist ideological, political and military threats to their security.¹³³ The Brussels Treaty Organization, which became the Western European Union, when in 1954, Germany and Italy acceded to the modified Brussels Treaty.¹³⁴ Since NATO had been granted all aspects of Western European military

¹³² Herrmann, p. 69. Maastricht Treaty, Chapter 4, Transitional Provision, Article 109j: The [progress] reports shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfillment by each Member State of...[specified]...criteria.

¹³³ NATO Handbook, (Brussels, Belgium: Office of Information and Press, 1999), p. 26.

cooperation, the primary function of the Western European Union was to supervise the restricted rearmament of Germany.

The WEU played an important part in 1955 in bringing West Germany into NATO on terms that satisfied both the demands of the Germans for equality of status and the other European States that a rearmed Germany still be subject to some international controls.¹³⁵

In the meantime, the Western European Union had been stripped of its functions: the military function was transferred to NATO, the social function and general political function was submerged in the Council of Europe, and, eventually, the economic functions were institutionalized in the independent institutions of the European Communities. In 1960, the Western European Union also transferred its remaining cultural and social activities to the Council of Europe; with there being no intent by the European nations to further use the Brussels Treaty as a means for political integration, the Western European Union became a more or less dormant institution, functioning only to a limited extent in its “main” function of internal arms control. This state of affairs existed until 1984, when the Western European Union was revitalized as the “military arm” of the European Community.

2. European Security and Defense Identity (ESDI) and North Atlantic Treaty Organization (NATO)

The Maastricht Treaty envisioned the Western European Union as the future military arm of the European Union, although it remained institutionally autonomous until recently. A growing concern in the 1990s for the establishment of some system of

¹³⁴ Ibid, p. 26. “The Brussels Treaty of 1948, revised in 1954, represented the first step in the post-war reconstruction of Western European security and brought into being the Western Union and the Brussels Treaty Organisation. It was also the first step in the process leading to the signature of the North Atlantic Treaty in 1949 and the creation of the North Atlantic Alliance. The Brussels Treaty is the founding document of the present day WEU.”

¹³⁵ Oudenaren, p. 10.

security and order in Eastern Europe in the face of a disintegrating Soviet Union propelled the Union toward a common strategy¹³⁶ — a European Security and Defense Identity (ESDI). In 1999, the European Union voted to absorb almost all of the functions of the Western European Union in preparation for making the European Union a defensive, peacekeeping military organization as well as a social and economic one.

The new European Security and Defense Identity (ESDI) adopted in Kirchberg in May 1994 by the Western European Union poses serious political and military implications for both the European Union and the North Atlantic Treaty Organization (NATO). John Bolton testified,

A true European Security and Defense Identity would mean the end of NATO as we know it as a military organization, a fragmentation of trans-Atlantic political cooperation, and could quite possibly spill over into harmful economic conflict.¹³⁷

He carefully couches this argument as a matter of history contending that many European political leaders, while welcoming American support through the Marshall Plan, silently objected to the “hegemonistic” role of the United States in the Alliance. It is for this reason, Bolton argues, that the EC revitalized the Western European Union to secure an independent military capability.

ESDI and the anticipated results of the European Union’s institutionalization of ESDI is the crux of the ongoing debate between the European Union and NATO. This new identity has serious ramifications for NATO and the United States in terms of international political relations and military strategy.

¹³⁶ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 175.

¹³⁷ Bolton, John R. European Common Foreign Security and Defense Policies: Implications for the United States and the Atlantic Alliance, before the Committee on International Relations, House of Representatives, November 10, 1999. John Bolton is Senior Vice President of the American Enterprise Institute.

3. Common European Security and Defense Policy (CESDP)

In conjunction with the idea and goal of creating a ESDI, the European Union also sought a military “Headline Goal,” proposed in 1998 in a bilateral French-United Kingdom Summit in Saint-Malo and later fleshed out in Helsinki in 1999. This goal would provide the European Union with “the capacity for autonomous action, backed up by credible military forces, the means to decide to use them and a readiness to do so in order to respond to international crises.”¹³⁸

The proposal to pursue a Common European Security and Defense Policy (CESDP), backed by British assertions, shows a major shift in the UK position towards NATO in defense issues. Hoffman and Keohane insist, “As a guideline for global policy, the ‘special relationship’ with the United States is a sentimental mirage.”¹³⁹ The expression by the European Union of a desire to pursue its own security and defense policy is a shift from acceptance of collective defense by NATO as a given and has implications beyond the security of Western Europe.

Lord Robertson, Secretary General of NATO and former British Secretary of State for Defense, expressed concern before a conference concerning the globalization of the defense industry, “For years, European leaders have pointed out that Europe is an economic giant, but a military pygmy.”¹⁴⁰ For this reason, ESDI initiatives are very important for enabling the European Union to achieve its [Common] European Security and Defense Policy ([C]ESDP). The Western European Union was largely perceived only as a “Paper Tiger.” With the EU Headline Goal, real assets will be made available for common action. However, the achievement of personnel goals does not directly infer success. Although the EU nation-states agreed to underscore the Headline Goal of 60,000

¹³⁸ Davis, John, *Time for Europe to Police Its Own Backyard*, VFW, February 2001, p. 24.

¹³⁹ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 33.

¹⁴⁰ Robertson, George (Lord), ESDI and Transatlantic Defence Cooperation, at the Conference on The Globalisation of Defence Industry: Policy Implications for NATO and ESDI, 2001, p. 2.

troops in November's Capabilities Commitment Conference (2000), by providing national figures for assets, troops, ships, and aircraft, the conference woefully revealed great capability gaps. Lord Robertson emphasized, "From strategic lift, to satellite communications, to command and control, to radar jamming — these are all capabilities the European Union does not have."¹⁴¹ CESDP has a long way to go. In general defense, budgets continue to decrease and European security is not high on the European public's agenda. Effectively, because there is a significant overlap of membership and a significant gap in EU capabilities, NATO and the European Union must continue to mutually support one another to ensure European security.

4. The New Face of Europe

The dividing line between Western Europe and Eastern Europe is blurred; Europe has become a political as well as a geographical reality.¹⁴² Analysts have failed to notice that the Community's "hesitant ventures" into foreign policy matters covered a prolific change in East-West relations and Atlantic economic relations, which has forced Europe into a state of increasing independence. Wayne Sandholtz predicts, "With the end of the Cold War and the gradual reduction of the US presence in Europe, that trend is likely to continue."¹⁴³

According to the Weberian approach, power is understood by the configuration of a society based on "'rational grounds', 'traditional grounds', and 'charismatic grounds'."¹⁴⁴ This figuration of legitimacy is given by its formation of economic, political, social, cultural ... forces."¹⁴⁵ Although the European Union does not wield

¹⁴¹ Ibid, p. 2.

¹⁴² Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 1.

¹⁴³ Sandholtz, p. 281.

¹⁴⁴ Herrmann, p. 76.

¹⁴⁵ Ibid, p. 76.

military might, it does rank among the two greatest market economies in the world, thereby, facilitating an expression of fungible power through regionalization and economic market contention.

After 1989, a significant number of countries in Central and Eastern Europe are seeking accession to the European Union, which raises big questions about the Community's future.¹⁴⁶ The European Community "laid down conditions that its would-be partners had to accept. It did not change its rules or reform its institutions to hasten the integration of east European states."¹⁴⁷ Normal protocols would call for international collaboration, the effort to regulate asymmetrical interdependence in an attempt to reduce uncertainty when there is a multitude of considerations and the simplest strategy for reducing uncertainty — autarky — is not practicable.¹⁴⁸ To the contrary, the European Union is functioning as a single, autarkic, autocratic entity— in much the same way as an imperialist nation-state. Indeed, the European Community "deals with the kind of economic and social questions, which are at the very core of the modern welfare state."¹⁴⁹ The European Union's policies in the face of enlargement show clearly the typical distinction between the Community's foreign policy and member state's domestic policy has become increasingly difficult to distinguish.¹⁵⁰

Through a series of *grand bargains*, the European Union has achieved a socio-economic, politically-substantial, multilateral, transnational polity from the elements of individual member states. Through the evolution of institutionalization, integration and

¹⁴⁶ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 165.

¹⁴⁷ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 386.

¹⁴⁸ Kratochwil, Friedrich, *International Organizations: A Reader*, New York: Harper Collins College Publishers, 1994, p. 373. Autarky is a term most often used in economics and refers to the absence of trade, which purports self-sufficiency.

¹⁴⁹ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 16.

¹⁵⁰ Cooper, p. 8.

cooperation, Europe has forged a post-Westphalian form of supranational governance. There is a critical point, which may have already passed, whereby the density of European institutions, economic, and political will can no longer return the component nation-states easily back to the anarchic international system from which they emerged. Lyons and Mastanduno contend, “The narrow standard of traditional sovereignty forms a threshold: once a nation achieves a kind of critical mass, it is catapulted to a transcendent status through recognition by other members of the club of sovereign states.”¹⁵¹ It is clear that the international system recognizes the economic and political personas of the European Union as emanating from the same single entity.

¹⁵¹ Lyons, p. 99.

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V. HEGEMONIC INSTABILITY ^¾ GROWING DIVERGENCE OF US-EC INTERESTS

A. INTRODUCTION

With the economic collapse of the world economy in the late 1920s and the subsequent stagnation and declines experienced as a result of World War II, the United States was in a position to take hold of the reins of the international system.

In 1940, Henry Luce, the inventor of *Time* magazine, proclaimed that ‘America is already the intellectual, scientific and artistic capital of the world’. He assured the public that the world had entered ‘the American century’ in which ‘we have that indefinable, unmistakable sign of leadership — prestige’.¹⁵²

The Johnson Act of 1934 prevented the United States from providing private loans to other nations, but Roosevelt told the public in a fireside chat on December 29 that the United States should become “the great arsenal of democracy.”¹⁵³ This new policy provided for the emergence of the United States as the strongest world economy due to Roosevelt’s Cash-and-Carry Policy and exploitation of the war economy. Robert Schulzinger points out, “The end of the war saw the United States finally become the world’s foremost power.”¹⁵⁴

¹⁵² Schulzinger, p. 167.

¹⁵³ Ibid, p. 173.

¹⁵⁴ Ibid, p. 200.

B. PAX AMERICANA ¾ EVOLVING US FOREIGN POLICY IN POST-WWII ERA

The United States began its assertion to hegemony even before the war's end. Roosevelt recognized that British domination of world politics had passed. What replaced British domination was a Pax Americana.

While happy to have the British support American schemes for a new world order, Roosevelt carefully avoided any commitment to restore Britain to its former position of influence. The British were to recognize American superiority, and if they did not, Roosevelt would use any means at his disposal to force them to.¹⁵⁵

Roosevelt proposed to Churchill a new economic order ending British and other colonial trade preferences.¹⁵⁶ Schulzinger describes, "The president followed Secretary of State Hull's advice that the way to create American domination of the world's trade after the war was to break the stranglehold of the colonial powers, and he insisted on the end to imperial preference."¹⁵⁷ Churchill agreed to include a statement about unfair trade relations, but wished to secure the British system intact. In the final public version of the Atlantic Charter, postwar free trade became a vaguely worded hope.¹⁵⁸ The United States pursued three principal objectives regarding Europe: (1) "to maintain a strong European defense capacity, led by the United States," (2) "to encourage a European integration that remained open to the rest of the world," and (3) "to continue global liberalization of trade and investment on terms favorable to American interests."¹⁵⁹ It was clear that the "nature

¹⁵⁵ Ibid, p. 176.

¹⁵⁶ Ibid, p. 177.

¹⁵⁷ Ibid, p. 177.

¹⁵⁸ Ibid, p. 177.

¹⁵⁹ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 116.

of threats has changed. Other economies increasingly are in position to exploit terms of trade to impose dominance, to structure and play the international system through economic means.”¹⁶⁰ The US policy was to ensure that the United States wielded the economic might to remain on top of the new international economic order.

The United States did not quickly assert itself in its new leadership role.¹⁶¹ This was in large part due to a transition from traditional US isolationism to engagement. George asserts, “Isolationism had been strong in the United States in the 1930s, before Pearl Harbor. But once the United States got into the war, US opinion developed strong support for the idea that it should not return to an isolationist position.”¹⁶² Additionally, Roosevelt, the architect of the US strategy to engage the world economically, died in 1945 and there was a resultant transition of national leadership.

The task in the postwar period was not insurmountable. The requirement was to formalize a foreign policy that would serve US interests at home and abroad. The United States would remain engaged with the world to transition from imperialism to free-market democracies and, subsequently, to develop a new world economic order and a new security structure.

Foreign policy that aims at establishing a new international system or regime generally has an internal structure, a set of interrelated components. These are (1) the *design objective* of the policy; (2) the *strategy* employed to achieve it; and (3) the *tactics* utilized in implementing the strategy.¹⁶³

¹⁶⁰ Sandholtz, et al, p. 204.

¹⁶¹ George, p. 137.

¹⁶² Ibid, p. 239.

¹⁶³ Ibid, p. 236.

Although Roosevelt's Grand Strategy called for an accommodation of Soviet security needs, the moral legitimization of his overall policy stood in the way.¹⁶⁴ The conditionality accompanying Russian access to US capital was beyond Russia to accept. The United States was intent on establishing a series of economic regimes, which would squarely fly in the face of communist society. George explains, "Strong international economic regimes depend on hegemonic power ...[and] concentration of power contributes to stability."¹⁶⁵ The Soviet Union decided to opt out.

The United States clearly had the economic means to establish a unipolar international economic system after WWII. The task for the United States was to continue to subvert the imperialistic notions of the European powers from an easily defensible power base. In the post-WWII era, this power base would prove to be a series of economic, political, and military regimes — the Bretton Woods regime, the theater of the United Nations, the General Agreements on Tariffs and Trade (GATT or World Trade Organization), a policy of "Containment" of communist societies, the European Recovery Plan, the North Atlantic Treaty Organization, and the pursuit of the Democratic Peace.

The *design objective* of post-WWII policies was to dominate the world economy from a position of leadership or hegemony. The hegemonic stability thesis is a theory, which equates power as a resource; Power is fungible and can be exerted through economic regimes as effectively as through military might.¹⁶⁶ "Hegemony is an overcoming of the 'economic-corporative'."¹⁶⁷ According to hegemonic theory, the United States would exert its power primarily through economic regimes, in order to achieve economic returns and ensure world order.

¹⁶⁴ Ibid, p. 251.

¹⁶⁵ Ibid, p. 136.

¹⁶⁶ Ibid, p. 137.

¹⁶⁷ Adamson, Walter L., *Hegemony and Revolution*, Berkeley: University of California Press, 1980, p. 171.

Hegemonic stability ... posits that changes in the relative power resources available to major states will explain changes in international regimes. Specifically, it holds that hegemonic structures of power, dominated by a single country, are most conducive to the development of strong international regimes whose rules are relatively precise and well obeyed.¹⁶⁸

Hegemonic powers enforce adherence to international regimes that they favor through coercion or positive sanctions, providing benefits to those who cooperate.¹⁶⁹

The *strategy* employed to achieve domination of the world economy required the development of a system of international regimes and organizations that would further US interests. The *tactics* were simply to remain engaged and to provide leadership. The United States successfully and proactively managed the role as hegemon until the early 1970s, thereafter, reacting time and again to each challenge by a would-be hegemonic contender one at a time.

1. Bretton Woods, 1944

Postwar planning led to the creation of a monetary and financial system at Bretton Woods in New Hampshire in July 1944. The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD or World Bank) became the key agencies of the newly created system and began operations in late 1945. LeRoy Bennett explains, “The United States furnished the leadership for the system and, in postwar years, became the world’s central banker.”¹⁷⁰ The Soviet Union feared being swallowed by a capitalist economy and sent no representatives to Bretton Woods.¹⁷¹ The British, however, sent representatives in droves.

¹⁶⁸ George, p. 132.

¹⁶⁹ Ibid, p. 136.

¹⁷⁰ Bennett, p. 290.

¹⁷¹ Schulzinger, p. 192.

The British sent a large delegation in which John Maynard Keynes took the lead in pressing a plan for a new international currency. Morgenthau [US negotiator], for his part, would not go as far as Keynes in creating an international source of money, preferring instead that nations bow before American economic power and fix their money in terms of the dollar.¹⁷²

The International Monetary Fund (IMF) was created to assure convertibility of every nation's currency into that of every other potential trading partner. The IMF was backed with \$10 billion capital, half of which came from the United States.¹⁷³ In return for its loans, the IMF could demand changes in a borrower's economic and trade policies — “insisting that it balance its budget, allow its citizens to hold foreign currency, permit convertibility of its currency into other money, and drop restrictive tariffs.”¹⁷⁴ George describes, “Governments belonging to the International Monetary Fund were to maintain official par values for their currencies, which could be changed only to correct a ‘fundamental disequilibrium’ and only in consultation with the IMF.”¹⁷⁵ In this way, the United States ensured that member government's currencies were tied to the dollar. Schulzinger posits, “At a time when the United States alone seemed in a good position to export goods, the IMF would help produce a congenial trading environment for American enterprise.”¹⁷⁶

The US economy sustained strength throughout the 1940s, 1950s, and mid-1960s, but began to subside with the onset of the late 1960s.

As the distribution of tangible resources, especially economic resources, becomes more equal, capabilities of the hegemonial power will decline — it will become less capable of enforcing rules against unwilling

¹⁷² Ibid, p. 192.

¹⁷³ Ibid, p. 192.

¹⁷⁴ Ibid, p. 192.

¹⁷⁵ George, p. 139.

¹⁷⁶ Schulzinger, p. 192.

participants, and it will have fewer resources with which to entice or bribe other states into remaining within the confines of the regime.¹⁷⁷

As political economic power became more equally distributed among nation-states during the 1960s and early to mid 1970s, US-created and US-centered international economic regimes began to decline.¹⁷⁸ This is easily discernible with the completion of the European Payments Union's mission in 1958 of fully converting European currencies to the dollar, the inception of the European regional market —the European Free Trade Association (EFTA) in 1960, and the transition of the Organization for European Economic Co-operation (OEEC) to the Organization for Economic Co-operation and Development (OECD). This transition of strict management through US economic regimes to fundamental liberalization was primarily a US-led effort. As a matter of necessity, the United States turned attention toward domestic issues — the Korean War, Cuba and the missile crisis, and Vietnam — all elements of a competing national policy of "Containment." The onset of the 1970s brought with it a downturn in US economic strength.

When US monetary policy turned from restriction to ease in 1970, in reaction to a recession, huge capital outflows took place. The US decision of August 1971 to suspend the convertibility of the dollar into gold and thus to force a change in the Bretton Woods regime followed.¹⁷⁹

2. United Nations, 1945

The concept of the United Nations was certainly rooted in the former League of Nations, which had not survived the interim between the two wars, one reason being the lack of US membership, and therefore, leadership, and its fundamental inability to provide for peace and stability in Europe. As a prelude to WWII's conclusion, Roosevelt

¹⁷⁷ George, p. 136.

¹⁷⁸ Ibid, p. 137.

¹⁷⁹ Ibid, p. 149.

and Churchill issued a “vaguely worded Declaration of the United Nations on January 1 [1942], and they invited all of the countries fighting the Axis to join the United Nations) and pledge themselves to continue until the Axis powers were defeated.”¹⁸⁰

From the outset, the United States was destined to play a big role in establishing the security architecture for the postwar era. The post-World War II era began with the founding of the United Nations, dedicated— as was the League — to the general principle of collective security. As was the case at Bretton Woods, the United States led in the meeting that opened on April 24, 1945 in San Francisco — twelve days after Roosevelt suffered a fatal stroke.¹⁸¹ But, at the same time, initiating the idea of a collective security system, the shadow of confrontation and a divide between wartime coalition partners was to be seen:

Barely a week in office, Truman met Soviet foreign minister Molotov in the White House and dressed him down for his government’s hostility toward non-Communist politicians in liberated Poland. ‘I’ve never been talked to that way before in my life’, Molotov complained when the new president finished his harangue. ‘Keep your agreements and you won’t be talked to that way’, Truman replied.¹⁸²

This set the stage for the meeting and the bipolarity of the international order that would follow from it.

The US-UN relationship has been tenuous through the years. Initially, the United States used the UN to further its policy objectives both at home and abroad. The UN has served as a stage for political theatrics with Henry Cabot Lodge, serving as the US representative to the UN during the administration of President Dwight D. Eisenhower from 1953 to 1960, demonstrating in the General Assembly in 1960 that the Soviets were just as guilty of espionage as the United States with its U-2 spy mission with the presentation of a bugged gift by the *Soviet-American Friendship Society* and with Adlai

¹⁸⁰ Schulzinger, p. 185.

¹⁸¹ Ibid, p. 197.

¹⁸² Ibid, p. 197.

Stevenson presenting irrefutable proof that the Soviets had staged missiles in Cuba.¹⁸³ From the mid-1970s, the US role in the UN has been less than that at inception and much is made by third states about the tactics that the United States employs to sustain its hegemony.

Another point of contention is member dues. Although it was initially determined that the United States would pay approximately 50% of the UN budget, eventually the United States settled on a 25% share.¹⁸⁴ The economic strength of each country determines outlays; therefore, the United States pays a substantially high price for membership. In recent years, the United States has held payment on dues to coerce political social, economic, and political outcomes. In the post-Cold War era, the UN, along with a plethora of non-governmental organizations (NGOs), has experienced a proliferation in humanitarian assistance and intervention missions. Roland Koch proposes,

The changes in the political conditions of UN-NGO cross-border humanitarian assistance (HA) after the end of the Cold War induced an expansion of the humanitarian industry at such a great pace that humanitarian UN-NGO missions developed into large-scale poor-relief supply structures with oligopolistic and hierarchical tendencies at the cost of suppressing pluralistic, locally participating, self-help-oriented service NGOs.¹⁸⁵

¹⁸³ Meisler, Stanley, *United Nations: The First Fifty Years*, Atlantic Monthly Press, New York, 1995, pp. 135-152.

¹⁸⁴ Bennett, A. LeRoy, *International Organizations: Principles and Issues*, 6th Edition, New Jersey: Prentice-Hall, Inc., 1995, p. 96. In 1946, in the initial determination of the percentages of the total budget to be allotted to each member, the committee on contributions determined that according to set standards, “the United States should have been asked to pay nearly 50 percent of the original [UN] budget, but this figure was arbitrarily reduced by 10 percent to 39.89 percent in order to lessen the financial dependency of the United Nations on a single member. A further agreement was reached to gradually reduce the maximum assessment to one-third and subsequently to a target of 25 percent.

¹⁸⁵ Alagappa, pp. 212, 213.

This, in large part, is the reason the United States often holds dues — to preclude what must be described as waste and inefficiency.

Koch stipulates that the end of the Cold War changed the voting behavior of the Permanent Members of the UN Security Council, which resulted in newfound freedoms of the UN. This change resulted in a partnership for legitimizing intervention. Many third world UN members expressed concern over sovereignty infringement, even in the face of massive human rights violations. Humanitarian Assistance provides a positive image of “global responsibility and justice” and has allowed donor governments to switch financial aid from developmental aid to humanitarian aid, which is channeled through the UN and other NGOs. This boosted the humanitarian industry and brought into question the independence of NGOs. It also called into question NGO’s transition to long-term development with a self-help emphasis to short-term emergency intervention policies. The number of complex humanitarian emergencies also rose markedly since 1990. The transition from a perceived humanitarian role for the UN to one of profit has also brought its legitimacy into question.

3. General Agreement on Tariffs and Trade (GATT), 1947

GATT is a treaty and the only multilateral instrument that establishes agreed rules for international trade.¹⁸⁶ Hoffman describes, “GATT is the residual agreement left over from the proposed International Trade Organization (ITO) planned in 1943, finally negotiated in 1947-1948 but never ratified by the Senate.”¹⁸⁷ GATT essentially “codified three major principles: (1) liberalization of trade, (2) non-discrimination —the most favored nation (MFN) principle, and (3) no unfair encouragement for exports.”¹⁸⁸

¹⁸⁶ A History of GATT and the Structure of the WTO, International Contract Adviser, Vol. II, No. 1, Winter, 1996, p. 1.

¹⁸⁷ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 111.

¹⁸⁸ Lindert, Peter H. and Thomas A. Pugel, *International Economics, 11th Edition*, Boston: Irwin McGraw-Hill, 2000, p. 139.

Despite GATT's early success, the trade regime was already showing signs of stress in 1967. George emphasizes, "The reciprocity and nondiscrimination provisions of GATT were already breaking down."¹⁸⁹ This supports Gilpin's theory of hegemonic instability.¹⁹⁰ To place Gilpin's argument in context, Gilpin would argue that the competitiveness of the European Community with the United States stems from a shift in economic power from the United States to the European Union. As the European Union has become economically more powerful, it has been able to rend compromises from the US-led economic regime — GATT. Over the years, GATT has undergone seven rounds of negotiations, the most recent being the much-disputed Uruguay Round from 1986-1993. Peter Lindert and Thomas Pugel reflect, "Since 1995, the World Trade Organization (WTO) has overseen the global rules of government policy toward

¹⁸⁹ George, p. 139. For the most part, however, until the European Common Market came into existence, the United States dominated trade negotiations, but since the European Economic Community has been active, it has successfully demanded numerous exceptions to GATT rules. Relative equality in trade-related power resources between the European Economic Community and the United States seems to have been necessary, if not sufficient, condition for this shift.

¹⁹⁰ Gilpin, Robert, *War and Change in World Politics*, New York: Cambridge University Press, 1981, p. 9. An international system is established for the same reason that any social or political system is created; actors enter social relations and create social structures in order to advance particular sets of political, economic, or other types of interests. Because the interests of some of the actors may conflict with those of other actors, the particular interests that are most favored by these social arrangements tend to reflect the relative powers of the actors involved. That is, although social systems impose restraints on the behavior of all actors, the behaviors rewarded and punished by the system will coincide, at least initially, with the interests of the most powerful members of the social system. Over time, however, the interests of individual actors and the balance of power among the actors do change because of economic, technological, and other developments. Consequently, those actors who benefit most from a change in the social system and who gain the power to effect such change will seek to alter the system in ways that favor their interests. The resulting changed system will reflect the new distribution of power and the interests of its dominant members. Thus, a precondition for political change lies in a disjuncture between the existing social system and the redistribution of power towards those actors who would benefit most from a change in the system.

international trade....The WTO subsumed and expanded on the General Agreement on Tariffs and Trade.”¹⁹¹

4. National Security Memorandum 68 (NSC 68) and “Containment”

George Kennan served four tours of duty in foreign service missions in the Soviet Union and was generally regarded as an authority on Russia. During his service as *charge d'affaires* in Moscow, on February 22, 1946, Kennan produced a cable, later called the Long Telegram, which laid out the principal issues—the motivating factors behind Soviet foreign policy.¹⁹² Kennan depicted a Soviet Union in which existed a “traditional and instinctive Russian sense of insecurity,” which fostered a “neurotic view of world affairs.”¹⁹³ Kennan underlined emphatically and in quite alarmist language that the United States had to confront a political force committed fanatically to the belief that with the United States there can be no permanent *modus vivendi*, that it is desirable and necessary that the internal harmony of our society be disrupted, our traditional way of life be destroyed, the international authority of our state be broken, if Soviet power is to be secure.¹⁹⁴ Although Kennan argued the imperativeness of stopping Soviet expansion, he conceived of an economic strengthening of American society and subsequent “exporting” to other free nations its “positive and constructive” image of the world, stressing the obsolescence of war as an effective means in dealing with Soviet power.¹⁹⁵ To this end, US leadership responded with National Security Memorandum No. 68 (NSC 68), a national strategy which melded “two closely interlinked strategies: the first was the development of a ‘healthy international community’, which had already been actually in

¹⁹¹ Lindert, p. 139.

¹⁹² Fakiolas, Efstathios T. *Kennan’s Long Telegram and NSC-68: A Comparative Analysis*, *East European Quarterly*, Vol. 31, No. 4, January 1998, p. 415.

¹⁹³ Ibid, p. 418.

¹⁹⁴ Ibid, p. 419.

¹⁹⁵ Ibid, pp. 420, 422.

force through the economic activities of the United States throughout the world; the other was the containment of the 'Soviet system'.”¹⁹⁶

NSC 68, the United States' objectives and programs for national security, which was presented to the President on April 14, 1950, was a top-secret proposal that offered several courses of action for presidential consideration. “President Truman never explicitly approved the recommendations of NSC 68. His sole action was a request to the National Security Council for ‘further information on the implications of the Conclusions’, as indicated by his letter of 12 April 1950.”¹⁹⁷ National Security Memorandum No. 68 was drafted following the explosion of a Soviet atomic device and the perceived “loss” of China, thereby, becoming the national strategy which promulgated the rapid build-up of political, economic, and military strength in the free world as a response to a perceived communist threat — the impetus for the Cold War and the “polarization of power.”¹⁹⁸

What uniquely marked NSC 68 was two-fold: first, the definition of the Soviet threat almost exclusively in military terms and, second, the perception that the confrontation between US and the Soviet Union was an uncompromisingly total, persistent ‘zero-sum’ game.¹⁹⁹

A great debate ensued concerning the US national strategy that followed from Kennan's Long Telegram. Kennan had “made no reference to any armament plan,” but, rather, seemed to advocate containment “largely by political methods and ideological means.”²⁰⁰

¹⁹⁶ Ibid, pp. 424-425.

¹⁹⁷ NSC-68, *US Objectives and Programs for National Security*, April 1950, *Naval War College Review*, Vol. XXVII, May-June 1975, p. 52.

¹⁹⁸ Ibid, pp. 51, 55.

¹⁹⁹ Fakiolas, p. 426.

²⁰⁰ Ibid, p. 428.

NSC 68, on the other hand, supported a sort of “Containment Militarism,” advocating the “advancement of the US as a hegemonically dominant global power.”²⁰¹

Under its Cold War containment policy, the United States relied heavily on aggressive rhetoric and military might to confront a powerful Soviet Union. NSC 68 was not the blueprint for the rearmament after the Korean War began, but the document does reflect the major policy decisions of the Korean War period.²⁰²

On its own merits, NSC 68 could not generate the funds to restore American conventional power or revitalize NATO’s military structure,” however, “after the outbreak of the Korean War in June [1950], ... Truman, the Joint Chiefs of Staff (JCS), and the Army relied on NSC 68’s arguments to guide its decisions on budget supplements while it was still unapproved as a formal policy.”²⁰³

The timing of the Korean War lent credibility to NSC 68 and provided the impetus to actually fulfill its recommendations.²⁰⁴ The perception by US officials was to assume the worst of Soviet intentions, thereby, provoking David Fautua’s view that “North Korea’s unprovoked aggression as not just an attack against South Korea, but an attack against the fundamental principles of democracy and individual freedom everywhere in the ‘Free World’.”²⁰⁵ The defense of these fundamental principles was also the impetus for United States intervention in Vietnam.

²⁰¹ Ibid, p. 428.

²⁰² NSC-68, *US Objectives and Programs for National Security*, April 1950, p. 52.

²⁰³ Fautua, David T. *The ‘Long Pull’ Army: NSC 68, the Korean War, and the Creation of the Cold War US Army*, Journal of Military History, Vol. 61, No. 1, January 1997, p. 95. Before Truman’s approval of NSC 68 as a national security policy on 30 September 1950, the Defense Department’s appropriation was \$13 million but, following approval, the military budget swelled to \$48 million, nearly quadrupling the prewar authorization.

²⁰⁴ Ibid, p. 110.

²⁰⁵ Ibid, p. 110.

From 1946, the Vietnamese struggled for their independence from France during the First Indochina War. At the end of this war, the country was divided into North Vietnam, under the control of the Vietnamese Communists, and South Vietnam, which had collaborated with the French. The United States intervened in Vietnam because it believed that if country fell under a Communist government, Communism would spread throughout Southeast Asia and beyond. This belief was known as the “domino theory.” The U.S. government, therefore, supported the South Vietnamese government. This government's repressive policies led to rebellion in the South, and the National Liberation Front (NLF) was formed as an opposition group with close ties to North Vietnam. There was an overwhelming sense among American strategists to rely on “representative” perceptions of the communist struggle in Vietnam—the temptation to view North Vietnam like North Korea. In 1965, the United States, “astride the world like a colossus,”²⁰⁶ felt confident enough of its power and position to deploy half a million men to prevent the South Vietnamese government from collapsing. Ultimately, however, the United States failed to achieve its goal, further exacerbating the US perception of the evil intentions of the Soviet Union. In 1975, Vietnam was reunified under Communist control; in 1976, it officially became the Socialist Republic of Vietnam.

5. European Recovery Plan, 1948

The European Recovery Plan, often referred to as the Marshall Plan after George Catlett Marshall, General of the Army and Secretary of State from 1947-1950, was extremely effective in remaking a war-torn Europe and underpinning the world economic order.

The Americans supported a process of European economic integration, beginning in 1950 with the Schuman Plan, which created the European Coal and Steel Community, and culminating with the Treaty of Rome in 1957. American encouragement for these organizations was based on both economic and security rationales. The United States acquiesced in a less

²⁰⁶ George, p. 131.

liberal Europe than American leaders would have preferred because it is believed that an economically integrated Europe would be better able to combat communist subversion and deter Soviet aggression.²⁰⁷

6. NATO, 1949

NATO found its beginnings in the aftermath of World War II. The United States and Canada negotiated the creation of the North Atlantic Alliance, following the 1948 signing of the Brussels Treaty, proposing an organization based on security guarantees and mutual commitments between Europe and North America.

These negotiations culminated in the signature of the Treaty of Washington in April 1949, bringing into being a common security system based on a partnership among these 12 countries. In 1952, Greece and Turkey acceded to the Treaty. The Federal Republic of Germany joined the Alliance in 1955 and, in 1982, Spain also became a member of NATO.²⁰⁸

From the outset, NATO took on all military responsibilities of the “pure” European defense treaty, the Brussels Treaty and the organization, the Western Union. After the accession of Germany and Italy to the modified Brussels Treaty, NATO assumed the primary responsibility for providing for European Defense under US leadership and US military strategies. Mirroring the different political and military threats, NATO established its core of cooperation with its Integrated Military Structure and varying military command structures. Following the events of the collapse of the Berlin Wall and the peaceful revolutions in Eastern Europe, as well as the dissolution of the Soviet Union, NATO agreed to a new Strategic Concept to meet the challenges of the

²⁰⁷ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 112. After the announcement of the Marshall Plan in 1947, the United States dropped the universalism of the Bretton Woods approach and allowed discrimination against the dollar and against US goods. It also eased up on its pressure against European colonial preference systems.

²⁰⁸ *NATO Handbook*, p. The Brussels Treaty powers invited Denmark, Iceland, Italy, Norway and Portugal to become participants in this process.

new political and military landscape. This included the Partnership for Peace program, to cooperate militarily with non-NATO countries; the North Atlantic Cooperation Council (NACC) — now reorganized as the Euro-Atlantic Partnership Council (EAPC) — to politically negotiate with all former Warsaw Pact or neutral and non-aligned nation-states; dialogue with Mediterranean countries; participation in peacekeeping operations under UN-auspices; and eventually also NATO-led military operations to stop intra-regional conflicts and to stabilize nation building processes. Furthermore, with the accession of three former Warsaw Pact states, NATO showed its obvious predilection towards a transition from a predominantly aggressive-deterrent defense organization into a cooperative security organization following its adoption of the 1999 Strategic Concept. Despite the idea of CESDP, NATO still is the central political-military organization of and for Europe, and the central transatlantic forum to link US-American and European interests.

7. Democratic Peace

Immanuel Kant's essay on "Eternal Peace" reflects the very nature of the type of peace that the international system seeks to evoke among nation-states.

The state of peace among men who live alongside each other is no state of nature (*status naturalis*). Rather it is a state of war, which constantly threatens even if it is not actually in progress. Therefore the state of peace must be *founded*; for the mere omission of the threat of war is no security of peace, and consequently a neighbor may treat his neighbor as an enemy unless he has guaranteed such security to him, which can only happen within a state of law.²⁰⁹

Bruce Russett depicts, "The vision of a peace among democratically governed states has long been invoked as part of a larger structure of institutions and practices to promote

²⁰⁹ Friedrich, Carl Joachim, *Inevitable Peace*, Cambridge: Harvard University Press, 1948, pp. 249, 250.

peace among nation-states.”²¹⁰ The dynamics of peace or the theoretical context for the US policy to seek the democratic peace is based on three realities:

(1) Democracies rarely fight each other (an empirical statement), because (2) they have other means of resolving conflicts between them and therefore do not need to fight each other (a prudential statement), and (3) they perceive that democracies should not fight each other (a normative statement about principles of right behavior), which reinforces the empirical statement. By this reasoning, the more democracies there are in the world, the fewer potential adversaries we and other democracies will have and the wider the zone of peace.²¹¹

This reasoning leads to a belief that the norm against the use of force between democracies and the threat of the use of force has strengthened over time.²¹² The ideation of democracy in the post-WWII era though, became a binding principle along bipolar lines. “Democracy was seen more as a binding principle of the Cold War coalition against communism than as a force actively promoting peace among democracies.”²¹³ The striving for the democratic peace, then, was the struggle for the containment of communism. Russett explains, “By the 1970s, with the increasing numbers of democracies in the international system, the empirical fact of peace among democracies became harder to ignore.”²¹⁴

As Allen Weinstein, the first president for the [National Endowment for Democracy] NED, put it: ‘A number of separate strands ... converged in the 1981-82 period to produce a critical mass of public attention’ on the

²¹⁰ Russett, Bruce, *Grasping the Democratic Peace: Principles for a Post-Cold War World*, New Jersey: Princeton University Press, 1993, p. 4.

²¹¹ Ibid, p. 4.

²¹² Ibid, p. 22.

²¹³ Ibid, p. 10.

²¹⁴ Ibid, p. 10.

issue of ‘democracy promotion’ as a component of *overall* foreign policy.²¹⁵

Robinson contends, “The passage from ‘political development’ of the 1960s to ‘democracy promotion’ of the 1980s and 1990s involves an expansion from ‘institution building’ at the level of formal state structures to the level of both state structures and civil society.”²¹⁶ One of the purposes of our international affairs budget is to “ensure that the democratic tide remains a rising tide around the world and, to this end, from Asia to the Andes, US agencies are training judges, drafting commercial codes, advancing the status of women, bolstering civil society and otherwise helping countries in transition ascend the nuts and bolts of freedom.”²¹⁷

8. Hegemonic Struggle

a. Post-WWII to 1970: Hegemonic Entrenchment

Although the United States emerged as the clear hegemonic controller of the international system through a series of economic, political, and military regimes, the trend has been a digression from a position of power to a position as an equal competitor.

In the period of 1945-47 the European states ran very large balance-of-payments deficits, which the World Bank and IMF funds proved insufficient to meet. For the next decade, the dollar became the standard world currency and the United States followed a set of policies that provided an outflow of dollars to furnish liquidity for international transactions. Through aid programs for European states and military expenditures the United States intentionally ran balance-of-payments deficits to provide dollars for the international economy.²¹⁸

²¹⁵ Robinson, p. 83.

²¹⁶ Ibid, pp. 85, 86.

²¹⁷ *Albright on Campaign to Preserve US Global Leadership*, p. 4.

²¹⁸ Bennett, pp. 290, 291.

This policy precluded the United States from establishing itself firmly in the postwar period and becoming decisively entrenched in the economic order. “In a hegemonic system,” Gramsci suggested, “democracy between the ruling group and the ruled group exists to the extent that the development of the economy, and therefore of the legislation which expresses that development, holds open the channels for the ruled to enter the ruling group.”²¹⁹ At the outset, European countries were firmly committed to submitting to the regimes emplaced by the United States, because the rewards were meted out commensurate with participation within the confines of the economic and socio-political order. In time, a weakening hegemon would invite contenders. Bennett opines, “In the late 1960s, the central banks proved incapable of controlling the large and volatile currency flows and resulting speculation. The fixed exchange rate system showed increasing signs of stress. In spite of United States pressure, European states refused to revalue their currencies.”²²⁰

The struggle by the United States to maintain the economic order was superseded by the policy of containment that held Americans in harms way in both Korea and Vietnam. The United States entered the 1970s from a position of economic and “perceived” military weakness. George reflects, “The United States had been defeated in Vietnam and no longer seemed to have either the capability or inclination to extend its military domination to the far corners of the world.”²²¹

b. 1970 to post-Cold War: Hegemonic Instability

Reeling from the backlash of a costly struggle in Vietnam and without consulting with the European nations, on August 15, 1971, Nixon announced a 10 percent surcharge on imports, greatly exacerbating the looming crisis with his announcement of a

²¹⁹ Adamson, p. 174.

²²⁰ Bennett, p. 291.

²²¹ George, p. 132.

New Economic Policy.²²² Attempts at monetary reform ensued. Bennett purports, “In the Smithsonian Agreement of December 1971 the price of gold was altered, the dollar was devalued by 10 percent, and more flexibility was introduced into exchange rates ... By 1973, fixed exchange rates gave way to floating rates.”²²³

The 1970s were a clear turning point, but 1973 was a watershed for loss of US hegemony. Following 1972 and disengagement from Vietnam, the perceived failure of US military force was also a perceived failure of the policy of containment. Kissinger proclaimed 1973 the “Year of Europe to symbolize returning to alliance relationships from the preoccupation with the Vietnam War.”²²⁴ A British scholar described the Year of Europe as “a deliberate attempt to force a tradeoff between trans-Atlantic economic and financial relations which the Nixon administration saw as biased in Europe’s favor.”²²⁵ Both the Middle East Crisis and the subsequent Organization of Petroleum Exporting Countries (OPEC) Oil embargo occurred in that watershed year, as well as the termination of the gold exchange standard. The result was a deadly blow to US hegemony and leadership in the world economy.

International monetary relations, trade in manufactured goods, and the production and sale of petroleum were the key international regimes affecting US decline in the 1970s.

All three international regimes existing in 1967 became weaker during the subsequent decade; this weakening was most pronounced in the petroleum area and in monetary relations, where the old norms were destroyed and very different practices emerged — it was less sudden and less decisive in the field of trade; and in the areas of trade and money, the dominant political coalitions supporting the regime remained largely the same.²²⁶

²²² Bennett, p. 291.

²²³ Ibid, p. 291.

²²⁴ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 112.

²²⁵ Wallace, Helen, p. 254.

²²⁶ George, p. 138.

The general breakdown in GATT legal affairs was largely due to toleration of illegal restrictions such as the variable levy of the European Economic Community, EEC association agreements, and export subsidies.²²⁷ George perceives, “The possibility of an alternative hegemony seems to presuppose a social order in which the existing hegemonic apparatus is not so powerful and pervasive as to disrupt all organized, collective challenges and yet which is sufficiently dependent on that hegemonic apparatus for its stability so that an alternative hegemony would pose a serious threat.”²²⁸ The weakening of the US monetary regimes and the “inability of the United States to prevent or counteract the oil price increases of 1973-1974 seemed to symbolize the drastic changes that had taken place.”²²⁹

As the world uses its reserves of minerals and fuels, the number of countries that are nearly self-sufficient in resources diminishes and interdependence increases. The use of petroleum as an economic and political weapon in the Middle East crisis of 1973-74 is dramatic proof of the dependence of ... the United States upon this resource.²³⁰

OPEC “virtually quadrupled prices without negotiation after the Yom Kippur War of October 1973....By 1977 the United States had apparently conceded control of the regime for oil pricing and production to OPEC, and particularly to its key member, Saudi Arabia.”²³¹ As shown in Table 1.1, the petroleum figures are dramatic for the United States, which went from a large positive position in 1956 to a very large petroleum deficit by 1973.²³²

²²⁷ Ibid, p. 139.

²²⁸ Adamson, p. 179.

²²⁹ George, p. 132.

²³⁰ Bennett, p. 294.

²³¹ George, p. 142.

²³² Ibid, p. 146.

Table 1.1: Petroleum Resources

Petroleum Resources:			
US imports and excessive production capacity in three crisis years.			
Year	US Oil Imports as percent of Oil Consumption	US Excess Production Capacity as Percent of Oil Consumption	Net US Position
1956	11	25	14
1967	19	25	6
1973	35	10	-25
Source: Joel Darmstadter and Hans H. Landsberg, The Economic Background, in Raymond Vernon, ed., <i>The Oil Crisis</i> , special issue of <i>Daedalus</i> , Fall, 1975. Pp. 30-31.			

In 1977 the regime for oil was quite different: its norms had been developed by oil-producing governments largely within the framework of the Organization of Petroleum Exporting Countries (OPEC), with the strongest norm being the injunction not to sell oil so far, or so massively, below the official OPEC price that the cartel structure would be threatened.²³³

By the end of the century, Lester R. Brown points out that of thirteen basic industrial raw materials, the United States will have to import more than half its supply of twelve of these and will be nearly self-sufficient in phosphate only.²³⁴ The implications of Brown's contention is that the United States is entering a period of economic rivalry and contention for natural resources, the results of which will certainly determine our economic and political standing in the post-Cold War international system. Henry Kissinger stated, "Economic rivalry, if carried on without restraint, will in the end damage other relationships."²³⁵

Rivalry will also determine who is able to control or exploit the hegemonic regimes. These regimes become influential arenas for gaining advantage.

²³³ Ibid, p. 134.

²³⁴ Brown, Lester R. *The Interdependence of Nations*, Headline Series, No. 212, New York: Foreign Policy Association, October 1972, pp. 43, 44.

²³⁵ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 113.

As arenas for *exercising influence*, both NATO and GATT were central to American strategy. Indeed, GATT was used to constrain European Community bargaining tactics in trade, and NATO was used to set limits on French tactics of developing the Western European Union in defense.²³⁶

Many EC policies conflict with GATT aims, including the protection of farmers through a Common Agricultural Policy (CAP) and an external trading preference system with developing nations.²³⁷ “Between September 1986 and September 1987, the number of nontariff restrictions identified by GATT rose from 93 to 135 allegedly affecting half of all world trade. The United States and European Union were largely responsible for the rise.”²³⁸ In the mid-1980s, there was a “growing conviction that Europe can reestablish itself as a leading global player, building capacity for independent action while minimizing perceived vulnerability and dependence on the choices of those in other regions.”²³⁹ NATO provided a security blanket for Europe to develop economically and politically. Today, the European Union is the United States’ principal rival in the New International Economic Order.

c. Post-Cold War: Assessment of US Hegemony

Based on hegemonic theory, the decline of hegemonic structures of power will presage a decline in the strength of corresponding international economic regimes.²⁴⁰ This was the reality into which the United States stepped in the last decade of the twentieth century. Although the United States created the Bretton Woods regime, its impetus was largely spent by the early 1970s. The United Nations followed the US lead

²³⁶ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 124.

²³⁷ Bennett, p. 290.

²³⁸ *International Contract Adviser*, p. 2.

²³⁹ Sandholtz, et al, p. 45.

²⁴⁰ George, p. 132.

from inception through the mid-1960s, when cooperation yielded to the rise of third country coalitions. In 1995, GATT, the outgrowth of the failed 1950 International Trade Organization (ITO), became the WTO and its offices located in Geneva. By 1973, the US policy of containment was viewed by the world community as flawed, if not failed, due to the failure to achieve victory outright in both Korea and Vietnam. After the August coup in 1991, which ultimately ousted Gorbachev and led to the dissolution of the Soviet regime, NATO adopted a policy of dialogue and cooperation, thus, perpetuating and transitioning the alliance in a new direction. NATO, founded the Partnership for Peace in 1994, a forum to strengthen relations between NATO and the Central and Eastern European countries, as well as neutral and non-aligned nations. With the adoption of the CESDP, the future role of NATO in Europe is decidedly contentious. Several US policy extensions—the Bretton Woods regime, the UN, and Containment policy—failed, or are failing, to achieve intended outcomes—preservation of US hegemony.

GATT, NATO, the ERP, and the Democratic Peace initiative have served the United States in cross-purposes. GATT successfully reinflated the economies of the world, providing markets for American industry and, in the process, bringing the European economies equilaterally on par with the US economy. NATO provided the security requirements for the revamping of European socio-economics, also facilitating the rise of the economic contender in the world market. Although the United States reaped much benefit from ERP and the Democratic Peace initiative, the Europeans have as well.

The ERP officially ended on December 30, 1951—some forty-five months after it had been launched. During that period, nearly \$12.4 billion, mostly in the form of grants, had been allotted by the EPU to the participating countries. This amount represented approximately 1.2 percent of total US Gross National Product (GNP) for the calendar years 1948-1951.²⁴¹

²⁴¹ Wexler, p. 249.

The success of the ERP is seen in the impressive growth of Europe's GNP. Freedomhouse reported, "Western Europe's combined GNP rose from \$119.6 billion in 1947 to almost \$159 billion in 1951 an overall increase of 32.5 percent."²⁴² The proliferation of democracies since the mid-1970s suggests that ours is the "democratic age."²⁴³ The dubious assessment accompanying the proliferation of new democracies is based on US policy, which supports West European integration of emerging democracies in central and Eastern Europe, as well as Central Asia and the Baltics. It is through this methodology that the United States contributes paradoxically to a world of democracies and a world of economic competition—the gauntlet, largely taken up by the European Union.

Given the period following the Cold War, the words of George Kennan ring ironic: William Robinson described, "We have 50 percent of the world's wealth, but only 6.3 percent of its population...In this situation we cannot fail to be the object of envy and resentment."²⁴⁴ Robinson expressed that the response is even moreso: "Our real task in the coming period is to devise a pattern of relationships which will allow us to maintain this position of disparity," said the then-Director of Policy Planning of the Department of State.²⁴⁵

²⁴² Wexler, p. 255.

²⁴³ *Freedomhouse*, "Democracy's Century: A Survey of Global Political Change in the 20th Century," December 7, 1999, p. 1, accessed on line at www.freedomhouse.org/reports/century.html, June 19, 2001. At mid-century, there were 22 democracies accounting for 31 percent of the world population and a further 21 states with restricted democratic practices, accounting for 11.9 percent of the globe's population. By the close of our century liberal and electoral democracies clearly predominate, and have expanded significantly in the Third Wave, which has brought democracy to much of the post-Communist world and to Latin America and parts of Asia and Africa. Electoral democracies now represent 120 of the 192 existing countries and constitute 62.5 percent of the world's population.

²⁴⁴ Robinson, William I. *Promoting Polyarchy: Globalization, US Intervention and Hegemony*, Cambridge University Press, 1996, p. 1.

²⁴⁵ *Ibid*, p. 1.

C. POST-COLD WAR EUROPE ^¾ NEW US HEGEMONIC COMPETITOR

In the post-Cold War era, a de-emphasis of military competition supposes the likelihood that the evolution of economic relations among the great powers will more powerfully influence the character of the international system.²⁴⁶ In this era, the United States is still an influential actor with its military and economic strength, but it is no longer as economically dominant.²⁴⁷

The end of the Cold War did not take place in a fragmented, balance-of-power Europe, but in a political space increasingly dominated by a single organization, so that even rivalry and competition among the members are shaped by and channeled through the common rules and institutions.²⁴⁸

The European Community has been successful in forging a strong security community, “a concept made prominent by Karl Deutsch nearly forty years ago: ‘security communities’.”²⁴⁹ C. Cooper insists, “An economically stronger and more self-confident Western Europe is forging a collective identity and is becoming a more equal interlocutor for the United States.”²⁵⁰

Europe’s new identity, stemming from the changes in Maastricht and the adoption of a Common European Security and Defense Policy, will make for a more independent

²⁴⁶ Sandholtz, et al, p. 168.

²⁴⁷ George, p. 142.

²⁴⁸ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 385.

²⁴⁹ Adler, Emanuel and Michael Barnett, *Security Communities*, Cambridge University Press, 1998, p. 3. Deutsch observed a pluralistic security community wherever states became integrated to the point that they have a sense of community, which, in turn, creates the assurance that they will settle their differences short of war.

²⁵⁰ Cooper, C. et al, *The Evolution of the European Economy: Implications for Transatlantic Relations*, Santa Monica: Rand, 1992, p. 1.

strategic partner for the United States. Hoffman asserts, “Since pursuing a joint foreign economic policy, the European Community has become a much more difficult negotiating partner for the United States.”²⁵¹ Lawrence Eagleburger explained that the next decade in our relationship with Europe will be a transitional period in which the patterns of the postwar era undergo significant adjustment in the face of change in the East and the political and economic growth of Western Europe itself. US relations with Europe will become more complicated as Europeans formulate their own responses to Soviet initiatives, seek a more coherent political and economic identity, and generally adopt more assertive postures in dealing with the United States.²⁵²

1. Politics in a Bi-Polar World and the Rebalance of Power

Although the bipolarity experienced between the United States and the former Soviet Union is a past phenomena, the rising contention to US hegemony in the post-Cold War era will resemble the bipolarity in one context — nations will choose sides. In a complex interdependent world, the lines formed will not be as clear and distinct as those distinctions drawn by military threat, rather, the lines drawn by economic enticement to regional markets will shape the New International Economic Order. “Military bipolarity meant that Europe needed American protection, and that the United States needed European support to reinforce its power position,” explains Hoffman.²⁵³ The Cold War reflected the common security interests of NATO and the economic regimes of the west.²⁵⁴ Furthermore, Hoffman contends, “The collapse of the Soviet

²⁵¹ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 107.

²⁵² Eagleburger, Lawrence, testimony before the Subcommittee on European Affairs of the Senate Foreign Relations Committee, June 22, 1989, in Department of State Bulletin, 89, 2142, October, 1989.

²⁵³ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 107.

²⁵⁴ Ibid, p. 107.

empire in August 1989 posed three new challenges to...American objectives: German unification, the collapse of communist governments in Eastern Europe, and a diminished Soviet threat.”²⁵⁵

These new challenges were also assumed forgone conclusions. German unification and the dissolution of communist government and Soviet threat were certain to be a *fait accompli*. “The collapse of each assumption created a major issue in American policy toward Europe. As these assumptions changed, new implications for economic relations between Europe and the United States emerged.”²⁵⁶

With the collapse of the Soviet superpower, bipolarity under any meaningful definition had collapsed as well. The United States was militarily preeminent. However, in the World political economy...Europe...had become more important.²⁵⁷

While maintaining its commitment to Europe after the Cold War, the United States was still concerned about the “relationship between the regional economic institutions, global economic regimes, and specific American economic interests to a greater degree than it had been in the early days of the Cold War.”²⁵⁸

In an anarchic world of sovereign states, absent international institutions, the United States would presumably balance against Europe in the world political economy, as Europe would balance against the United States in the security realm.²⁵⁹

Presumably, in the post-Cold War era, international politics will increasingly rely on economic interdependence in Europe, where Community authority predominates

²⁵⁵ Ibid, p. 117.

²⁵⁶ Ibid, p. 117.

²⁵⁷ Ibid, p. 382.

²⁵⁸ Ibid, p. 114.

²⁵⁹ Ibid, p. 392.

association agreements, applications for membership, deals with the EFTA countries, and bargains in GATT and the OECD.²⁶⁰ In the past, the United States has relegated its leadership role to Europe through NATO, because it does not have membership in the key political institution of the EU member-states.²⁶¹ If the United States does not begin to perceive its dealings with Europe in terms of economic interest and economic power, the rapid growth of EU influence in regional markets may eclipse US marketshare. Sandholtz posits, “There could be broad cooperation among the three centers of industrial power [US, Europe, Japan] or dangerous competition that degenerates into security confrontation.”²⁶² The impact of security confrontations will be most felt in the security communities of regional markets.

Pluralistic security communities may be a radically new form of regional governance, far more complex than historical counterparts. Its chances of survival, institutionalization, and expansion, however, may be enhanced by the fact that this type of governance system lies between, on the one hand, the anarchical arrangement of sovereign states—and national identities, and, on the other, a system of rule endowed with strong norms, institutions, transnational civic traditions, and trust—and transnational identities.²⁶³

The connections between economics and security imply that higher levels of interdependence preclude the use of force in a liberal economic environment among states.²⁶⁴ Because security communities in regional economic markets may prove to be the *battlefields* of the post-Cold War era, it is imperative that US policy reach into both

²⁶⁰ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 27.

²⁶¹ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 402.

²⁶² Sandholtz, et al, p. 204.

²⁶³ Adler, p. 59.

²⁶⁴ Sandholtz, et al, p. 191.

security community and economic market alike to establish influence and cultivate prestige and leadership.

2. Globalization

The latter-half of the 20th century has seen a movement away from a state-centered worldview to one of financial disintermediation.²⁶⁵ It has challenged our understanding of how non-state entities help to shape the economic order and, consequently, the security dimension of world society. For this reason, globalization has particularly come to the forefront as an explanation of the shift toward disintermediation.

We tend to understand globalization as the outcome of a linear pattern of progress, largely determined by economic forces. As technological evolution makes possible (and requires) economies of scale, human communities are expected to form increasingly large political entities.²⁶⁶

According to this interpretation of globalization, the trend of nation-state interaction is becoming increasingly apolitical.²⁶⁷ Increasingly open trade is doubtlessly beneficial to all advanced countries. For this reason, there will certainly be a struggle between great economies to redefine the economic order. The emerging economic order will likely occur along one of three lines: First, there may develop a trend toward *Managed Multilateralism* — relative shifts in the position among powers, however, the significance of relative gains would continue to be submerged within a set of broadly shared goals and interests in the world economy. Second, there may erupt a trend toward *Regional Autonomy* — the development of autonomous trading regions with relatively low levels of interdependence, separate markets, and extensive trade protectionism. Third, there may

²⁶⁵ Financial Disintermediation is the movement of an institutionalized world of legal authorities to a de-centered, market system.

²⁶⁶ Guehenno, Jean-Marie, *The Post-Cold World: Globalization and the International System*, Journal of Democracy, Vol. 10, No. 1, January 1999, p. 24.

²⁶⁷ Ibid, p. 24.

develop a trend toward *Regional Rivalry*, in which, the drive for autarky is fueled by worries about relative position and competing state power.²⁶⁸

Regional Autonomy is also termed *Defensive Protectionism*. The emerging economic order will not likely take this route, because regional trade groups can not afford to exclude the greater economies of the United States and European Union from their markets. Regional Rivalry is the more likely route, with the United States and the European Union vying for regional marketshare and entrenching state policy in regional security communities. The rise in nontariff trade barriers from September 1986 to September 1987 suggests this trend.

Due to the unilateral order, today the economic order follows a pattern of Managed Multilateralism, led by the United States, the WTO, and the IMF and World Bank — the latter two regimes functioning within the UN System. In this fashion, the management of multilateralism is viewed as a “push” and “pull” system, with international actors making demands — “pulling” and international regimes responding in kind — “pushing.” As long as the system is managed, the system is autarkic. However, when demands exceed the ability of regimes to respond proportionately in kind, the system becomes challenged and, more specifically, the manager of the system is challenged. This is clearly the case with the United States and the European Union. The demands by Europeans of the US-sponsored monetary regimes in the 1950s exceeded the US capacity to respond proportionately, and gave rise to a recession in the late 1960s and early 1970s.

In the aftermath of the Soviet dissolution and East European integration, “the United States ... went along with a French proposal for a European Bank for Reconstruction and Development (EBRD), which included the Soviet Union...Here again, although the United States was the largest country, it was willing to see the preponderance of votes in the bank as well as the presidency go to the West Europeans.”²⁶⁹

²⁶⁸ Sandholtz, et al, p. 173.

²⁶⁹ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 121.

With the EU establishment of the Union and Single Market in 1993 and the European Bank for Reconstruction and Development (EBRD), which is fashioned on the model of the IBRD to help East European countries make the transition to free-market economies, the reins of leadership in the economic order appear to be passing to Europe.

3. Hegemonic Competition

The view towards US hegemony has always been viewed by Europe with skepticism. In order to subvert the asymmetrical power balance imposed by the United States, the European Community systematically constructed mechanisms “to reduce or terminate the free flow of goods, people, funds and ideas” to change the patron-client relationship.²⁷⁰ The European solution to this asymmetrical relationship led the European Community to further diversify external contacts, build regional coalitions, and enter into regional integration schemes as a way of escaping US hegemonic domination.²⁷¹ This process led to supranational governance early in EC development, to achieve sufficient power to wield in *balancing* (when negotiating in a unipolar international system) the United States or *binding* (when negotiating in a bipolar system) the Soviets. “De Gaulle [once] denounced supranationality as a trap because an external ‘federator’, the United States, would be the puppeteer.”²⁷² Ironically, the United States, as a single actor, used the same techniques of *binding* and *balancing* when dealing with Europe and the Soviets, respectively. Only after the 1970s, with the onset of an economic recession and the introduction of *détente* and the Anti-ballistic Missile negotiations did the US shift tactics. From the 1970s, the United States tended to *bandwagon* an increasingly strong Europe and *bind* with treaties the increasingly flexible Soviets. This trend continues in the post-Cold War era with the European Union; however, with Russia, the trend has been to

²⁷⁰ George, p. 33.

²⁷¹ George, p. 34.

²⁷² Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 31.

continue *binding* while inviting them to *bandwagon*. Hoffman expresses, “Indeed, the capacity of the United States to act militarily, in a way that the European Community can only aspire to in a hypothetical distant future, remains its major source of political leverage over European politics.”²⁷³

Despite the 1979-1984 recession, characterized as *Eurosclerosis*, the European Union experienced a rebound, a *Europhoria*, from 1985, beginning with economically linking the European Free Trade Area (EFTA) to the European Community within a Common European Economic Area. Sandholtz observes, “Europe appears to have both an industrial/technological base capable of providing for itself and the political will to maintain that capacity and respond to external constraints.”²⁷⁴ This apparent capability has espoused a new sense of equality with the United States. Cooper asserts, “Europe’s new sense of equality *vis à vis* the United States stems as much from the process of integration as from the raw statistics of size and economic performance.”²⁷⁵ According to the new WTO Agreement, which went into force in 1994, “the European Union counted as a single member but with votes equal to the number of its member states.”²⁷⁶ This has great implications for a Union hoping to continue to add to its future membership.

4. European Security

Regarding security institutions in Europe, the United States began to see a potential for a greater role for the Conference on Security and Cooperation in Europe (CSCE) and its successor, the Organization for Security and Cooperation in Europe (OSCE), in dampening conflicts in Eastern Europe, but following the collapse of the Berlin Wall, the United States began to see the CSCE/OSCE as a potential rival to NATO

²⁷³ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 392.

²⁷⁴ Sandholtz, et al, p. 45.

²⁷⁵ Cooper, et al, p. 17.

²⁷⁶ *International Contract Adviser*, p. 1.

for the organization of European Security.²⁷⁷ Hoffman describes, “In practice, however, the CSCE/OSCE was hindered by its structure as an intergovernmental conference requiring unanimity.”²⁷⁸ Nevertheless, the United States halted its emphasis on the OSCE’s future role as conflict mediator in Europe.

The Persian Gulf showed that economic and military issues are becoming increasingly entangled with one another.²⁷⁹ The European’s ineffectual role in the Balkans and later in Kosovo prompted the pursuit of both a military and a capability revision. Charles Heyman emphasizes, “The WEU has no standing forces or command structures of its own, but has procedures by which the Council can assemble the force groupings necessary to undertake operations and ensure their political control and strategic direction.”²⁸⁰

At the end of its existence, the Western European Union had five force structures which were “answerable to the WEU (FAWEU)” for operations. Although most of these force structures were also “NATO assigned or earmarked” formations, none of these formations were placed under WEU authority in peacetime. Even the EUROCORPS, a five-nation military formation, initially founded by President Mitterand and Chancellor Kohl as the Franco-German Corps to serve as the core of the future European Army, was declared a “FAWEU” but not put under WEU command. The WEU Rome Summit in May 1993 also declared the Multinational Division Central and the UK/Netherlands Amphibious Force as FAWEU.²⁸¹ In 1996, both the establishments of the EUROFOR and EUROMARFOR were similar in concept.²⁸² The Western European Union was

²⁷⁷ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 122.

²⁷⁸ Ibid, p. 122.

²⁷⁹ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 28.

²⁸⁰ Heyman, p. 9.

²⁸¹ Ibid, p. 22.

²⁸² Ibid, p. 23.

tasked to conduct a myriad of humanitarian and rescue tasks, peacekeeping tasks and tasks of combat forces in crisis management including peacemaking. These are commonly called “the Petersberg tasks.”²⁸³ These tasks largely involve peacekeeping and humanitarian missions. NATO was still responsible for the collective defense of Europe.

5. Shifting Balance of Economic Power

Although the United States has provided economic and socio-political leadership since the onset of the Post-WWII era, “the United States appears increasingly unwilling to shoulder the political burden of this leadership, a burden that requires abjure unilateral protectionist measures, even in the face of protectionism by US trading partners.”²⁸⁴ In the face of US reluctance, European firms have taken the lead in applying advanced technology to hold market position more successfully than their US counterparts.²⁸⁵

The debate that now exists concerns to what extent the United States is still the sole economic superpower and how it intends to preserve that status.

Although in the early and mid-eighties there was a disagreement among economists over the degree to which a trade deficit is a sign of weakness (the US over-consuming, saddling future generations with the bill) or a sign of strength (foreign investors flocking to higher real returns available in a dynamic US market), there was a widespread consensus by the end of the decade that a significant improvement in US competitiveness and trade performance had become essential.²⁸⁶

²⁸³*Treaty of Amsterdam*, accessed at www.irlgov.ie/iveagh/whitepaper/summary.htm, March, 8, 2001.

²⁸⁴ Cooper, et al, p. 17.

²⁸⁵ Sandholtz, et al, p. 44.

²⁸⁶ Cooper, et al, p. 5.

Table 2.1: Trade Balances (In Billions of Dollars)

Country	1950	1960	1970	1980	1990
EC-12*	-3.8	-3.6	-8.1	-81.3	8.1
US	1.4	5.5	0.8	-6.2	-89.1

Source: International Monetary Fund, Directory of Trade Statistics, Washington, DC, various years. *The European Community (EC-12) countries are Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Greece, and the United Kingdom.

From 1980 through 1985 ... US growth (2.7%) considerably outpaced that of the EC (1.5%) and the European Free Trade Area (EFTA) members (2.0%). This is the period that gave rise to the apprehensions of long-term ‘Eurosclerosis’ — endemic low rates of growth.²⁸⁷

Ultimately, these apprehensions became unfounded. Cooper observes, “During the period from 1985 to 1989 ... both the European and US economies increased their average annual real Gross Domestic Product (GDP) growth rate substantially, 3.1% and 3.4% respectively.”²⁸⁸ This period of “Europhoria left the impression that the European economy in the 1990s [was] likely to speed away from a lumbering US economy mired in political and financial stalemate.”²⁸⁹

As for the one remaining superpower, the United States, it has an economy roughly equal size to that of Europe. It could follow a mercantilist balancing strategy, an option that is preserved by its efforts to create a North American Free Trade Area (NAFTA).²⁹⁰

This balancing strategy lends legitimacy to the rise of the European Union as an economic contender to US hegemony, which threatens to inspire “Regional Rivalry, a twenty-first-century regional version of mercantilism[, which] is likely to emerge from

²⁸⁷ Ibid, p. 2.

²⁸⁸ Ibid, p. 2.

²⁸⁹ Ibid, pp. 7, 8.

²⁹⁰ Hoffman, et al, *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991*, p. 392.

the redistribution of resources and the increasing obsolescence of the US-led post war system.”²⁹¹

One strategy in the quest for gaining marketshare through Regional Rivalry threatens to be the use of humanitarian aid. In this manner, a regional economic hegemon garners goodwill from the recipients of aid. Forty percent of EC development aid goes to “Asia and, to a lesser degree Latin America.”²⁹² Generally, “the motives for third countries to turn towards Europe may be of a very different nature. One factor to take into account is the overall political situation in a given region.”²⁹³ Because of EU developmental aid policies, groups like ASEAN and the Central American states have little room to negotiate the terms dictated by Europe. ²⁹⁴

D. ECONOMIC RIVALRY AND REGIONAL BATTLEFIELDS

Today, the world is becoming more subdivided, reflecting a trend by powerful nations to enter into Regional Rivalry — staking a claim in a region and developing preferential trading arrangements (PTAs) and zones of peace through security communities.

The threat of conflict increases as the world economy evolves into American, Asian, and European regions, together accounting for above 70 percent of global GDP, and separately driven more by internal than interregional developments. The collapse of the Soviet Union does not change the significance of this emerging economic regionalization.²⁹⁵

²⁹¹ Sandholtz, et al, p. 168.

²⁹² Edwards, Geoffrey and Elfriede Regelsberger, ed. *Europe’s Global Links: The European Community and Inter-Regional Cooperation*, New York: St. Martin’s Press, 1990, p. 8.

²⁹³ Ibid, p. 12.

²⁹⁴ Ibid, p. 16.

²⁹⁵ Sandholtz, et al, p. 199.

The reality of the current international system reflects that former imperial powers are the only powers with the resources to intervene in the third world, which does not foster confidence among the governing elites of vulnerable developing countries, who have an “obsession with security.”²⁹⁶

1. Transatlantic Economic Partnership (TEP)

The European Union and the United States are each other’s main trading partners and account for the largest bilateral trade relationship in the world. The total amount of two-way investment amounts to over \$US 9.39 billion [11 billion Euro], with each partner employing about 3 million people in the other country. In the year 1999, exports of EU goods to the United States amounted to \$US 155.5 billion [182 billion Euro], while imports from the United States amounted to \$US 135 billion [158 billion Euro]. Despite several trade related disputes hitting the headlines, the transatlantic partners have committed to a politically and economically significant cooperation agenda. The signing of the New Transatlantic Agenda (NTA) and accompanying EU-US Joint Action Plan in December 1995 cemented this. The bilateral section of the NTA focuses on the creation of a New Transatlantic Marketplace by progressively breaking down barriers to the flow of goods, services and investment between the European Union and the United States.²⁹⁷

Richard Haass emphasizes, “Developments beyond the continent of Europe often constitute a source of tension between the United States and the countries of Western Europe.”²⁹⁸ The sudden watershed of events, which ended the Cold war era “reduced the obvious necessity and momentum for transatlantic cooperation, especially in the security sphere.”²⁹⁹ As the European Union attains a more equitable footing with the United

²⁹⁶ Lyons, p. 105.

²⁹⁷ *Europa*, “EU-US Summit, Götenborg, 14 June 2001,” accessed at europa.eu.int/comm/trade/bilateral/usa/usa.htm, on June 19, 2001.

²⁹⁸ Haass, Richard N. ed. *Transatlantic Tensions: The United States, Europe, and Problem Countries*, District of Columbia: Brookings Institution Press, 1999, p. 1.

²⁹⁹ *Ibid*, p. 3.

States in economic spheres, an ever increasing “friction (and decreased cooperation) characterizes relations across the Atlantic on policies toward problem countries.”³⁰⁰ This phenomena is a result of the fundamentally different approach that each has to problem solving.

Americans tend to act unilaterally without formal authorization, quickly resorting to economic sanctions, or cruise missiles, whereas the European’s preference is for diplomacy and engagement.³⁰¹

One change that would contribute a great deal to calming transatlantic tensions would be an American decision to eliminate secondary sanctions. Much of the recent strain between Americans and Europeans stems from the US resort to secondary sanctions against those European entities and persons who do not implement primary sanctions instituted by the United States against a specified target.³⁰²

At the London EU-US Summit, May 18, 1998, national leaders adopted a joint statement on the Transatlantic Economic Partnership (TEP) identifying a series of initiatives to intensify and extend multilateral and bilateral cooperation in trade and investment between the United States and the European Union. The summit followed from the confidence-building process in the New Transatlantic Agenda of 1995, which reinforces US-EU efforts to resolve bilateral trade issues and disputes. The recent Summit on 14 June 2001 in Göteborg, Sweden dealt with a variety of economic and soft security issues.

Following closely on the heels of the Göteborg Summit, EU Trade Commissioner Pascal Lamy and his Chinese counterpart, Trade Minister Shi Guangsheng, announced on

³⁰⁰ Ibid, p. 3.

³⁰¹ Ibid, p. 228.

³⁰² Ibid, p. 235. Agreements announced in May 1998 appear to reflect a good deal of progress concerning Iran, Libya, and Cuba. In return for commitments by the Europeans that will halt future investment in Cuba, the United States has agreed to seek changes from Congress that would give the president greater authority to waive certain sanctions against European countries doing business in Cuba.

20 June that the outstanding bilateral issues between the European Union and China with a view to China's accession to the WTO have been resolved. Welcoming the consensus, Commissioner Lamy said,

The political will shared by both the EU and China to clear the obstacles to China's WTO accession has borne fruit. The way is now clear for China to join the WTO in the coming months. This is good news for China, for the EU and for the world's multilateral trading system. We will now work together in Geneva to rapidly finalise agreements in the WTO.³⁰³

This event is telling for EU-China relations and has far-reaching implications for US and Asia-Pacific economic and security relations.

2. Organization of American States and Free Trade Area of the Americas (FTAA)³⁰⁴

The Organization of American States (OAS) was founded in 1948 and has since been committed to democratic strengthening, security promotion, and economic integration in the North American hemisphere, as well as the defense of human rights, environmental protection, preservation of culture, and modernization of member states.³⁰⁵ The OAS has largely progressed in the realm of human rights, but also clearly leads in hemispheric security arrangement initiatives.

In 1992, the General Assembly of the OAS raised the level of the Working Groups on Hemispheric Security by transforming them into the Special

³⁰³ *Trade Directorate-General of the European Commission*, "EU Finalises Bilateral Deal for China's Accession to WTO," Reference 118200, received by email June 20, 2001.

³⁰⁴ A free trade area is one in which members remove trade barriers among themselves, but keep their separate national barriers against trade with the outside world. FTAA would incorporate all volunteer countries in North, Central and South America.

³⁰⁵ *Organization of American States*, accessed at www.oas.org/ on June 21, 2001.

Commission on Hemispheric Security ... creating the legal-institutional bond between the OAS and the Inter-American Defense Board.³⁰⁶

The OAS supports four strategic principles for intervention in the hemisphere: trade, protecting the environment, defense of democracy, and protection and defense of human rights.³⁰⁷

The invasions of Grenada (1983), Panama (1989), and Haiti (1915 and 1994) showed the backlash that results when crossing US purposes.³⁰⁸ Although Central and South America received much attention during the 1970s with the proliferation of democracies throughout those regions, in the post-Cold War era they receive little attention.

Security relations at the beginning of the decade were a paradoxical mix of fears of neglect and abandonment except when a flash of US attention directed its enormous, unilateral will at a country or problem in the region. The United States was perceived as an unpredictable and inconsistent hemispheric neighbor.³⁰⁹

The profound impact of the collapse of the USSR and Cuba's significance for security in the western hemisphere altered dramatically the US focus for regional security; the Enterprise for the Americas Initiative (EAI) followed closely after the Caribbean Basin Initiative.³¹⁰

³⁰⁶ Aravena, Francisco Rojas, et al, *Strategic balance and Confidence Building Measures in the Americas*, Stanford: Stanford University Press, 1998, p. 186.

³⁰⁷ Ibid, p. 187.

³⁰⁸ Franko, Patrice M. *Toward a New Security Architecture in the Americas: The Strategic Implications of the FTAA*, District of Columbia: The CSIS Press, 2000, p. 9.

³⁰⁹ Ibid, p. 9.

³¹⁰ Aravena, p. 65. The Caribbean Basin Initiative is the General Scheme of Preferences and Section 936 of the US Internal Revenue Code, which gives tax credit to US businesses that invest in the Caribbean Basin. The Enterprise for the Americas Initiative promised a reduction of Latin America's official debt owed the US government,

Patrice Franko reflects, “On June 27, 1990, George Bush announced the Enterprise for the Americas initiative to a group of Latin Americans assembled in the White House.”³¹¹ This was historic, in a sense, because the United States seemed to be “issuing an invitation to play by market rules,” rather than its own, “with enhanced flows of investment capital as the prize.”³¹² More likely, the United States sought to use economic advantage to promote strategic gains within Latin America and the Caribbean. Franko asserts, “Nothing enhances US security more than to be part of a community of nations with shared commitments to peace, democracy, and economic freedom.”³¹³ The EAI became a US attempt to make a big policy change toward the southern regions. Due to the starkly different approach to US policy and the anticipated shortfalls for debt reduction, the EAI “generated suspicions about US intentions. Critics within the region suggested that the initiative was a mechanism to lock Latin American nations into a hub-and-spoke trading arrangement, with the United States at the center of regional activity.”³¹⁴ “Brazilian officials place little value on comparative notions of power,” within the region, noting “there is such disparity of national scales, geographic settings, interests, and arrangements in the hemisphere.”³¹⁵ The EAI initiative fostered fear and distrust among many nations-states in Latin America, which advocated strengthening subregional trading blocs in order to gain economic ascendancy over the United States in regional economic matters.³¹⁶ Nevertheless,

offered help to facilitate investment in the region’s economic recovery, and held out the prospect of free trade agreements.

³¹¹ Franko, p. 10.

³¹² Ibid, p. 10.

³¹³ Ibid, p. 11.

³¹⁴ Ibid, p. 12. Although President Bush hoped to provide \$310 million for debt reduction, the 101st Congress provided only \$50 million for debt reduction and an additional \$40 million for Food for Peace programs.

³¹⁵ Aravena, p. 52.

³¹⁶ Franko, p. 12.

from this important and desirable economic innovation [EAI] emerged NAFTA, ... almost a year later, President Clinton hosted a Summit of the Americas in Miami to celebrate a multifaceted 'new movement' in the hemisphere and initiated what hopefully will be a sustained era of close hemispheric cooperation on a wide range of political, economic, and social issues and the creation of the Free Trade Area of the Americas by the year 2005.³¹⁷

3. North American Free Trade Area (NAFTA)³¹⁸

Prior to the 1980s, the United States exercised multilateral trade practices, however, from the mid-1980s, the US position changed from a total commitment to free trade to a "two-track approach resorting to preferential trading arrangements (PTAs) as a way to achieve trade liberalization in addition to supporting the open multilateral system."³¹⁹ The trend suggests that more countries are beginning to strengthen their PTAs at the expense of the open multilateral trading system and multilateral trade liberalization. Anne Krueger explains, "The issue of the net effect of PTAs on the welfare of the member countries and on the world economy is therefore an empirical issue."³²⁰

³¹⁷ Aravena, p. 65. Consequently, the EU Securities Market is presently scheduled to be implemented in 2005. The European Councils of Lisbon and Stockholm have endorsed the Action Plan. They have set 2005 as the target date for the implementation of the Plan and 2003 for final integration of the securities markets. Of the initial 41 measures, 16 have now been finalized.

³¹⁸ NAFTA includes Canada, the United States, and Mexico.

³¹⁹ Krueger, Anne O. *NAFTA's Effects: A Preliminary Assessment*, Malden: Blackwell Publishers, 2000, p. 761.

³²⁰ Ibid, p. 762. Interest in PTAs focuses on two phenomena — trade creation and trade diversion. Trade creation is the process under which countries lowering their tariffs shift away from reliance on high-cost domestic industry to imports from the lower-cost partner countries. Trade diversion occurs where low-cost production in the rest of the world is displaced by higher-cost production in the partner country.

NAFTA was controversial in both Mexico and the United States from the moment it became a strong political possibility in 1990.³²¹ Mexico was an original signatory to the 1960 Treaty of Montevideo, which created the Latin American Free Trade Association (LAFTA).³²² Mexico, therefore, hesitated to join NAFTA for fear that the United States would exploit NAFTA and force Mexico to change its policies, thereby, weakening Mexican sovereignty. Nevertheless, Mexico joined NAFTA through a treaty in 1992. Although initially very controversial, NAFTA came into force in 1994, despite US protests that jobs would head south.³²³ Tables 3.1 and 3.2 reflect that NAFTA has had a small impact for the United States. For Mexico, NAFTA has not been seriously trade-diverting.³²⁴ By 1996, the United States, Canada, and Mexico had achieved a combined GNP of nearly \$US 8 trillion with a population of nearly 400 million. GNP statistics rivaled those of the European Union, but the European Union was less populous.³²⁵

The goals of NAFTA are to phase out all tariffs on textiles, clothing, cars, trucks, vehicle parts and telecommunications equipment over ten years; to phase out all barriers to agricultural trade over 15 years; to allow banks, securities firms and insurance firms total access to all three markets; to open up the North American advertising market; to allow lorry drivers to cross borders freely; and to loosen the rules on the movement of corporate executives and some professionals.³²⁶

³²¹ Lindert, p. 222.

³²² McCormick, p. 23. LAFTA failed to achieve the modest goals of reducing tariff and trade barriers on selected items and to create a free trade zone by 1972. Seven signatory countries signed the treaty in 1960: Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay.

³²³ Lindert, p. 222.

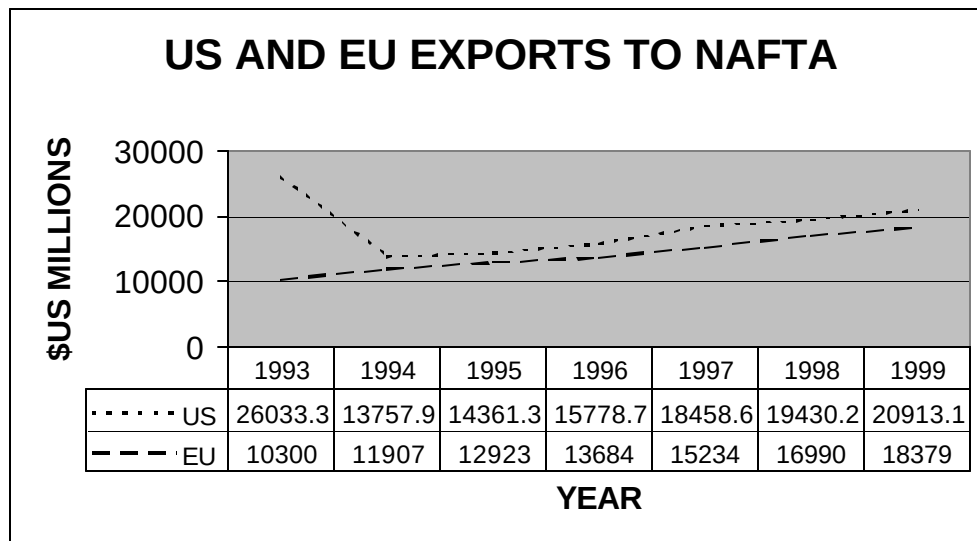
³²⁴ Krueger, p. 762.

³²⁵ McCormick, p. 20.

³²⁶ Ibid, pp. 21, 22.

Preferential trading arrangements did not seem significant for NAFTA or other trading blocs, but in the case of NAFTA (Table 3.1), the impact on exports from non-PTA members was sizeable.³²⁷ Export capital flows in NAFTA reflect a marked change in US exports to NAFTA countries after the agreement came into force in 1994, reflecting an increase in access to the market by non-member countries like the European Union. Within four years, the European Union was able to gain an 11% export marketshare in NAFTA, despite the empirical finding, which implied “that NAFTA countries import less than predicted from non-NAFTA trading partners.”³²⁸ Table 3.2.1 shows that the European Union closely rivals the United States for import share within NAFTA: 11% EU versus 16% US.

Table 3.1: Export Capital Flows in NAFTA

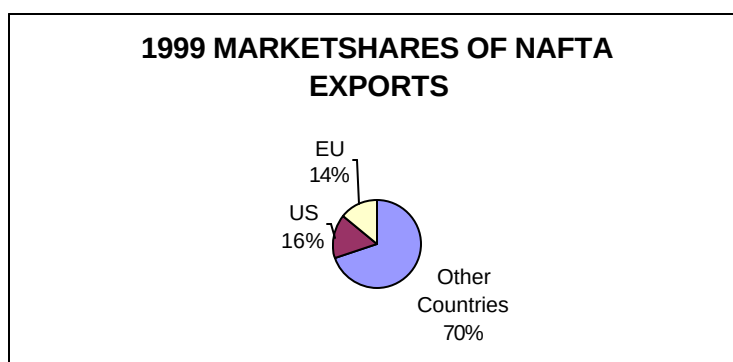


Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

³²⁷ Krueger, p. 774.

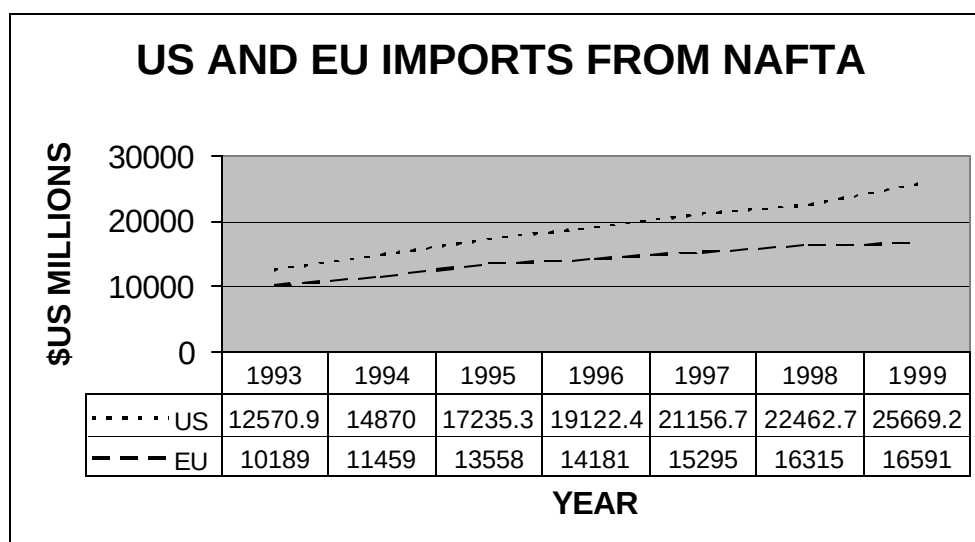
³²⁸ Ibid, p. 775. Indeed, comprehensive data are available only through 1996 or 1997, thus allowing observation of only the first three or four years of operation of NAFTA. This period does not extend even halfway through the tariff phase out period, and probably is not even long enough to allow for adjustment lags in any event.

Table 3.1.1: 1999 Marketshares of NAFTA Exports



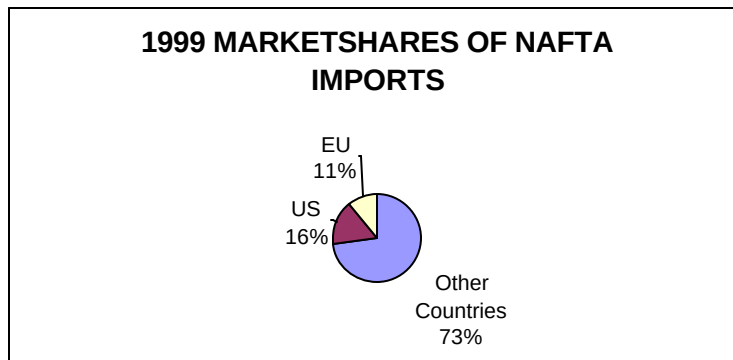
Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 3.2: Import Capital Flows in NAFTA



Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 3.2.1: 1999 Marketshares of NAFTA Imports



Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

4. European Free Trade Area (EFTA)³²⁹

Suspicious of the “closeness of ties proposed by Monnet and Schuman” for the integration of European countries, Britain “decided to pursue the idea of a wider but looser free trade area based on the OEEC states, but preparation for the European Economic Community had gone too far, and then in 1960 the OEEC evolved into the Organization for Economic Cooperation and Development (OECD).”³³⁰ Hence, Britain became a founding member of the European Free Trade Association (EFTA). The EFTA was not successful as an autarkic trading bloc unto itself, because most of its members did most trade through the European Community. In 1984, a Free Trade Area was established between the remaining EFTA members and the European Community. Within this new arrangement, called the European Economic Area, “the EFTA countries also enjoy free access to the Common Market on the basis of complete reciprocity.”³³¹

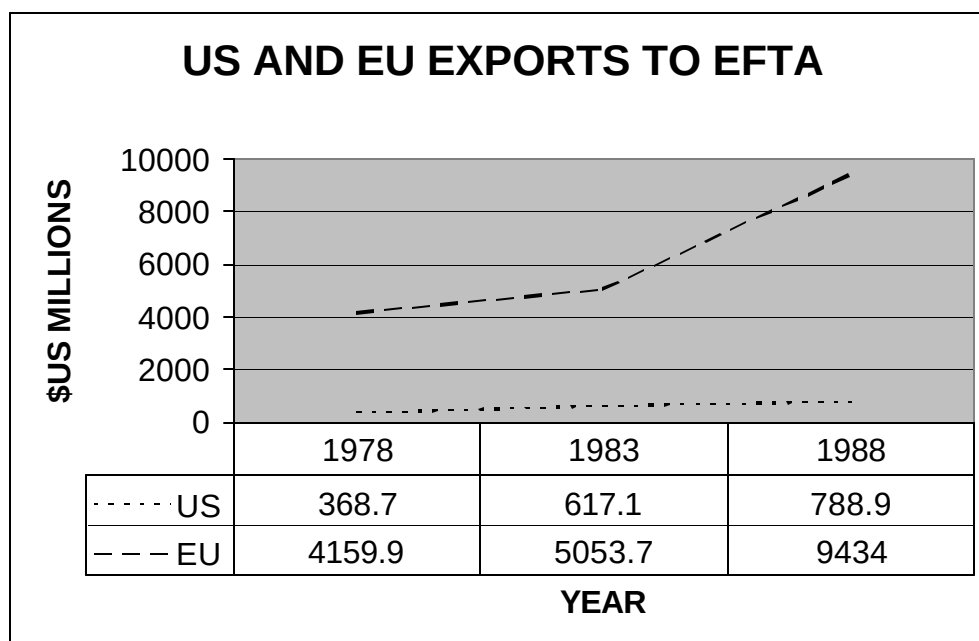
³²⁹ EFTA formed in 1960. The current membership includes Iceland, Liechtenstein, Norway, and Switzerland.

³³⁰ McCormick, pp. 70, 71. Founding members included Austria, Britain, Denmark, Norway, Portugal, Sweden, and Switzerland. Membership was voluntary through the Stockholm Convention, signed in January 1960, as opposed to EC membership, which was contractual in accordance with the 1957 Treaty of Rome. Most of the EFTA members have formalized EU membership. Switzerland is a special case.

³³¹ Edwards, p. 8.

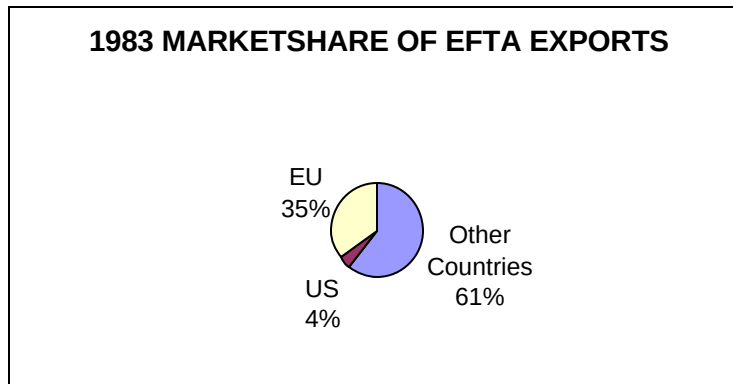
It is clear from Tables 4.1 and 4.2 that the combining of the EFTA with the European Community into the European Economic Area in 1984 made a significant upswing in EU export and import capital flows, though there was little impact on US capital flows. It is somewhat less clear what the impact of the merger of EFTA with the European Community was for the EFTA countries, but it appears that, at least initially, these countries lost marketshare in both exports and imports to the other countries in the EFTA-EC Free Trade Area. The impact on US exports and imports was decidedly negligible. Tables 4.1.1, 4.1.2, 4.2.1, and 4.2.2 reflect EU dominance in export and import capital flows over the United States.

Table 4.1: Export Capital Flows in EFTA



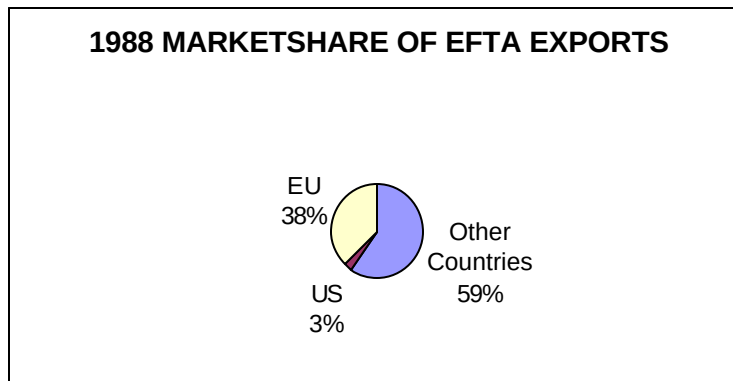
Sources: Organisation for Economic Co-operation and Development, *Statistics of Foreign Trade, Monthly Bulletin*, Vol. 12, multiple years. Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

Table 4.1.1: 1983 Marketshare of EFTA Exports



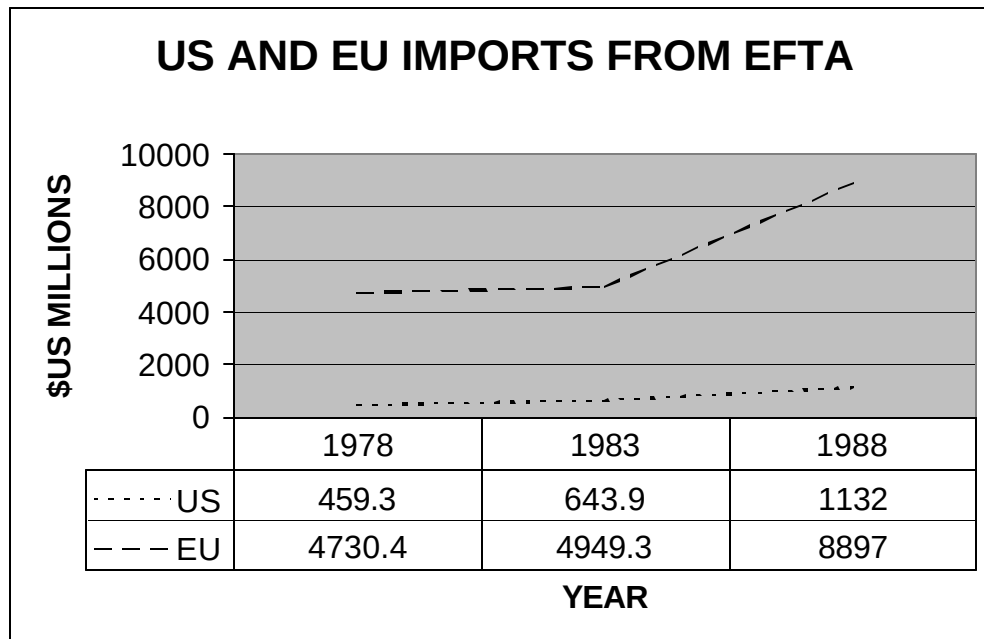
Source: *Organisation for Economic Co-operation and Development*, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 4.1.2: 1988 Marketshare of EFTA Exports



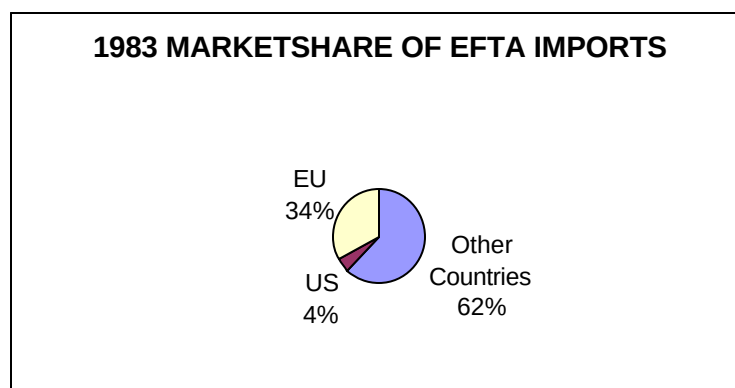
Source: *Organisation for Economic Co-operation and Development*, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 4.2: Import Capital Flows in EFTA



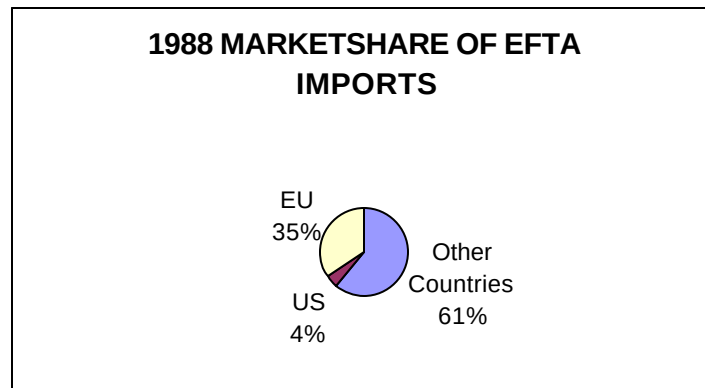
Sources: Organisation for Economic Co-operation and Development, *Statistics of Foreign Trade, Monthly Bulletin*, Vol. 12, multiple years. Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

Table 4.2.1: 1983 Marketshare of EFTA Imports



Sources: Organisation for Economic Co-operation and Development, *Statistics of Foreign Trade, Monthly Bulletin*, Vol. 12, multiple years.

Table 4.2.2: 1988 Marketshare of EFTA Imports



Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

5. European Economic Area (EEA)³³²

In 1984, the European Community and EFTA members began negotiations to create an EEC-EFTA Free Trade Area, followed by continued negotiations in the late 1980's for a "European economic space."³³³ With the completion of the Maastricht Treaty in 1992, the way was paved for the formation of the European Economic Area in 1994.

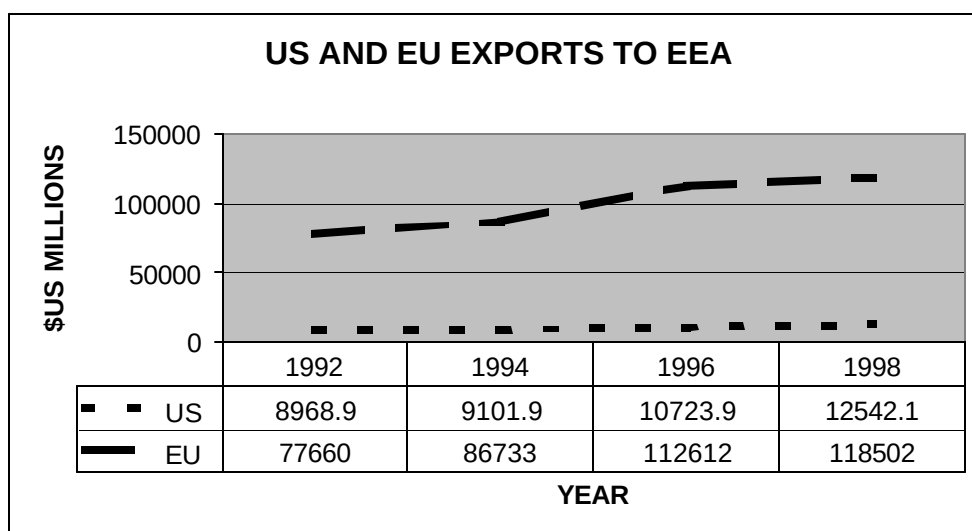
It is clear from Tables 5.1 and 5.2 that the synergy of the completion of the Single European Act in 1992 and the initialization of the EEA in 1994 produced a marked upswing for EU exports and imports.³³⁴ Again, the effectiveness of the EEA trade bloc against US access to the market is quite strong. Tables 5.1.1 and 5.2.1 reflect EU dominance over the United States in EEA capital flows.

³³² EEA was formed in 1994 and membership includes the EFTA plus the EU-15.

³³³ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 8.

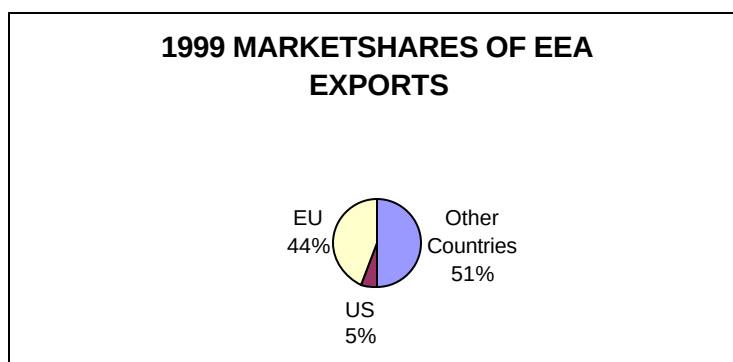
³³⁴ The European Economic Community from 1957-1992 included a customs union along with other agreements. A customs union is one in which members remove all barriers to trade among themselves and adopt a common set of external barriers. After Maastricht, the European Union formed a common market, in which members allow full freedom of factor flows among themselves in addition to having a customs union.

Table 5.1: Export Capital Flows in EEA



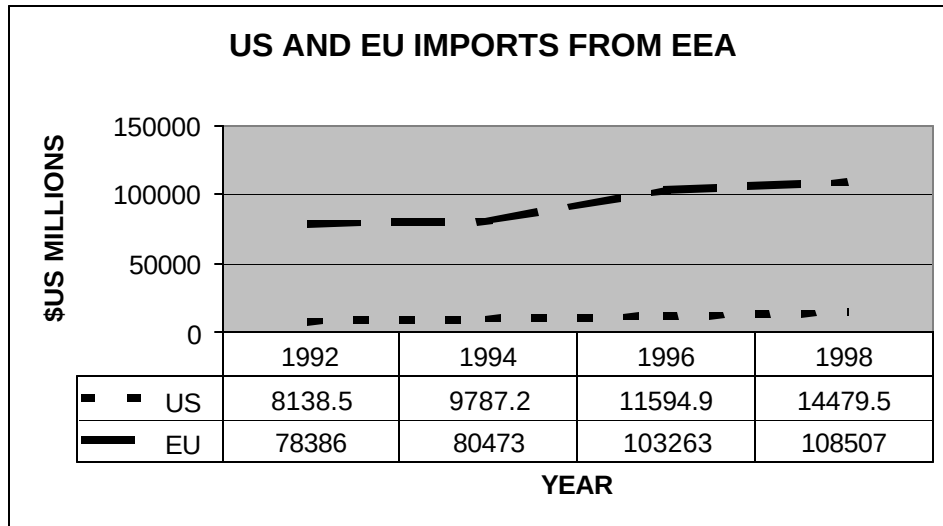
Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 5.1.1: 1999 Marketshares of EEA Exports



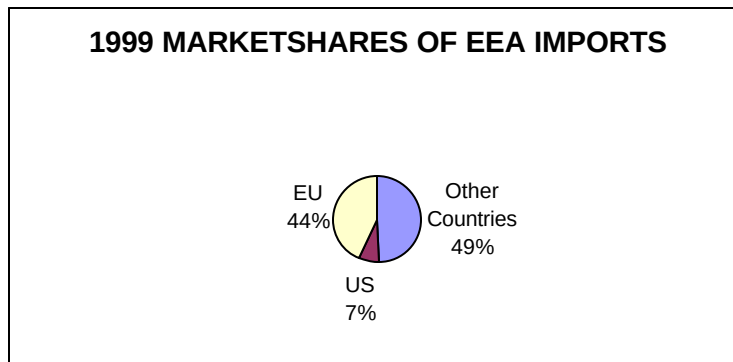
Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 5.2: Import Capital Flows in EEA



Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 5.2.1: 1999 Marketshares of EEA Imports



Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

6. Central and Eastern Europe

a. Political Background and Security Architecture

Newly transitioning states to liberal market economies are vulnerable to threats normally aimed at internal security. This was a clear concern to the great powers as the dissolution of Eastern Europe and the Soviet Bloc took effect in the late 1980s. The

single greatest threat to European integration has been the volatility of the new European landscape and its consequential political landscape since the early 1990s. Stephen Blank posits, “Failure to incorporate Russia and the New Independent States (NIS) into the European and global economies is perhaps the greatest potential economic obstacle to realizing the proposed vision of Europe.”³³⁵ Before incorporation can happen, Russia must adopt fundamental changes to its institutions and economic policies, which promote democracy and foreign direct investment.

Other security issues, which threaten European integration include conflict in the Balkans, Greek-Turkish tensions, trouble spots along the Mediterranean, proliferation of weapons of mass destruction (WMD), conflicts in the Transcaucasus region, and tensions over the control of oil. Also, “one cannot ignore a EU-US trade war that could sidetrack the preferred vision of a future Europe.”³³⁶ Europeans must reorient national interests to solve largely European problems. To the same degree, the United States must seek consensus rather than relying on unilateral action on matters involving Europe.³³⁷

The United States must realize that not all European initiatives are directed to undermine US leadership. Blank purports, “The United States must understand that a Common Security and Foreign Policy (CSFP) may not always coincide with US policy.”³³⁸ The United States should take a greater role in assisting Central and Eastern European countries to transition to consolidated democracies with liberal free-market economies beyond those efforts expended on the Partnership for Peace. Central and Eastern European integration into the European Union is one option, but may not be in the best interest of the United States in the long run. “The important decision made at

³³⁵ Blank, Stephen J. et al, *European Security: Washington’s Shaping Strategy in Action*, Strategic Studies Institute, Carlisle: Publications and Productions Office, 2000, p. 8.

³³⁶ Ibid, et al, p. 9.

³³⁷ Ibid, et al, p. 16.

³³⁸ Ibid, et al, p. 18.

the EU Helsinki Summit in December 1999 to open membership accession negotiations to expand the community from 15 to 28 or more countries is noteworthy for European security.”³³⁹ This will have a great impact on US involvement in Europe. Blank describes, “The size and focus of the US presence in Europe undoubtedly will change. Force size, structures, and organizations will adapt to accommodate evolving security conditions.”³⁴⁰ Lastly, “economic competition between the United States and Europe or among large regional trading blocs for global or regional markets could be intense, further magnifying the divergence of interests.”³⁴¹

b. Economic Competition

Policy changes and EU focus after Maastricht in 1992 may explain the downturn of capital flows of the European Union to and from Central and Eastern Europe through 1994 (Tables 6.1 and 6.2). At Maastricht, Europeans set the timetable for the introduction of a common currency in 1999, the new rights for European “citizenship,” and new policies concerning health and social programs.³⁴² Agreements began to come “into force in 1994 with Hungary and Poland, with the Czech Republic, Slovakia, Bulgaria and Romania in 1995, and with the three Baltic States in 1998.”³⁴³

³³⁹ *The Economist*, “The Fado Factor,” January 15, 2000, pp. 51, 52.

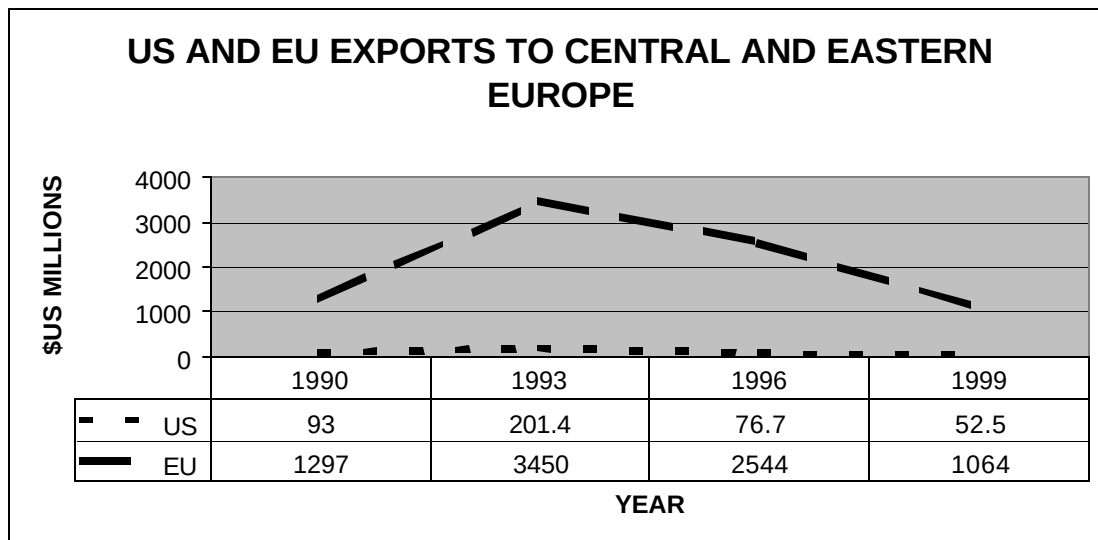
³⁴⁰ Blank, et al, p. 23.

³⁴¹ Ibid, et al, p. 31.

³⁴² McCormick, p. 80.

³⁴³ Ibid, p. 223.

Table 6.1: Export Capital Flows in Central and Eastern Europe

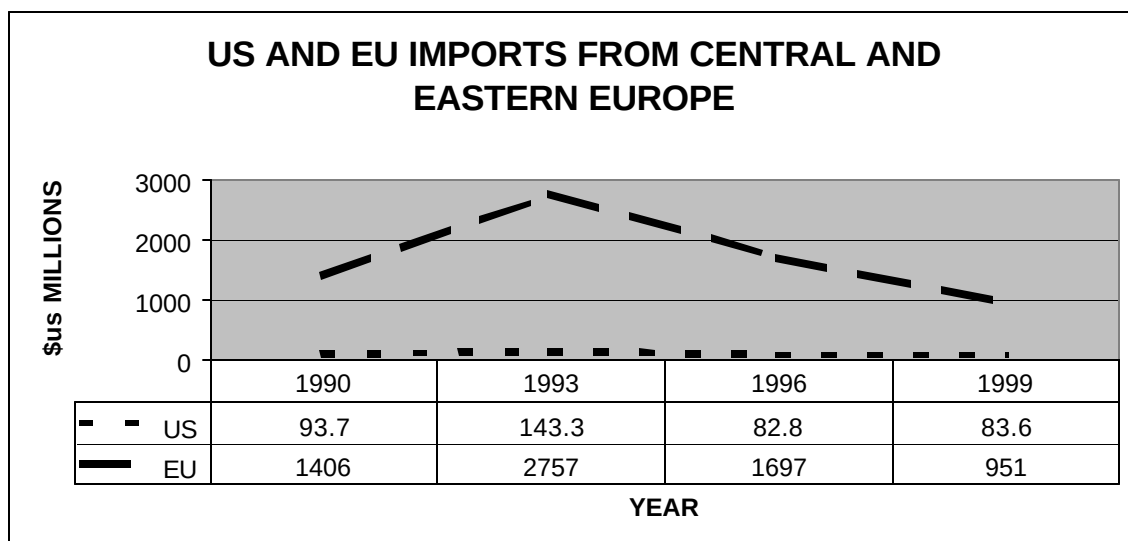


Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

* The 1996 figures reflect *de facto* integration of Poland, Hungary and the Czech Republic into NATO in 1994.

**The 1999 figures do not account for Albania, Bulgaria, or Slovenia.

Table 6.2: Import Capital Flows in Central and Eastern Europe³⁴⁴



Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

* The 1996 figures reflect *de facto* integration of Poland, Hungary and the Czech Republic into NATO in 1994.

**The 1999 figures do not account for Albania, Bulgaria, or Slovenia.

7. Economic Community of West African States (ECOWAS)³⁴⁵

a. Political Background and Security Architecture

Nigeria became a founding member and was the impetus behind the Economic Community of West African States (ECOWAS) in May 1975.³⁴⁶ Nigeria is by far the largest, wealthiest, and most powerful member of the bloc of sixteen countries with 53 percent of the population.³⁴⁷ “There are ...16 Sub-Saharan countries that constitute the ECOWAS. There are 36 corresponding international boundaries, 27 of which are located entirely within the subregion.”³⁴⁸ This situation makes for a very diverse economic, social, and political landscape. West Africa was partitioned by five distinct powers, the largest number concentrated on any single African subregion, unlike the partitioning of other regions by only two or three powers.³⁴⁹

Quite apart from the adjacency with both North and Central African subregions and the linkages therefrom with the rest of Africa, notably Southern Africa as well as East Africa and the Horn, the location of the 13 of the 16 West African States along the Atlantic Seaboard makes the subregion the most crucial ‘gateway’ between post-industrial North (North America and Western Europe) and the rest of ‘Third-World’ Africa.³⁵⁰

³⁴⁵ ECOWAS countries include Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

³⁴⁶ McCormick, p. 27.

³⁴⁷ Ibid, p. 28.

³⁴⁸ *United Nations*, “Disarmament: Workshop on the Role of Border Problems in African Peace and Security,” New York: Litho in UN, October, 1993, p. 77.

³⁴⁹ Ibid, p. 78. France, Germany, Portugal, Germany, and Americo-Liberian for whom the United States had created independent Liberia following the abolition of the slave trade in the 18th Century. Thus, in West Africa, there are three major surviving blocs of states: the Anglophone (British and American), the Francophone and the Lusophone.

³⁵⁰ Ibid, p. 79.

This “gateway” makes West Africa a strategic asset to the economies that are firmly entrenched in the West African security and economic structures.

The architecture of the African security system is diverse. Dan Henck explains, “The United Nations and the Organization of African Unity (OAU) have long attempted to provide mechanisms for conflict resolution and have sometimes authorized humanitarian interventions or peace operations.”³⁵¹ The future may find the African security environment represented in a number of ways. One is a “constellation of subregional systems, with perhaps, Nigeria dominant in the west, South Africa in the south, and Ethiopia in the central area.”³⁵² It is also possible that there may be a “split along political lines with democratic/free market states in some sort of loose grouping,” under South African leadership and a “cabal of authoritarian states” led by Nigeria.³⁵³ In order to elicit cooperation and shape the security structure, “subregional organizations have been a feature of Africa’s political landscape for decades.”³⁵⁴ Because regional and subregional leaders have sought common membership in the OAU and the ECOWAS, it might be implied that there is a presumption to solidarity by these leaders.³⁵⁵

The OAU has been weakened by schisms between African states and the power structures in state governments, which allocate nearly all power to summits of the heads of states of member nations.³⁵⁶

Still, their responsibility regarding conflict resolution spans several broad missions: *decolonization power struggles* — for independent nations seeking to assert their right to control their own destinies, *political*

³⁵¹ Henk, Dan and Steven Metz, *The United States and the Transformation of African Security: The African Crisis Response Initiative and Beyond*, Strategic Studies Institute, Carlisle: Publications and Productions Office, December 1997, p. 3.

³⁵² Ibid, p. 6.

³⁵³ Ibid, p. 6.

³⁵⁴ Ibid, p. 5.

³⁵⁵ *United Nations*, p. 81.

³⁵⁶ Henk, p. 3.

consolidation— for polities transitioning from colonial to national polities, *national consolidation*— stemming from wars of national integration, *leftover liberation movements*— involving remnants of anti-state factions, *ill-defined territory* —stemming from legitimacy claims on post-colonial borders, *structural rivalries*— resulting from growth into new political roles, and *runaway means* —stemming from militaries that have attained the power to overthrow their own governments.³⁵⁷

Complicating matters more, “an increasing number of nations are abandoning state dominated economic models in favor of outward looking, market based systems.”³⁵⁸ This makes multilateral negotiation in African security communities a must, despite the traditional US desire to seek bilateral agreements.

ECOWAS is another economic organization that moved into the security arena “with the dispatch of a multinational peacekeeping force to Liberia in 1990. This force, known as the ECOWAS Monitoring Group or ‘ECOMOG’, illustrated some of the political difficulties inherent in peacekeeping by African forces.”³⁵⁹ Much of Africa’s problems stem from poverty and inequitable access to the limited goods and benefits of African trade.³⁶⁰ Thus far, comity and cooperation, achieved through subregional economic organizations like ECOWAS, is proving successful.³⁶¹

Other international organizations influence the African security environment as well. Financial and monetary organizations like the World Bank, African Development Bank, and the International Monetary Fund affect Africa’s economic development which is, in turn, a vital component of stability.³⁶² “As Susan Rice,

³⁵⁷ Obaseki, Nosakhare O. *African Regional Security and the OAU’s Role in the Next Decade*, A Report of the International Police Academy, New York: Workshop at Mohonk Mountain House, November 1983, pp. 18-22.

³⁵⁸ Henk, p. 1.

³⁵⁹ Ibid, p. 5.

³⁶⁰ Ibid, p. 20.

³⁶¹ Ibid, p. 18.

³⁶² Ibid, p. 5.

Assistant Secretary of State for African Affairs, put it, 'There is now more reason for optimism about Africa's future than at any time in recent memory'."³⁶³

The administration ... has called attention to the potential of Sub-Saharan Africa as a largely untapped market for US products. The clear implication is that economic development in Africa could bear tangibly and directly on US economic well-being as well as its own.³⁶⁴

The US approach, to date, has been somewhat clouded and reticent. In contrast to a 1995 Department of Defense document, which bluntly declared that the United States has "very little traditional strategic interest in Africa,"³⁶⁵ US Secretary of State, Colin Powell, has shown remarkable interest in the region, pledging millions in monetary aid, while on an official tour through Africa, to combat AIDS in Africa.³⁶⁶ The uncoordinated announcement by then Secretary of State Warren Christopher in October 1996 for the African Crisis Response Initiative (ACRI) was received by African leaders with puzzlement, because there had been no prior consultation on the matter and resulted in a perception of American failure to recognize subregional security organizations as vehicles for conflict resolution.³⁶⁷ If the present administration wishes to make more positive headway, "the Department of State must pay careful attention to solidifying the links between ACRI and the Organization of African Unity. And ACRI must be better linked to the security programs of subregional organizations."³⁶⁸ The 1997 National Security Strategy pointed out that American interests in Africa are concerned with safety

³⁶³ Ibid, p. 1.

³⁶⁴ Ibid, p. 20.

³⁶⁵ *United States Security Strategy for Sub-Saharan Africa*, Washington, DC: Department of Defense Office of International Security Affairs, August 1995, p. 3.

³⁶⁶ *BBC News*, "US Pledges Uganda \$50m AIDS Cash," May 28, 2001, accessed at news.bbc.co.uk/1/hi/english/world/africa/newsid_1355000/1355352.stm, on June 21, 2001.

³⁶⁷ Henk, pp. 23, 24.

³⁶⁸ Ibid, p. 32.

from transnational threats and WMD, an end to regional conflict, a stable region characterized by sustainable economic growth, and a region in which democracy and respect for human rights are increasingly evident.”³⁶⁹ The Permanent 3 countries, France; Great Britain; and the United States, agreed to establish an African Peacekeeping Group at a July 1997 meeting to contend with these issues.³⁷⁰

It has been aptly observed that ‘the only way to settle wars is to use the same principles upon which they were fought’, and, since ‘most wars have economic causes’, [a] genuine search must not be limited to political solutions as is conventionally the case; it should be extended to the discovery of the ‘economic basis of peace’. To achieve this conversion of ‘principles’ of war into ‘basis of peace’, all that is required is a new method of thinking or what has been appropriately referred to as ‘a new political mentality’.³⁷¹

b. Economic Competition

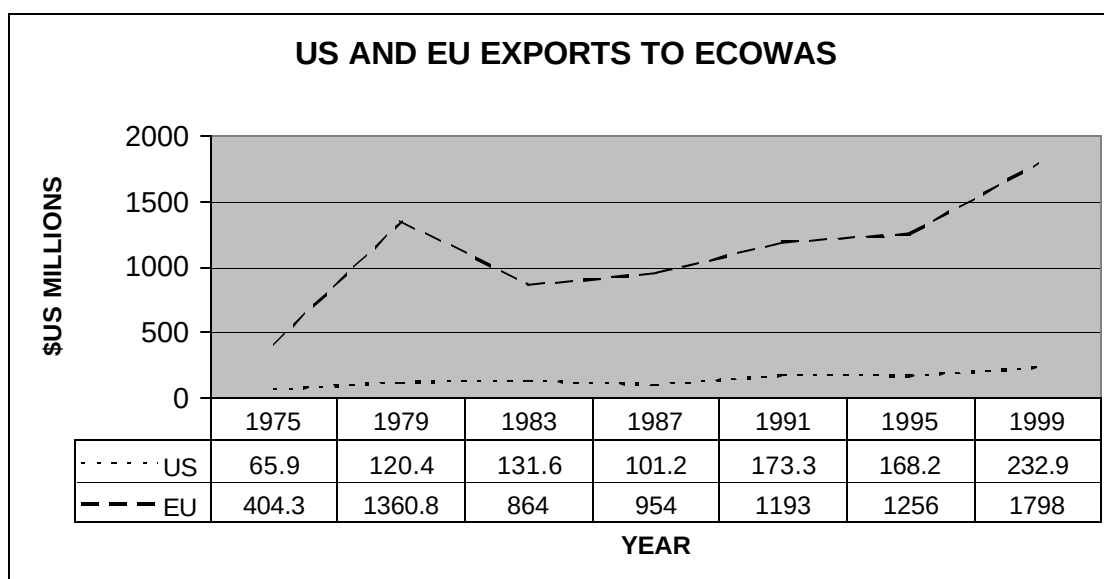
In 1973, with the ending of Apartheid, subsiding of racial disputes, and a return to a positive atmosphere for trade, ECOWAS reflects a huge upswing in marketshare for both capital flows, especially for the European Union (Tables 7.1 and 7.2). Trade within West Africa is consistent with the expected greater marketshare going to former colonial holders within the European Union. With the implementation of transportation infrastructure initiatives in the mid-1980s, there was a slight increase in EU import capital flows, which were not fully realized due to “Eurosclerosis” and a focus on European domestic issues associated with implementation of the Single Market Plan. The success stemming from Maastricht is reflected in the trends after 1994.

³⁶⁹ Ibid, p. 11.

³⁷⁰ Ibid, p. 25.

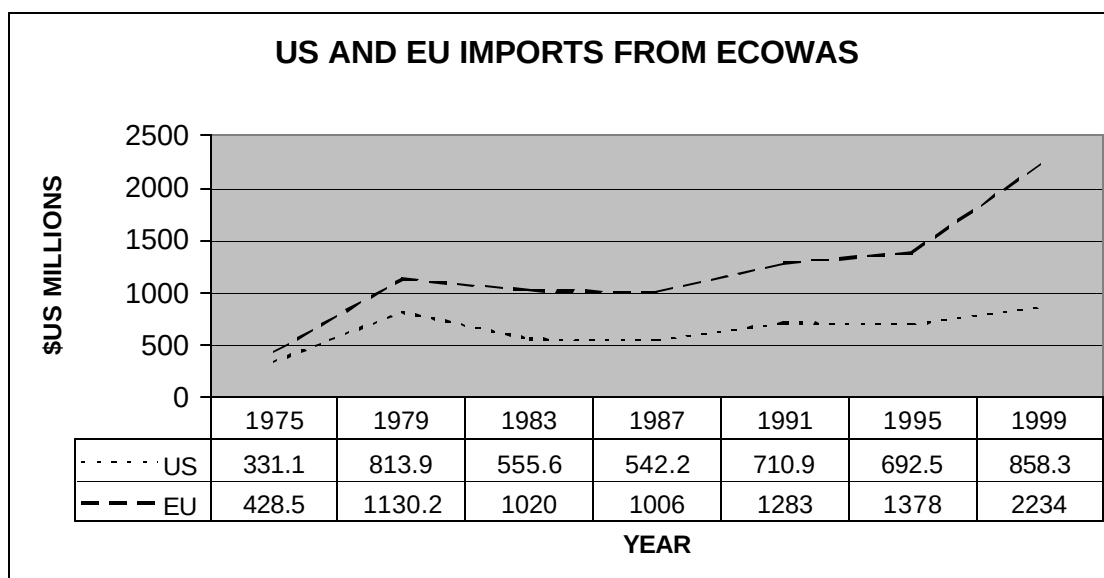
³⁷¹ *United Nations*, p. 88. The strictly “economic basis of peace” and cooperation in the West African border operation is underscored by the fact of what Agnes Lambert and Johnny Egg, in a joint presentation at the 1989 Lome Seminar, have appropriately referred to as “a flourishing border trade, which has played an important role in the creation of an integrated market involving all or part of several countries” in the subregion.

Table 7.1: Export Capital Flows in ECOWAS



Sources: Organisation for Economic Co-operation and Development, *Statistics of Foreign Trade, Monthly Bulletin*, Vol. 12, multiple years. Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

Table 7.2: Import Capital Flows in ECOWAS



Sources: Organisation for Economic Co-operation and Development, *Statistics of Foreign Trade, Monthly Bulletin*, Vol. 12, multiple years. Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

8. Asia-Pacific

a. *Political Background and Security Architecture*

The Asia-Pacific Economic Cooperation (APEC) group process seeks to liberalize trade in the region. The Association for Southeast Asian Nations (ASEAN) is a venture formed in 1994 for discussing security issues. Richard Ellings points out, “These are the two salient, multilateral experiments in East Asia since the establishment of ASEAN in 1967.”³⁷²

The Chinese and US economies are the two major ‘engines’ driving this [Asia-Pacific] growth. Chinese imports grew by more than 25 percent per year in 1992 and 1993. In a mutually beneficial relationship, trade with Southeast Asia is an important aspect of the US economy. American firms have invested more than \$108 billion in East Asia, and two-way trade between the United States and the Asia-Pacific region was \$425 billion in 1994. This amount was 36 percent of total US trade and was over 40 percent greater than US trade with Europe.³⁷³

Although there have been extraordinary improvements in the economics of the region in recent years, “rapid change within and outside Southeast Asia has recently increased the level of insecurity in the region.”³⁷⁴ Due to the rapid transformation of East Asian economies, both Europe and the United States have had to quickly adjust, especially to Japan, which became a great economic regional mover regarding exports, technological competition, and financial expansion.³⁷⁵ A great impetus to US and EU mercantilist

³⁷² Ellings, Richard J. and Sheldon W. Simon, eds. *Southeast Asian Security in the New Millenium*, New York: M. E. Sharpe, 1996, p. 4.

³⁷³ Ibid, p. 5.

³⁷⁴ Ibid, p. 4.

³⁷⁵ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 5.

tendencies — “Asian states fear being shut out of the North American Free Trade Agreement (NAFTA) as well as the European Union.”³⁷⁶

During George Bush Senior’s administration, National Security Strategy emphasized humanitarian interests rather than strategic security. US “optimism over the end of the Cold War obscures the fact that the United States faces an era of severe global economic competition for market share and national economic vitality.”³⁷⁷ This could not be a more overstated fact as the situation exists in the Asia-Pacific.

Southeast Asia is strategically important to the United States for three reasons: (1) its regional market is important, (2) it is a potentially unstable region due to intense economic and political competition between China and Japan, and (3) it is a strategic transit area for Middle Eastern oil.³⁷⁸ The contentiousness of US influence in the region stems from an Asian-Pacific affinity for multilateralism, which marginalizes the US tradition of bilateralism. Additionally, following the Cold War, the United States drew down from over 165,000 to 100,000 forward deployed forces in Asia.³⁷⁹ Therefore, “relations in Southeast Asia are no longer exclusively brokered through unilateral ties with the United States.”³⁸⁰

The parallel track of Asian Multilateralism lies in the political-security realm. Although America’s Cold War ended — originated bilateral security arrangements remain in place, their relevance for such new security concerns as the South China Sea island disputes, overlapping

³⁷⁶ Ellings, p. 14.

³⁷⁷ Butts, Kent H. *The Department of Defense Role in African Policy*, Strategic Studies Institute, Carlisle: Publications and Productions Office, March, 1993, p. 3.

³⁷⁸ Ellings, p. 6.

³⁷⁹ Cheng, Tun-jen and Hung-mao Tien, eds. *The Security Environment in the Asia-Pacific*, Studies of the Institute for National Policy Research, New York: M. E. Sharpe, 2000, p. 36.

³⁸⁰ Ellings, p. 7.

maritime exclusion economic zones (EEZs), and regional burgeoning arms buildups [are] now problematic.³⁸¹

As a declining hegemon, the United States can no longer sustain important political, security and economic positions in the western Pacific either unilaterally or bilaterally.³⁸² Ellings explains, “As a heavily indebted mature economy, [the United States] can not absorb the export surpluses that characterized Asian development in the Cold War era.”³⁸³ These concerns have great implications for future negotiations with regional markets in the Asia-Pacific.

Market forces have driven economic regionalism in the Asia-Pacific region, in contrast to Europe, rather than politics. The European Union evolved over a thirty-five year period through top-down political decisions with economies linked through negotiations among neighboring governments. Ellings relates, “In Asia, economic regionalism has been a product of market forces through which capital from Japan, the United States, and Europe has created linkages among Asian economies via transnational corporations and technology transfer.”³⁸⁴ Although Europe has developed a strong form of protectionism through its Union, Asia does not appear to be “sliding toward protectionism or inward looking regionalism.”³⁸⁵

China remains an open question. It is a rising power with enormous growth potential, “capable, but technologically backward” and “militarily incapable of power projection,” therefore; the provisional National Government of Cambodia is not a serious mid-term threat to Asia-Pacific stability. Tun-jen Cheng and Hung-mao Tien describe, “In the areas of trade, finance, energy, investment, and arms sales, as well as

³⁸¹ Ibid, pp. 14, 15. South China Sea disputes stem from overlapping claims by all littoral states plus Japan and Taiwan.

³⁸² Ibid, p. 15.

³⁸³ Ibid, p. 30.

³⁸⁴ Ibid, pp. 13, 14.

³⁸⁵ Ibid, p. 15.

education and culture, Beijing has demonstrated evidence of moving toward a more cooperative and complementary behaviour with its neighbors with each passing year.”³⁸⁶ The politics of energy in the region suggests growing Chinese interdependence.³⁸⁷ Russian Prime Minister Chernomyrdin visited China in 1997 and Beijing has since begun construction of natural gas pipelines from Russia. As payment in kind, China will undertake construction of a hydroelectric grid in the Russian Far East. Due to China’s dependence on Russia for oil, China appears to be modifying its notions of autarky and sovereign independence. The question of Taiwan also looms large. Essentially Taiwan will enjoy US-assured security in exchange for refraining from disturbing the Asian security environment. For Japan,

avoiding any collective security commitments in Asia became an *idée fixe* of postwar Japanese diplomacy ... [building] an elaborate set of policies to prevent Japan being drawn into any overseas commitments whatsoever. When the Japanese Self-Defense Forces (SDF) were organized in 1954, the Upper House of the Diet passed a unanimous resolution opposing their overseas dispatch. Subsequent prime ministers maintained the position that any collective security agreement would be unconstitutional. Other subsequent, complementary policies included the three non-nuclear principles, the three principles proscribing arms and military technology exports, and the limitation of one percent of GNP for defense spending.³⁸⁸

³⁸⁶ Cheng, p. 81.

³⁸⁷ Ibid, p. 82.

³⁸⁸ Ellings, p. 125. Immediately following the dissolution of Central and Eastern Europe, North America and Europe absorbed much of Japanese FDI, but Asia’s share grew rapidly. By 1991 Japan had become the largest foreign investor in Singapore, Hong Kong, the Philippines, and Thailand, and the second largest in Taiwan, Indonesia, and Malaysia. By 1992, Japan had invested \$19.6 billion in Asian Newly Industrialized Economies (NIES) and \$35 billion in ASEAN. Asian nations offered a growing market for Japanese goods. From 1986 to 1993 Japan’s trade surplus with Asian countries rose from \$16.4 billion to \$55.6 billion, exceeding its surplus with the United States for the first time.

Japan has expressed interest in taking a leadership role in the multilateral forum APEC group of regional economies, the nongovernmental Council for Security Cooperation in the Asia–Pacific (CSCAP) and the Asean Regional Forum (ARF).³⁸⁹

The greatest challenge facing the United States in Asia is balancing the critical need to sustain the US–Japanese security alliance with the equally compelling need to improve Sino–US and Sino–Japanese relations to avert a new Cold War in Asia.³⁹⁰

The Pentagon’s “East Asia Strategy Report” (EASR) is the most definitive pronouncement on overall strategy towards east Asia, which identifies three security goals: (1) to foster *Engagement*, which involves modernizing and strengthening current US alliances, (2) to promote *Enlargement*, which entails reaching out beyond traditional US friends and allies to China, Russia, and Vietnam; and (3) to conduct *Exploration* of new multilateral security initiatives. Despite such an ambitious strategy, Asia has still sought out Europe both as a result of the advent of the single market and the single currency, as well as the 1997 Asian financial crisis.³⁹¹

Europe has made many overtures towards the region in recent years. The European Union supported the Korea Energy Development Organization (KEDO), the energy substitution scheme for North Korea’s nuclear plants, thereby fostering “Economic Security” on the peninsula.³⁹² Europeans may have sought to balance the Asia–Pacific Economic Cooperation (APEC) group with ASEM, the Asia–Europe Meeting, a forum that fostered provisions for a greater European political presence and stronger political ties.³⁹³ ASEM may have been formed in 1996 in the hopes of leveraging Asian–European ties to allow Europe to compete economically with the

³⁸⁹ Cheng, pp. 37, 38.

³⁹⁰ Ibid, p. 39.

³⁹¹ Ibid, p. 202.

³⁹² Ibid, p. 208.

³⁹³ Ibid, p. 203.

United States. Cheng contends, “Europe is temporarily receding from strong policies and actions outside Europe, which are weakening on the eve of the crucial decisions regarding the euro currency; Europeans must come to terms with the notion that better relations with Asia can only be forged through political and security involvement in the broader sense.”³⁹⁴ Europeans may be coming to this understanding already in light of the European Union’s recent assistance in gaining China’s accession to the WTO.

b. Association of Southeast Asian Nations (ASEAN)

ASEAN was established in August 1967 to manage regional security interests, protect the region from big power rivalry, and provide a forum for the resolution of interregional problems.³⁹⁵ The nations of Southeast Asia have created the “ASEAN Regional Forum (ARF) to engage most of their Asia–Pacific neighbors for the first time in structured dialogue on broad–ranging Asian security issues,” expressed Cheng.³⁹⁶ ASEAN countries hope to mitigate Japanese dominance in the region through coalition-building and trade.³⁹⁷

ASEAN functions as a regional security regime or security community.³⁹⁸ In this capacity, ASEAN exercises the following regional missions: (1) to enhance the

³⁹⁴ Ibid, p. 209, 213.

³⁹⁵ McCormick, p. 25. ASEAN was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand, to accelerate economic growth, social progress, and peace and security in Southeast Asia. It was later expanded to include Brunei, and Vietnam and, most recently, Laos and Myanmar (Burma). Cambodia was scheduled to join in 1997, but its entry was delayed due to political turmoil in Phnom Penh.

³⁹⁶ Cheng, p. 37. The ARF consists of nine ASEAN states plus Australia, Cambodia, Canada, China, India, Japan, Papua New Guinea, Russia, South Korea, New Zealand, the United States, and the European Community. Taiwan continues to be excluded.

³⁹⁷ Edwards, p. 12.

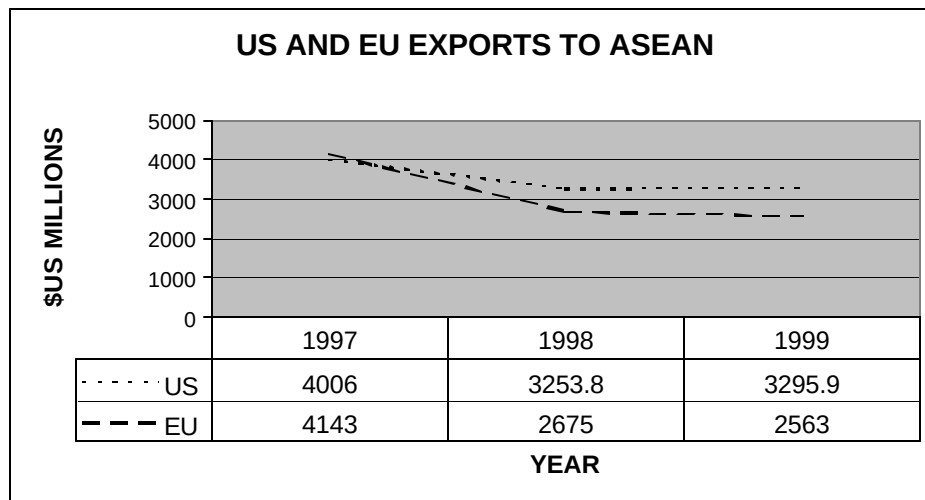
³⁹⁸ A regional security regime is a formal or informal arrangement for cooperation among adjacent or mainly adjacent states to maintain sovereignty in conditions of peace among themselves and with outside states.

welfare and security of member states, (2) to build mutual trust, (3) to solve regional problems jointly, (4) to collaborate with universal organizations to enhance ASEANs international status, (5) to regulate the presence of external powers, and (6) to develop a genuine Southeast Asia regional order.³⁹⁹

c. Economic Competition

Neither the United States nor the European Union holds a monopoly over the other in capital flows in ASEAN, but it is clear from Table 8.1 that the 1997 Asian crisis had an effect on export trends for both the United States and the European Union, whereas, import trends were not affected (Table 8.2). Tables 8.1.1 and 8.2.1 reflect the great US advantage over the European Union in export and import marketshare. In the Asia–Pacific countries, the onset of NAFTA may have had an effect for the United States in both exports and imports by drawing away US capital flows from the Asia-Pacific to NAFTA. Clearly, the Asian crisis is also reflected in this trend. Again, as in ASEAN, Tables 9.1.1 and 9.2.1 reflect only a slight US advantage over the European Union in Asia-Pacific marketshare.

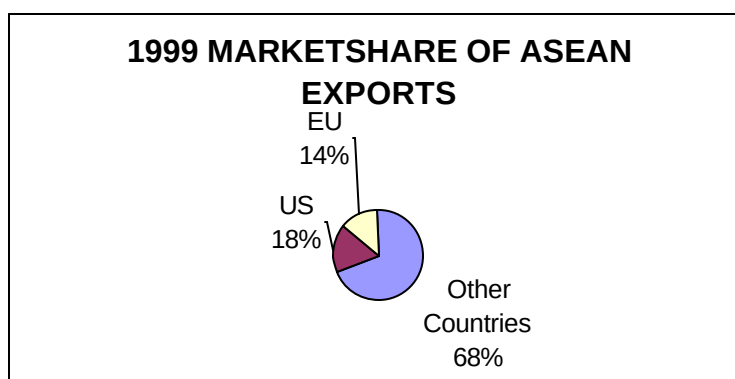
Table 8.1: Export Capital Flows in ASEAN



Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

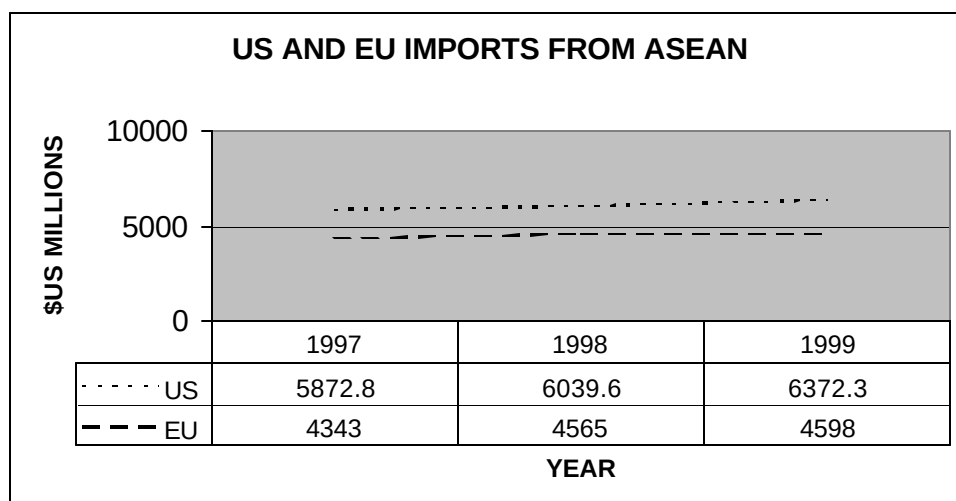
³⁹⁹ Cheng, p. 190.

Table 8.1.1: 1999 Marketshare of ASEAN Exports



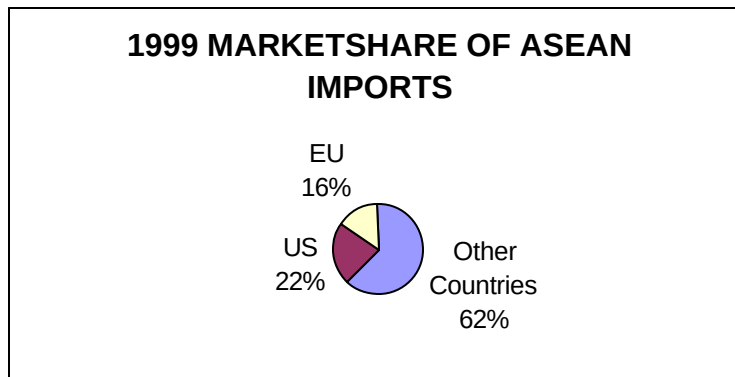
Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 8.2: Import Capital Flows in ASEAN



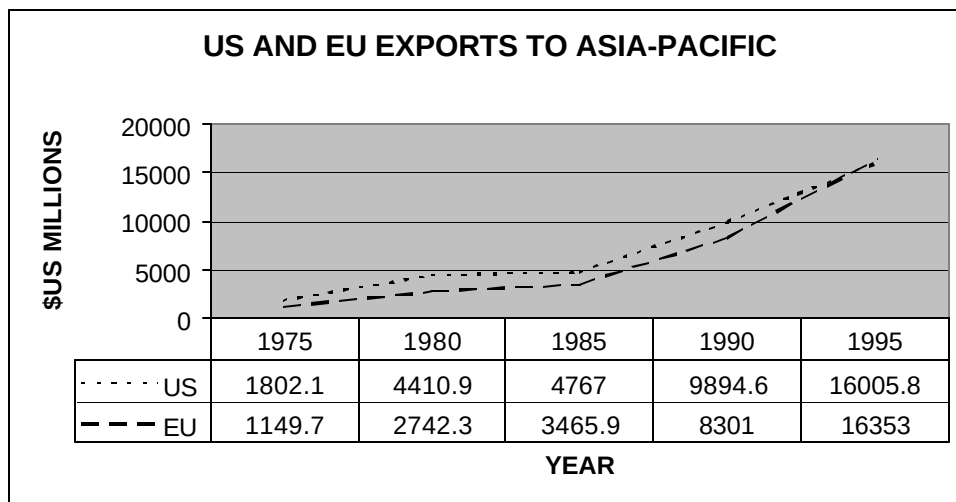
Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 8.2.1: 1999 Marketshare of ASEAN Imports



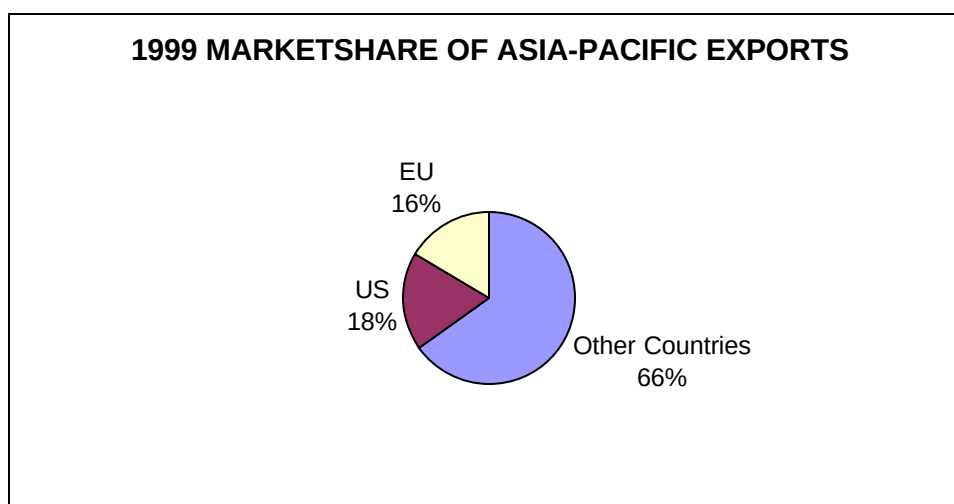
Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 9.1: Export Capital Flows in Asia-Pacific



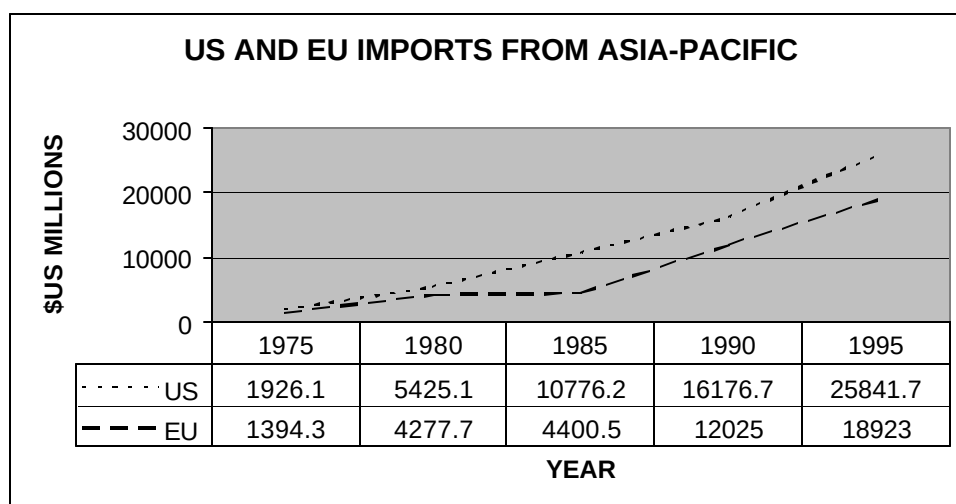
Sources: Organisation for Economic Co-operation and Development, Statistics of Foreign Trade, Monthly Bulletin, Vol. 12, multiple years. Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 9.1.1: 1999 Marketshare of Asia-Pacific Exports



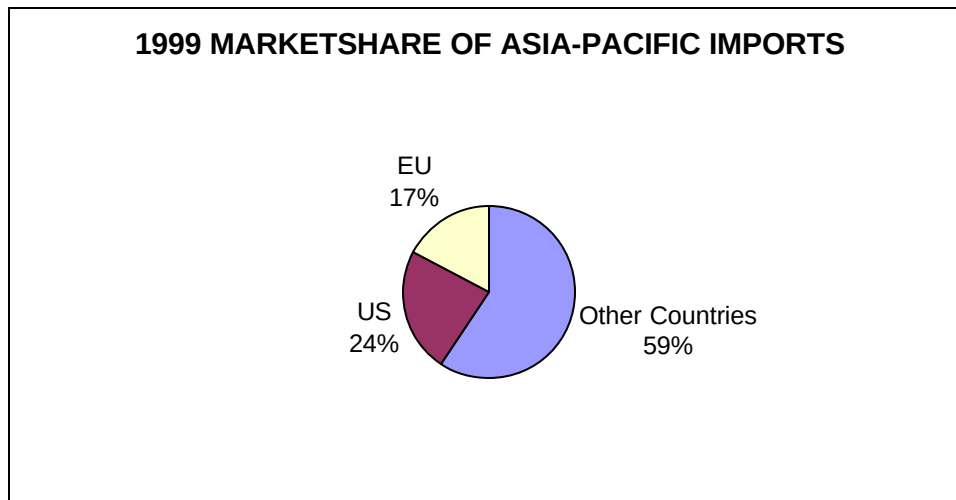
Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 9.2: Import Capital Flows in Asia-Pacific



Sources: Organisation for Economic Co-operation and Development, Statistics of Foreign Trade, Monthly Bulletin, Vol. 12, multiple years. Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 9.2.1: 1999 Marketshare of Asia-Pacific Imports



Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

9. Commonwealth of Independent States (CIS) ⁴⁰⁰

a. *Political Background and Security Architecture*

In December 1991, four months after the attempted coup against Soviet President Gorbachev, the CIS was created. Although the individual republics had declared their independence, claims Dianne Smith, “they still did not think of themselves as entities beyond the collective. Their ‘national’ security was that of the CIS.”⁴⁰¹

The Commonwealth of Independent States (CIS) is made up of most of the former republics of the USSR. The 12 CIS members function as independent states; however, a central authority, modeled on the European Union, has restricted authority

⁴⁰⁰ Commonwealth of Independent States includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

⁴⁰¹ Smith, Dianne L. *Breaking Away from the Bear*, Strategic Studies Institute, Carlisle: Publications and Productions Office, August 1998, p. 3. The attempt to create a purely Slavic union in Minsk on December 8, 1991, was short-lived; within 2 weeks the five newly-independent Central Asian republics—Kazakhstan, Tajikistan, Uzbekistan, Turkmenistan, and Kyrgyzstan, plus Armenia, Azerbaijan, and Moldova, agreed to join the CIS.

that includes establishing a common economic sphere and coordinating foreign and immigration policies, environmental protection, and crime fighting. A Joint Commonwealth High Command serves as the chief coordinating body of the CIS. Early collective security efforts were unsuccessful.

The first three CIS summits of 1992 in Moscow (January 16), Minsk (February 14), and Kiev (March 20) had failed to create a consensus on the form and substance of the new armed forces or to reach any agreement on a general CIS military budget, 'the bedrock on which any significant CIS military structure would have to stand'.⁴⁰²

Although the members adopted 13 documents at the Tashkent summit of May 1992, "the agreements did not produce a CIS collective security environment."⁴⁰³ The treaty resembled a "Central Asian security pact."⁴⁰⁴ The individual members, who were reluctant to form their own militaries, rather, opted to maintain "some type of unified command under Moscow."⁴⁰⁵

The reluctance of the Central Asian states to undertake the creation of their own militaries is not surprising, given their lack of a significant ethnic officer corps on which to draw, their interest in dedicating scarce economic resources to more pressing needs, and their general appreciation that they cannot effectively ensure their security independently.⁴⁰⁶

Nevertheless, Smith asserts, "once the Russian Federation decided to opt for a national force, one by one the other CIS states were forced to form their own as well."⁴⁰⁷

⁴⁰² Ibid, pp. 4, 5.

⁴⁰³ Ibid, p. 5.

⁴⁰⁴ Ibid, p. 5.

⁴⁰⁵ Ibid, p. 6.

⁴⁰⁶ Mandelbaum, Michael, ed. *Central Asia and the World*, New York: Council on Foreign Relations Press, 1994, p. 177.

⁴⁰⁷ Smith, *Breaking Away from the Bear*, p. 6.

There are two key security regimes in the Central Asian region, the Shanghai Forum and the Central Asian Union (CAU), which was established between Kazakhstan, Kyrgyzstan, and Uzbekistan in order to coordinate joint actions in economic reforms and foster economic integration. Since 1994, Kazakhstan also cooperates with China in the framework of the Shanghai Forum. This regional political grouping also includes Russia, Kyrgyzstan, and Tajikistan. Its main purpose is to provide a platform for discussions on regional issues.

The primary focus for CAU is oil and the routing of oil throughout the region. Kazakhstan is one of the richest countries in the world in terms of oil and gas reserves, but takes the lead in economic and security issues from Russia. The issue of pipeline routes is closely related with economic and security interests. While oil exports are key asset for Kazakhstan, all export pipelines are currently directed through Russia, including the new big pipeline from the Tengiz oilfields on the Caspian Sea to the Black Sea to the Russian port of Novorossiisk.

The United States refers to these 12 CIS countries as the Newly (or New) Independent States (NIS). The US security strategy for the CIS is shouldered primarily through the Organization for Security and Cooperation in Europe (OSCE), which provides the United States with a venue for developing Europe's security architecture in a manner that complements its NATO strategy. The United States relies on the OSCE to engage all the countries of Europe, the Caucasus, and Central Asia in an effort to advance democracy, human rights and the rule of law, and to encourage them to support one another when instability, insecurity and human rights violations threaten peace in the region.⁴⁰⁸ US interest in the region stems from a desire for stability and tapping the great oil resources in the Caspian. Bringing those reserves to market involves stabilizing the region. Smith insists, "The primary focus [for the United States] will be damage control to prevent existing problems from escalating into crises that might engage Russia, China,

⁴⁰⁸ *The White House*, "A National Security Strategy for a New Century," Office of the Press Secretary, January 5, 2000.

Iran, Pakistan, or India.”⁴⁰⁹ The focus must be on building democratic, free-market economies and developing infrastructure and pipelines.

The United States is more concerned that the region does not become the breeding ground of civil war, nuclear proliferation, radical Islamic movements, a battleground for Asian geopolitics, an ecological wasteland, an economic basketcase or the target of a resurgent Russian imperial vision. The geopolitical centrality of Central Asia — its spokes radiating out in all directions across a vital continent — is of considerable importance.⁴¹⁰

The Common Strategy of the European Union on Russia defines the vision of the European Union for its partnership with Russia. The EU common strategy is adopted pursuant to Title V of the Treaty of the European Union and four principal objectives for integrating Russia into the European security architecture:

(1) Consolidation of democracy, the rule of law and public institutions in Russia; (2) Integration of Russia into a common European economic and social space; (3) Cooperation to strengthen stability and security in Europe and beyond; and (4) [Meeting] common challenges on the European continent.⁴¹¹

⁴⁰⁹ Smith, Dianne L. *Central Asia: A New Great Game?* Strategic Studies Institute, Carlisle: Publications and Productions Office, June, 1996, p. 29.

⁴¹⁰ Ibid, p. 30.

⁴¹¹ Schroeder, Gerhard, *Common Strategy of the European Union of 4 June 1999 on Russia*, Official Journal of the European Communities, Cologne, June, 24, 1999, pp. L 157/1-L 157/3.

Figure 1: Commonwealth of Independent States (CIS)

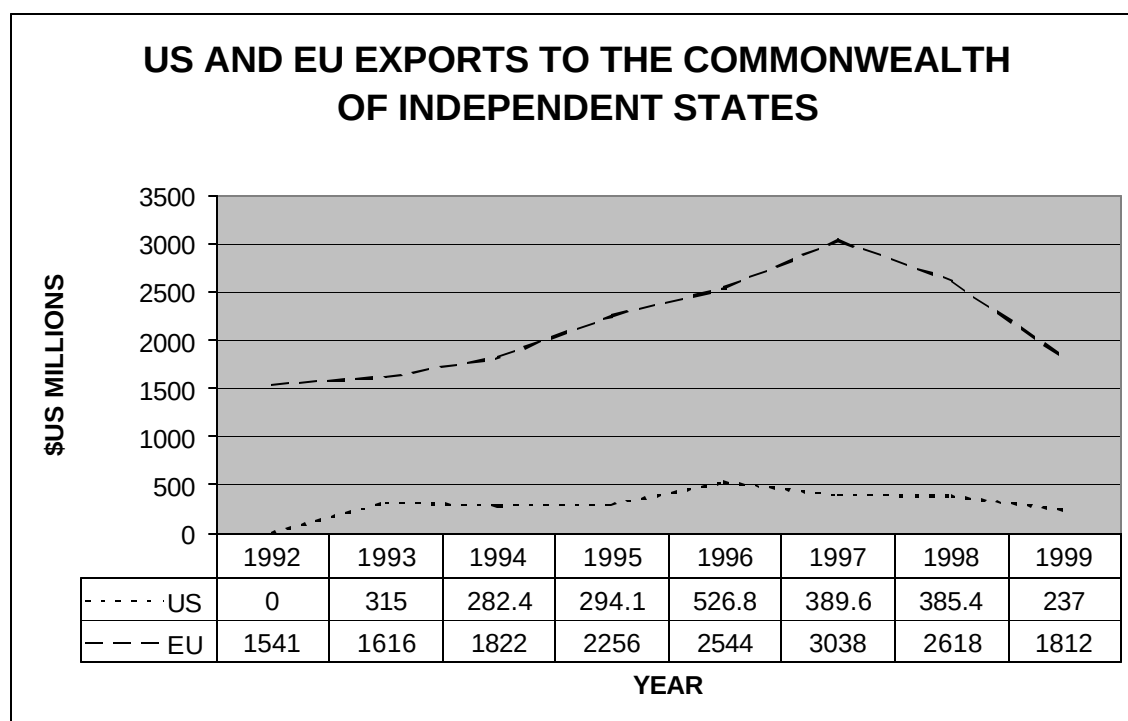


b. Economic Competition

Clearly, the European Union dominates the United States in terms of capital flows in and out of the CIS from its inception in 1991. The Russian Monetary crisis in August 1998 affected EU export and import capital flows, while the United States appeared unaffected due to less elasticity based on marketshare. In 1998, the United States actually gained the EU loss in import capital. Despite EU losses after 1998, Tables 10.1.1 and 10.2.1 show that the European Union dominates the CIS marketshare.

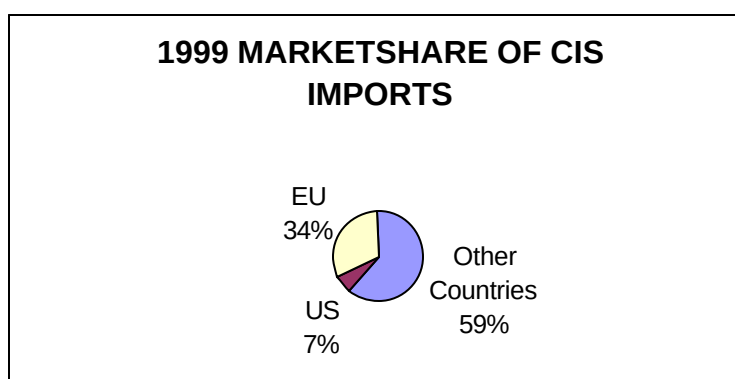
The impact of the Russian crisis resulted in a 70% devaluation of the ruble, failure of several major Russian banks, governmental debt restructuring, and withholding of all IMF loans targeted for Russia (Table 10.3). The effects of the debt crisis have yet to subside.

Table 10.1: Export Capital Flows in CIS



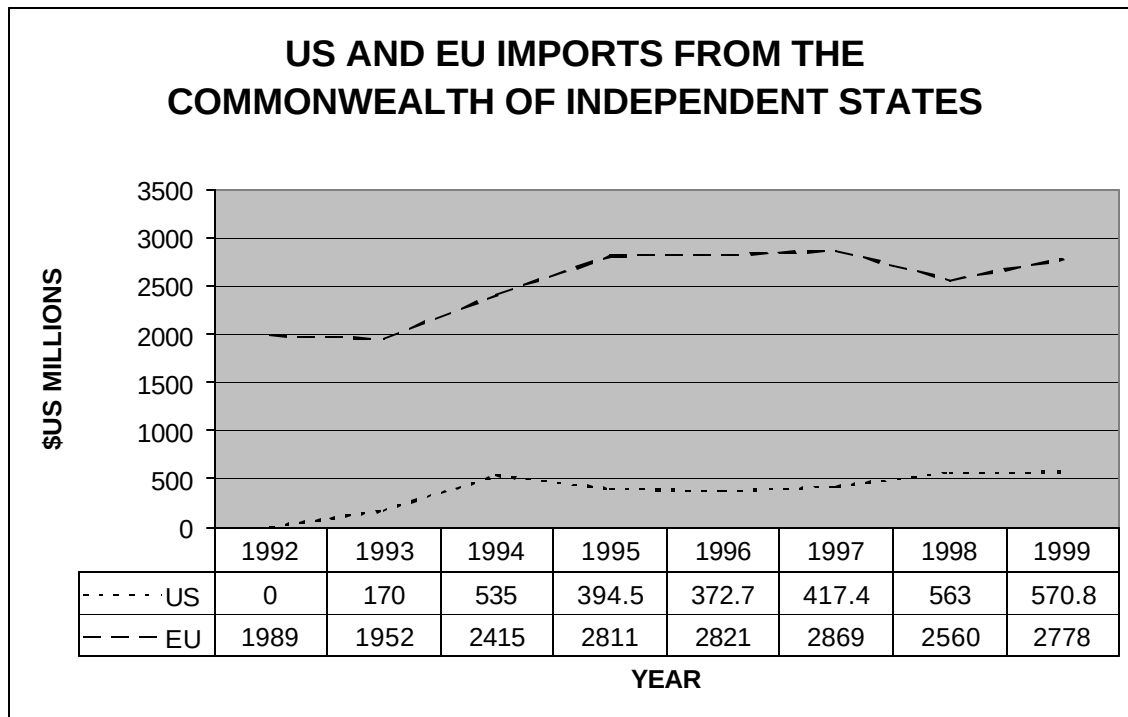
Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 10.1.1: 1999 Marketshare of CIS Exports



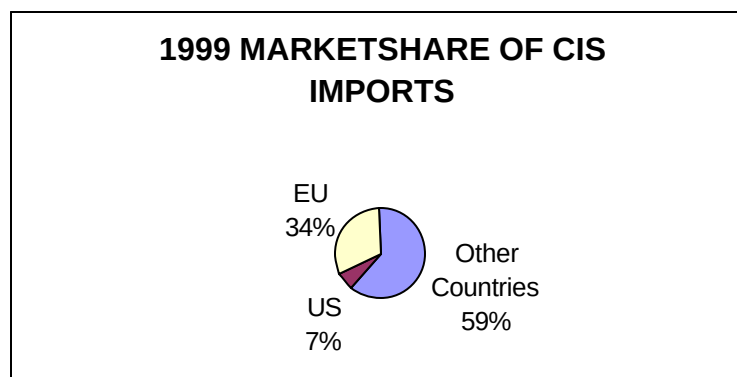
Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 10.2: Import Capital Flows in CIS



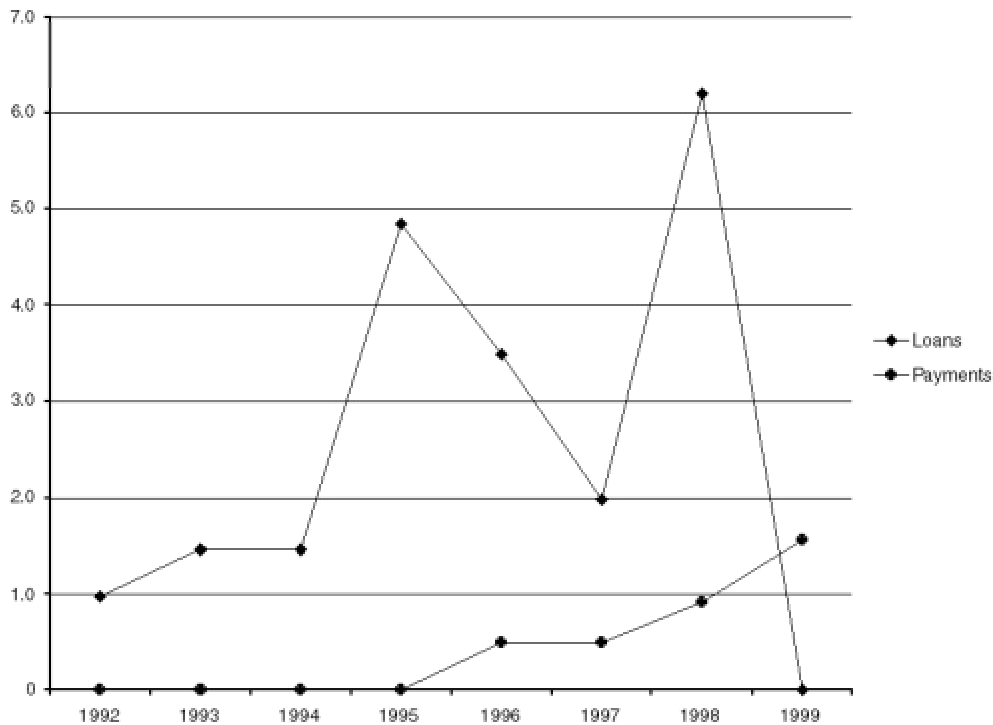
Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 10.2.1: 1999 Marketshare of CIS Imports



Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 10.3: IMF Loans to Russia, Jan. 1992 - June 30, 1999 in \$US Billions



Source: Constructed from IMF data. *Foreign Policy in Focus*, December 11, 2000.

10. Middle East⁴¹²

a. Political Background and Security Architecture

US leadership in the Middle East peace process has farreaching consequences for Arab willingness to work with the United States against Iraq and Libya, as well as its affects on European views towards American leadership.⁴¹³ Schulzinger reports, “An incident involving Britain in the eastern Mediterranean in early 1947 sparked a new approach to the Soviet Union. On February 21, the British government told the United States that it no longer would pay the upkeep on Greek and Turkish

⁴¹² The Middle Eastern countries include Yemen (1978), (After 1989) — Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, Iraq (1997), and Iran (1997).

⁴¹³ Haass, p. 236.

efforts at fighting domestic leftist uprisings.”⁴¹⁴ Although this circumstance may not have been surprising, American officials “did not mind their leaving the Middle East to the United States.”⁴¹⁵ The events in Greece and Turkey presented a blessing to the United States: in accepting a \$2 billion dollar loan, the “British had agreed that the currencies of their dominions would be fully convertible into dollars.”⁴¹⁶

After the 1967 war, Arab states decided that an oil embargo was a way to pressure the world and especially the United States to demand that Israel withdraw from the occupied territories. After studying the matter in 1967, however, the Arab League summit conference abandoned the idea....Just after the 1973 war, however, the decision was reversed and Arab states used oil for the first time to achieve strategic objectives.”⁴¹⁷

Economic turbulence of the 1970s created incentives for the United States to be less supportive of European policy than it had been previously and tempted European governments to make arrangements with oil-producing states that were at odds with their traditional deference to US leadership.⁴¹⁸

At the Copenhagen summit in 1973, the OPEC nations offered to open a dialogue with the European Community, therefore, “the Europeans found themselves in a dilemma,” because the Middle East and Mediterranean were strategically important, politically and economically, but the Europeans wanted to avoid the appearance of giving in to Arab

⁴¹⁴ Schulzinger, p. 207.

⁴¹⁵ Ibid, p. 207.

⁴¹⁶ Ibid, pp. 207, 208.

⁴¹⁷ Feldman, Shai and Abdullah Toukan, *Bridging the Gap: A Future Security Architecture for the Middle East*, New York: Rowman & Littlefield Publishers, 1997. “Although the US government did not participate directly in oil production or trade, it was the most influential actor in the system [in the 1950s-60s]. The United States had moved decisively during and after World War II to ensure that US companies would continue to control Saudi Arabian oil (George, p. 140).”

⁴¹⁸ Hoffman, Stanley and Robert O. Keohane, *The New European Community: Decisionmaking and Institutional Change*, p. 5.

pressure.⁴¹⁹ Edwards avows, “Washington followed the development of EPC [European Political Cooperation] with great suspicion, particularly in those cases where it threatened to interfere with American interest and viewpoints.”⁴²⁰

It is clear that the conflicts in the region have “fundamentally altered the economic structure of the region. States have been dissipating their national resources to buy weapons and build arms industries, thereby neglecting other sectors of their economies.”⁴²¹ In response to United Nations Security Council Resolutions 242 and 338, and building on the 1991 Madrid Middle East Peace Conference, particularly the Israeli-Palestinian Declaration of Principles and the subsequent Agreement on the Gaza and Jericho Area, and the Jordan-Israel Peace Treaty of October 26, 1994, regional participants signed the *Statement on Arms Control and Regional Security* in Round 6 of the Arms Control & Regional Security Working Group in Doha, 1-5 May, 1994.⁴²²

The Mitchell Report has highlighted the need for a freeze on Israeli settlements in the West Bank and Gaza as one requirement for ending the current violent conflict and resuming peace talks. The Report calls for a settlement freeze as a confidence-building measure that would follow a cessation of violence by both Palestinians and Israeli forces in the West Bank of Gaza.⁴²³

⁴¹⁹ Edwards, p. 58.

⁴²⁰ Ibid, p. 58.

⁴²¹ Feldman, p. 71.

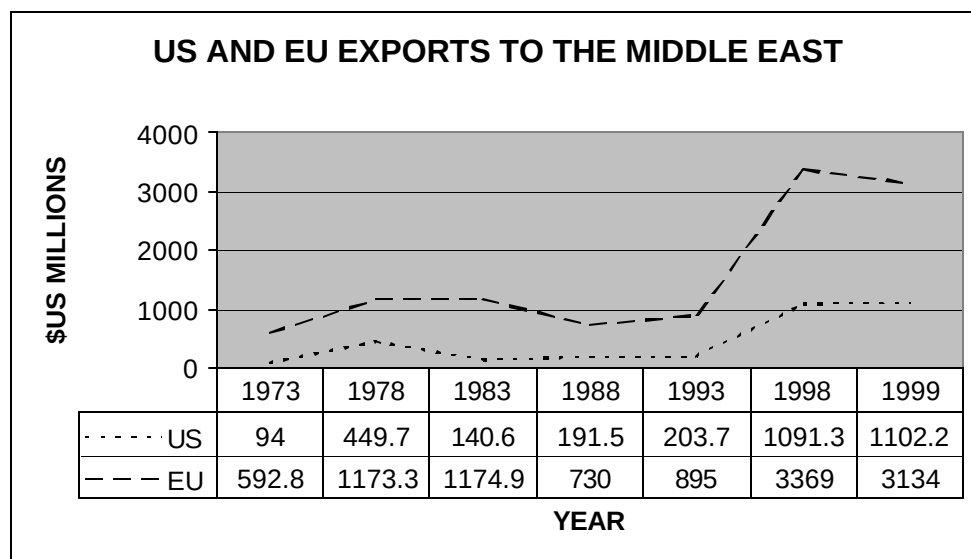
⁴²² *Foundation for Middle East Peace*, accessed at www.fmep.org/review.htm on June 21, 2001.

⁴²³ Ibid.

b. Economic Competition

The sharp decline for US and EU imports is certainly a function of the instability of the Middle Eastern region in 1978 and 1979 (Table 11.2).⁴²⁴ The increases in EU and US export and import capital flows from 1993 to 1998 may have resulted from the signing of the *Statement on Arms Control and Regional Security* in 1994, which provided stability for the region (Table 11.1). The relative demand for imports between the United States and European Union in 1993 may reflect the relative demand for oil by two relatively similar-sized populations (Table 11.2).⁴²⁵ Despite positive trends for the United States and the European Union in 1999, the European Union retains a 3 to 1 advantage in Middle East export marketshare (Table 11.1.1) and a 3 to 2 advantage in import marketshare (Table 11.2.1).

Table 11.1: Export Capital Flows in Middle East

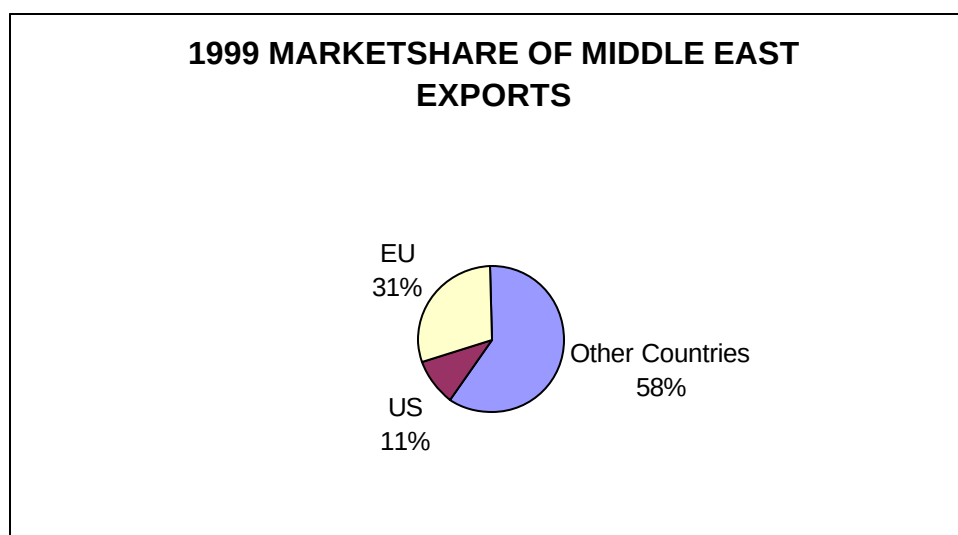


Sources: Organisation for Economic Co-operation and Development, *Statistics of Foreign Trade, Monthly Bulletin*, Vol. 12, multiple years. Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

⁴²⁴ *United Nations Security Council Resolution 425 (1978)*, accessed at <http://www.palestine-un.org/peace/frindex.html> on June 21, 2001. Appendix 3.

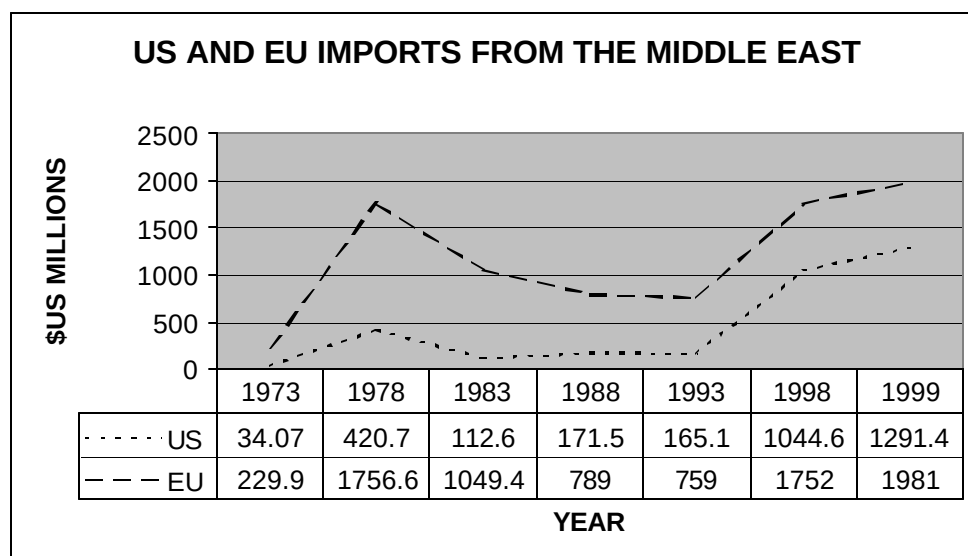
⁴²⁵ *World Bank*, accessed at www.worldbank.org/data/ on June 21, 2001. The EU population figure for 1995 was 290 million, compared with the United States — 264.8 million.

Table 11.1.1: 1999 Marketshare of Middle East Exports



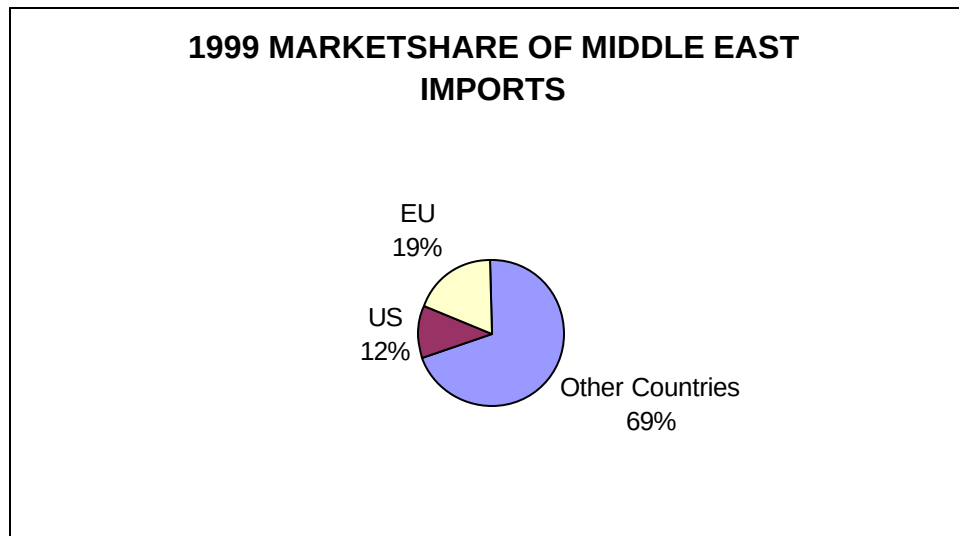
Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 11.2: Import Capital Flows in Middle East



Sources: Organisation for Economic Co-operation and Development, *Statistics of Foreign Trade, Monthly Bulletin*, Vol. 12, multiple years. Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

Table 11.2.1: 1999 Marketshare of Middle East Imports



Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

11. Latin America and Common Market of the South (MERCOSUR)

a. Political Background and Security Architecture

The economic and social development of Latin America since 1961 has been significantly influenced by external public financing.⁴²⁶ The General Secretariat acknowledged, “The external financing received by Latin America amounted to an annual average of nearly \$750 million for the period 1961–67.”⁴²⁷ The United States contributed about \$620 million as an annual average.

The prospects for regional security demand that Latin American countries adopt prudent measures with a continental scope, in accordance with the Inter-American Defense System. The most promising prospects for Latin American security fall within the confines of the FTAA.

⁴²⁶ *General Secretariat of the Organization of American States*, “External Financing for Latin American Development,” Baltimore: Johns Hopkins Press, 1971, p. 203.

⁴²⁷ *Ibid*, p. 204.

In the 1960s, the United States practiced a policy of regionalizing finance conditions and tying conditions to loan agreements.⁴²⁸ This practice is not uncommon today, with the IMF and the World Bank approving loans based on a number of principles, not the least of which align themselves with the *Washington Consensus*.⁴²⁹ It is important to note that the United States practiced regionalization of funding in the 1960s. Regional integration in Latin America centered around the Central American Common Market. In 1960, the Latin American Free Trade Association was formed, but dissolved by 1969, losing several members to the ANDEAN group.⁴³⁰ Although the focus from regionalization “began to change in 1985–86 when Argentina and Brazil started to concentrate on the reduction of barriers to bilateral trade,”⁴³¹ Latin America has a long history of market regionalization and for fostering economic security communities. In 1991, Argentina, Brazil, Paraguay, and Uruguay formed MERCOSUR, the Common Market of the South.⁴³² In 1996, both Chile and Bolivia joined MERCOSUR. One study

⁴²⁸ Ibid, p. 213.

⁴²⁹ Whitehead, Laurence ed., *Democracy and the ‘Washington Consensus*, World Development, Vol. 21, No. 8, 1993, p. 1329.

⁴³⁰ McCormick, pp. 22, 23. The Andean Community is an economic and social integration organization with an international legal status. It comprises the following countries: Bolivia, Colombia, Ecuador, Peru, and Venezuela, and the bodies and institutions of the Andean Integration System (SAI). Its early beginnings date back to 1969, when a group of South American countries signed the Cartagena Agreement, also known as the Andean Pact. The purpose of the Agreement is to promote the balanced and harmonious development of the Member Countries; accelerate the growth of the Andean countries and the creation of jobs; facilitate participation in the regional integration process with the aim of gradually creating a Latin American common market; help reduce the external vulnerability of the Member Countries and improve their position in the international economic context; strengthen subregional solidarity and reduce the differences in development that exist among the Member Countries; and define social policies oriented toward improving the quality of life of different subregional groups and improving their access to the benefits of development.

⁴³¹ Ibid, p. 24.

⁴³² Lindert, p. 226.

reflects that the MERCOSUR “will increase real national incomes by 1 to 2 percent.”⁴³³ Due to the success achieved by these Latin American countries and the experiences dealing with the US Bretton Woods regimes in the late 1970s and 1980s, “the Central American states wish to take their destiny into their own hands assisted by the EC/Twelve [today’s EU-15] to counterbalance the hegemonic presence of the United States.”⁴³⁴ MERCOSUR countries are greatly concerned with the prospects of loss in domestic monetary policy flexibility through dollarisation.⁴³⁵ Despite the claim that Latin America’s future does not lie with the dollar, Francisca Gil Diaz, a prominent Mexican economist, argues that Mexico “would benefit from monetary union with the United States,”⁴³⁶ due to observations involving Mexico’s close link to the US economy through NAFTA. Following from the Mexican example, Latin America may benefit through dollarisation with the introduction of the FTAA.

McCormick asserts, “The end of the colonial era in the 1950s coincided with the beginning of the process of European integration, so the relationship between Europe and its former colonies has been a key item on the agenda of integration almost from the beginning.”⁴³⁷ The European Union currently contributes about 3 percent of its budget in Developmental aid, adding to the much larger bilateral flows of aid from each of the member states.⁴³⁸

⁴³³ Ibid, p. 226.

⁴³⁴ Edwards, p. 12.

⁴³⁵ *The Economist*, January 6, 2001, p. 32.

⁴³⁶ *The Economist*, “Divided about the Dollar,” January 6, 2001, p. 32.

⁴³⁷ McCormick, p. 225.

⁴³⁸ Ibid, p. 226. the European Union provides financial aid to 71 African, Caribbean and Pacific states —the ACP states under the European Development Fund. Most EU aid goes to sub-Saharan Africa, but an increasing proportion is going to Latin America.

b. Economic Competition

The trends in imports and exports for the MERCOSUR market are not sufficient to draw conclusions, rather, speculatively, the European Union's continuance to increase ACP aid to Latin America could gain both build goodwill and trust with MERCOSUR countries (Tables 12.1 and 12.2). Tables 12.1.1 and 12.2.1 show that the European Union surpasses the United States in both export and import marketshare. A preponderance by Latin American countries to leverage the economic might of the European Union against the United States may be a trend that becomes the norm rather than a regional phenomenon.

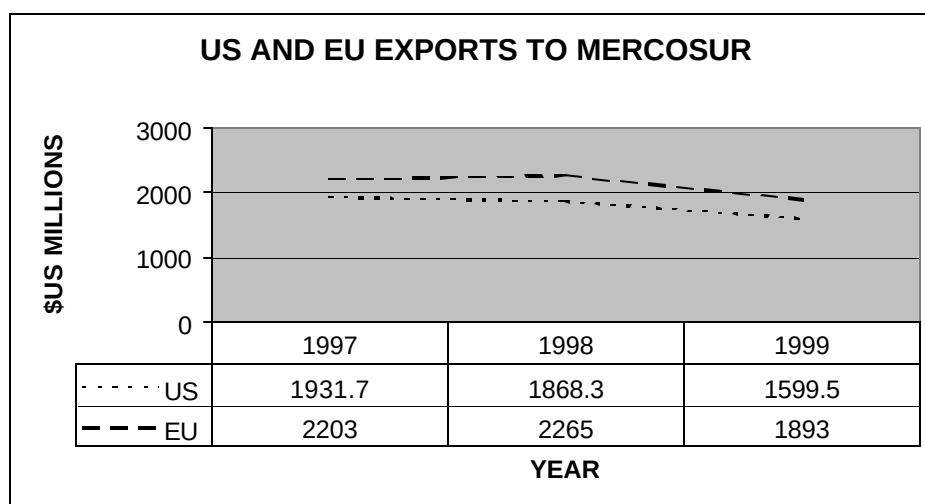
The dispute over bananas, for example, is often used as an indication of what happens to Lomé in the future. It shows that the concern of Latin American banana producers and American operators is more with the complex and discriminatory measures favouring EU and ACP producers and EU suppliers than with preferences themselves.⁴³⁹

However, "the *cross-subsidy* received by EU suppliers for importing traditional ACP and EU bananas and the discrimination in regard to services is what concerns the USA and the Latin Americans."⁴⁴⁰

⁴³⁹ *Lomé Infokit*, "EU-ACP Trade Provisions for ACP States: WTO Compatibility," March 1997, accessed at www.oneworld.org/ecdp/en/infokit/t6.htm, on June 21, 2001.

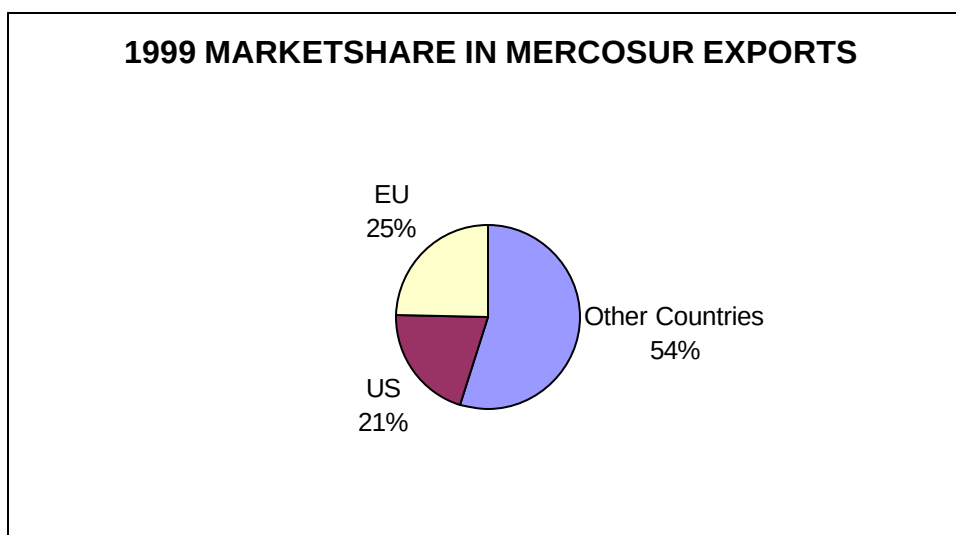
⁴⁴⁰ *Lomé Infokit*.

Table 12.1: Export Capital Flows in MERCOSUR



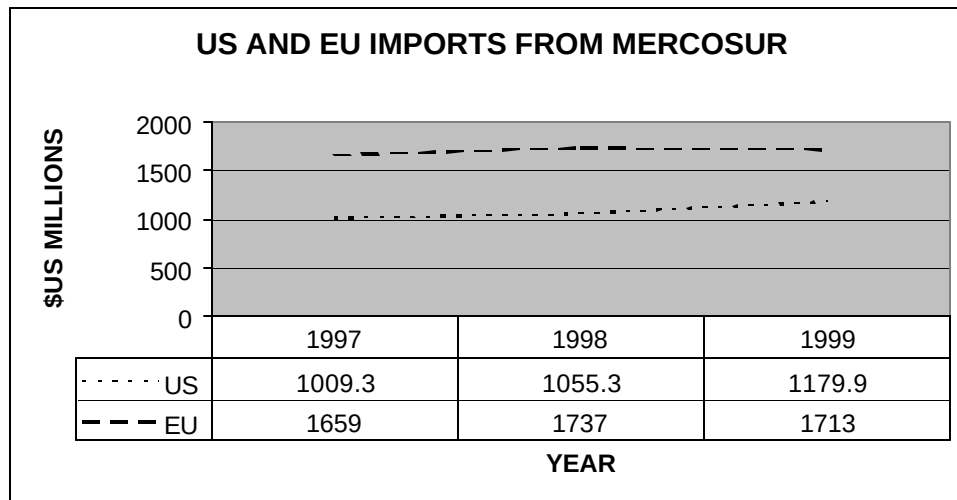
Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

Table 12.1.1: 1999 Marketshare of MERCOSUR Exports



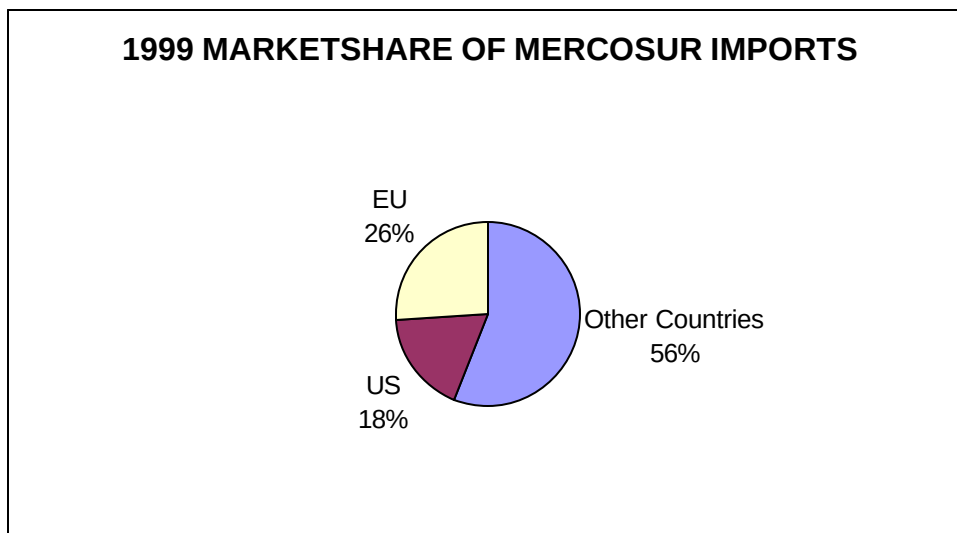
Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

Table 12.2: Import Capital Flows in MERCOSUR



Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

Table 12.2.1: 1999 Marketshare of MERCOSUR Imports



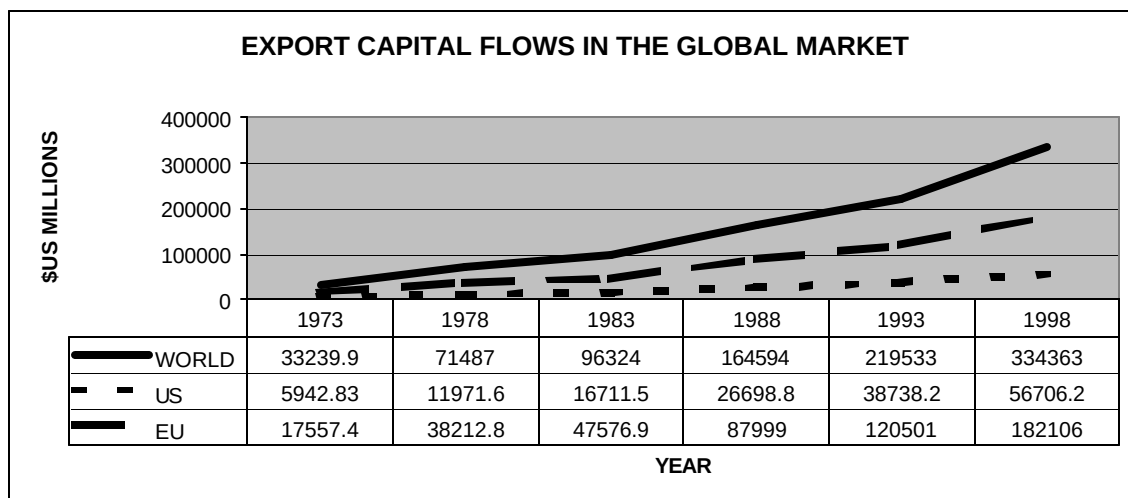
Source: Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

E. EUROPE ³/₄ GLOBAL PROTAGONIST

The European Union's trending growth in economic influence after 1973, and, more specifically, following Maastricht, threatens to change the status of the new

economic world order and suggests the arrival of a new threat to US hegemony in the unipolar international system. Europe's supranational experiment and the growing economic parity between the United States and the European Union threatens to have important consequences for the US-European security relationship.⁴⁴¹ The current trend in US loss of global marketshare and general decline in economic strength is alarming (Table 13.1 and 13.2). Laurence Krause reports, "The United States has been losing shares of total world export markets for much of the last quarter century."⁴⁴² Until 1973, the US economy was performing very well by its own historical standard, but the recent proliferation of democracies in Europe and the Asian Miracle has enabled potential rivals to US hegemony to surface.

Table 13.1: Export Capital Flows in the Global Market

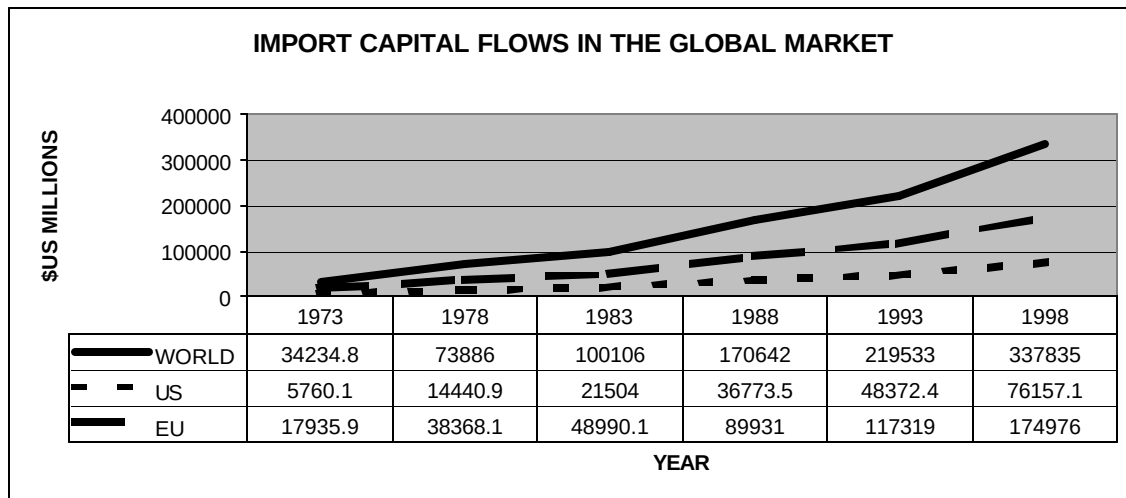


Sources: Organisation for Economic Co-operation and Development, *Statistics of Foreign Trade, Monthly Bulletin*, Vol. 12, multiple years. Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

⁴⁴¹ Cooper, et al, p. 20.

⁴⁴² Krause, Lawrence B. *US Economic Policy toward the Association of Southeast Asian Nations: Meeting the Japanese Challenge*, District of Columbia: The Brookings Institution, 1982, p. 37.

Table 13.2: Import Capital Flows in the Global Market



Sources: Organisation for Economic Co-operation and Development, *Statistics of Foreign Trade, Monthly Bulletin*, Vol. 12, multiple years. Organisation for Economic Co-operation and Development, *Monthly Statistics of Foreign Trade*, Vol. 12, multiple years.

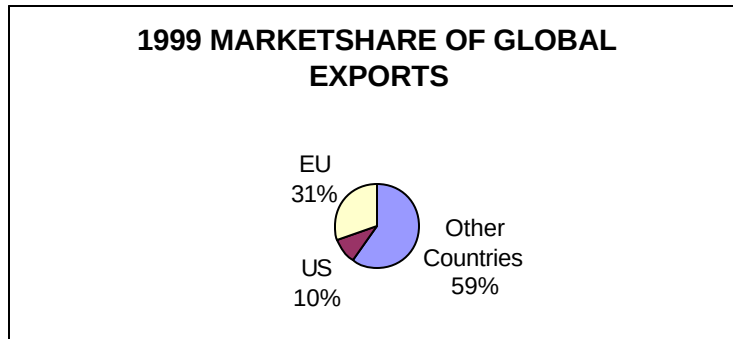
The United States does not compete well with the European Union in any regional market reviewed, except the Asia-Pacific and ASEAN. Even in NAFTA, the European Union has successfully approached the US marketshare in imports and has just over a third of the US export share. In ASEAN, the United States holds a slight advantage over declining EU export capital, but the import capital marketshares run neck-in-neck. In all other regional markets, the European Union has a greater marketshare. However, the European Union usually retains more volatility in each market, which is shown when responding to political or economic change in each region. By comparison (Table 13.1.1 and 13.2.1), regarding global export and import capital flows, the United States holds roughly one-third of EU exports (10%: 31%) and less than half of EU imports (14%: 29%). It is becoming increasingly clear, Krause contends, “economic hegemony of the United States over the world economy has ended.”⁴⁴³

In the past the United States has been active in initiating global international economic policies, but passive in responding to the policy actions of others. This position must now be reversed: the United States

⁴⁴³ Ibid, p. 66.

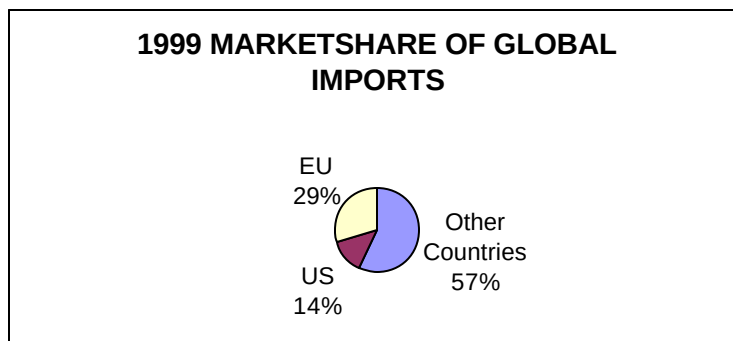
must exercise caution in initiating policy but be very active in adjusting its policy to events abroad and to policy actions of others.⁴⁴⁴

Table 13.1.1: 1999 Marketshare of Global Exports



Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

Table 13.2.1: 1999 Marketshare of Global Imports



Source: Organisation for Economic Co-operation and Development, Monthly Statistics of Foreign Trade, Vol. 12, multiple years.

The European Union has made great inroads to third countries through its ACP aid program. The European Union has become the single biggest source of official development assistance in the world, contributing 45–50 percent of the total

⁴⁴⁴ Ibid, p. 67.

developmental aid in 1998, compared with the 20 percent provided by the United States and the 18 percent by Japan.⁴⁴⁵

Lomé IV included an attempt to push EU policy in a new direction by adding a structural adjustment element to ACP aid; that is, it now encourages economic diversification in the ACP states rather than simply providing project aid. This has made the EU more like the International Monetary Fund or the World Bank as a significant actor in international economic relations.⁴⁴⁶

The building of goodwill will certainly reap dividends in regional markets in the future. The European Union must be careful, however, when tying political objectives to regional aid. As in the case with banana exports from former colonial holdings, the message for tying conditions to aid or cross-subsidies to imports is all too often lost.

In addition to its considerable economic influence, the exercise of Europe's Common Foreign and Security Policy has added immeasurably to its prestige in the international political arena. From environmental to organizational expansion debates, in recent months the European Union has become more vocal and involved in playing a leadership role in international power politics. In March 2001, Sweden's Foreign Minister Anna Lindh stated, "It's becoming clear that the new US administration wants to take a more hard-line approach toward North Korea. That means that Europe must step in to help reduce tension between the two Koreas, not the least because the outside world is so worried about North Korean missiles."⁴⁴⁷ In April 2001, the United States failed to achieve reelection to the UN Human Rights Commission for the first time since 1947, due in large part to French, Swedish, and Austrian exercise of their voting rights — sending a clear signal concerning European opposition to US practices of

⁴⁴⁵ McCormick, p. 226.

⁴⁴⁶ Ibid, p. 228.

⁴⁴⁷ *Washington Post*, "EU Seeks to Fill US Role in Koreas," March 25, 2001 accessed at <http://ebird.dtic.mil/Mar2001/e20010326euseeks.htm> on March 26, 2001.

unilateralism.⁴⁴⁸ In June 2001, Swedish Prime Minister Goran Persson challenged US resolve to forego the Kyoto Protocol.⁴⁴⁹ On the eve of the summit conference in June 2001 with Vladimir Putin, in Warsaw, President George W. Bush invited former Soviet controlled countries to join the European Union, as well as an expanded NATO.⁴⁵⁰ In Göteborg, the European Union reaffirmed plans to expand membership in 2004, despite European annoyance at Bush's bequest for such expansion. Candidate countries for the first wave of expansion include Hungary, Poland, Slovenia, the Czech Republic, Cyprus and Estonia.⁴⁵¹ The European Union has been instrumental in the entry into the WTO by China in recent months, but China's membership agreement has caused strife between the United States and European Union concerning life insurance companies and shares of Chinese ownership.⁴⁵² Cooper contended, "A more unified EC would become a more powerful economic adversary of the United States, complicating the search for international consensus and leading to less stable international economic and financial arrangements."⁴⁵³ This reality has come and, with it, another truth — a more unified Europe has hampered the US role in the international political arena.

The future role of the European Union as a key political contender for US hegemony in the international system has already been eclipsed by the reality of EU contention for global marketshare of capital flows, but the political reality is coming to fruition. The entry into the global arena of power politics by the European Union is clear.

⁴⁴⁸ *Time.com*, "UN Defeat Was a Message from Washington's Allies," May 7, 2001, accessed at www.time.com/time/world/printout/0,8816,108730,00.html on May 7, 2001.

⁴⁴⁹ *The Washington Post*, "Bush Clashes with EU Leaders," June 15, 2001.

⁴⁵⁰ Hutcheson, Ron, *President Promotes a Larger EU*, *Knight Ridder Newspapers*, June 16, 2001.

⁴⁵¹ Greimel, Hans, *Protesters Rally at Economic Summit*, *Associated Press*, July 2, 2001.

⁴⁵² Koppel, Naomi, *China Ready for WTO*, *Associated Press*, July 5, 2001.

⁴⁵³ Cooper, et al, p. 20.

In order to preclude further erosion to US prestige in the international community — both economically and politically — the United States must look closely at its transatlantic relationship and define a new political paradigm.

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VI. US POLICY IMPLICATIONS FOR A POST-COLD WAR WORLD

A. INTRODUCTION

Though overt hostility between the European Union and the United States does not seem likely, and one certainly does not anticipate that the consequences of mercantilist regionalism would extend to overt hostilities among the blocs, “relations could well turn harsh as conceptions of security diverge, security coordination dwindles, and economic bonds loosen.”⁴⁵⁴ Security and the desire to assure autonomy might reemerge as an issue in the relations among the great powers. This assertion is certain to manifest itself along economic lines and regional security structures. In this way, the United States must abolish its tendencies towards provincialism, unilateralism, and, to some extent, bilateralism. Richard Haass suggests, “The great issue of American foreign policy today is the contradiction between the persisting desire to remain the premier global power and an ever deepening aversion to bear the costs of this position.”⁴⁵⁵ In view of the successful achievement of the US pursuit for the democratic peace, the United States should refocus its efforts to building, rather than maintaining, its prestige in all power arenas — economic, political, and social. Recommendations for dealing with the European Union’s hegemony contention should include a strategy for dealing with the European Union in its most basic form — a trade bloc — and then in its more internationally accepted form — an incrementally growing, supranational, political structure — the EU polity. The differences are, in most aspects, mutually exclusive, though not in all cases.

⁴⁵⁴ Sandholtz, et al, p. 168.

⁴⁵⁵ Haass, Richard N. ed. *Transatlantic Tensions: The United States, Europe, and Problem Countries*, District of Columbia: Brookings Institution Press, 1999, p. 7.

B. DEALING WITH THE EU TRADE BLOC

As a trade bloc, the European Union has proven to be very successful, especially since 1973 with the onset of the WTO's Tokyo Round of negotiations. The 1973-1979 Tokyo Round of multilateral trade negotiations were characterized by realism, regarding the US and EC competition for ascendancy over the WTO regime.⁴⁵⁶ Realist competition continues to characterize US-EU relations within the WTO. Following a US-EU meeting at the WTO in Geneva on June 25, 2001, Peter Carl, the European Commission's general director for trade, and Deputy US Trade Representative, Peter Allgeier, announced the launch of a new "ambitious" round of trade negotiations at the upcoming ministerial in Doha, Qatar.

Allgeier spoke of a 'growing convergence between us [the United States and the EU] on issues of principle, on issues of organization, of substance and process'. We also see eye-to-eye with respect to certain basic principles such as the need for a balanced agenda for the inclusion of issues which are of sufficient interests to all members of the WTO.⁴⁵⁷

This acquiescence by Allgeier suggests US acceptance of EU parity of prestige within the WTO. A recent acquiescence by the European Union to allow the United States more time to comply with WTO anti-dumping laws suggests that the European Union may have attained ascendancy over the United States already. "EU Trade Commissioner Pascal Lamy said, 'I note with satisfaction that the United States intends to comply fully with the WTO rulings — and in this context, we are ready to give them a little more time if

⁴⁵⁶ Grieco, Joseph M. *Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism*, International Organizations, Vol. 42, No. 3, Summer, 1988, p. 3.

⁴⁵⁷ *Trade Directorate-General of the European Commission*, "EU and US Have as a Common Objective the Launch of a New 'Ambitious' Trade Round," Reference 118200, received by email June 27, 2001.

that is needed to resolve this question’.”⁴⁵⁸ The ascendancy of the EU position is further supported by the July 1st US decision to suspend the increased customs duties imposed on EU imports since the 1999 banana dispute.⁴⁵⁹ Since the implementation of the 1994 WTO Agreement, which provided the European Union with the equivalent votes-to-members (15), the ascendancy of EU prestige within the WTO has been without question. Together with the EU gain of prestige within the IMF (an organization housed within the UN System), the control of international monetary regimes has shifted toward an EU advantage regarding international monetary policy.

Rather than calling for “more countries in Europe,”⁴⁶⁰ the present administration should seek to enter into regional security structures and economic organizations on a multilateral basis, fostering experience and leadership when asked and assistance and know-how when needed. The reality of Europe is one of a regional trade bloc, which effectively functions as just that — a bloc, precluding economic entry and preserving European economic interests. The European Union may be a collective of democratic countries, but the collective first pursues its own economic — and now political — interests and then the democratic interests of the global community. Adding more countries to an already economically superior and competent trade bloc organization will only preclude the future development of US economic interests inside democratically developing, free market oriented countries. “By the end of 1999, the EU-15 direct investment in the United States amounted to \$624.8 billion — 63 percent of total foreign direct investments in the United States. Similarly, US direct investment in EU-15

⁴⁵⁸ *Trade Directorate-General of the European Commission*, “EU Agrees to Allow US More Time to Comply with WTO Ruling on Anti-Dumping Law,” Reference 118200, received by email July 25, 2001.

⁴⁵⁹ *Trade Directorate-General of the European Commission*, “EU Welcomes Suspension of US Sanctions Following Resolution of WTO Banana Dispute,” Reference 118200, received by email July 2, 2001.

⁴⁶⁰ *The Washington Post*, “Bush Clashes with EU Leaders,” June 15, 2001.

amounted to \$512.1 billion.”⁴⁶¹ By all accounts, the EU trade bloc has very effectively precluded US access to the EEA, Central and Eastern Europe, and CIS regional marketshares of capital flows. Further expansion of EU roles will only further preclude US access to these regional markets and effectively reduce US prestige, while bolstering EU marketshare and, consequently, political clout. This turn of events stipulates the firm potential for transatlantic friction in a number of arenas.

1. Economic Arena

The current trend in international economic policy within the WTO, IMF, and World Bank is *managed multilateralism*, but a realist examination of economic competition between state actors — the United States and the European Union (an economically-empowered supranational state actor) — reflect *regional rivalry*. The incongruencies between the approach by state actors and international monetary regimes leads to friction within the international economic order. The pursuit of regional rivalries could ultimately lead to the entrenchment of state actors into *regional autonomy*. The forging of the European Union itself can be construed as an attempt to diminish the interdependence of the European community nations on the US economy. The US trend from autarky to NAFTA to FTAA also depicts a trend toward regional autonomy. Clearly, managed multilateralism is the least provocative and most promising venue for continuing international economic development without leading to aggression from spillover into sociopolitical avenues. With this in mind, the United States should seek to redefine foreign and domestic fiscal policy, as well as the development of regional security architectures along the lines of managed multilateralism.

The recent EU investigation of the merger of General Electric and Honeywell has shed light on the reality that Europe can clearly reach into US domestic econo-politics, because of the interdependence in the US-EU aviation arena. With the threat of such

⁴⁶¹ *Europe*, accessed at www.eurunion.org/partner/usstates/usstates.htm on June 15, 2001.

action, the “potential for transatlantic friction in defense procurement is considerable.”⁴⁶² Therefore, the United States should establish trends to take into account transatlantic defense procurement, including procurement of US defense technology, further refinement of IMF and World Bank lending procedures to support developing nations, redefining US trade interest to preclude expansion of the European trade bloc, rather, the establishment of US bilateral ties with developing Eastern European and Central Asian countries.

2. Political Arena

The London Report of 1981, which predicted that third countries would express greater interaction with the European Community as European Political Cooperation intensifies and broadens has proved to be correct.⁴⁶³ Edwards suggests, “Political dialogue with regional groupings are special cases in this general framework.”⁴⁶⁴ Pascal Lamy stated that the consolidation of Mercosur will give Brazil and its partners in the regional grouping more political weight in international negotiations, lending weight to the prediction that the European Union would become an effective political actor with international regional groupings.⁴⁶⁵ With EU adoption of a strategy to promote core labor standards and social governance globally, the Union threatens to overtake the US historical leadership in the WTO by presenting the strategy at the next round of WTO negotiations in Qatar in November 2001.⁴⁶⁶

⁴⁶² Cooper, et al, p. 21.

⁴⁶³ Edwards, p. 188.

⁴⁶⁴ Ibid, p. 188.

⁴⁶⁵ *Trade Directorate-General of the European Commission*, “Lamy Sees Potential of Mercosur on Multilateral Stage,” Reference 118200, received by email July 10, 2001.

⁴⁶⁶ *Trade Directorate-General of the European Commission*, “Core Labour Standards: EC Adopts Communication Proposing EU Strategy,” Reference 118200, received by email July 18, 2001.

In 1975, the European Community undertook region-to-region political dialogue with the Group of African, Caribbean, and Pacific States (ACP), an organization of initially 66, now 71, states with which the European Union provides financial aid through the European Development Fund.⁴⁶⁷ The European trend of success with negotiating inter-regional cooperation between the Union and regional economic organizations continued in November 1978 with ASEAN. Mr. Genscher, then the Federal German Minister of Foreign Affairs, speaking as President-in-office of the European Community and the European Political Cooperation (EPC) at the General Assembly of the United Nations in 1978 stated,

This Europe of the Nine wants to be a centre of cooperation in the world, and it sees itself on the side of those who seek to create an order for that cooperation founded on equality and partnership....The European Community is founded on respect for the equality of all its members and on the principle of joint decision making. On the strength of these qualities and principles it can serve as an example for a global order giving all states, big and small, the same right and the same opportunity to play a part in the shaping of their common future. It can also serve as an example of the countries of a region forming an association and combining their efforts so as to accomplish the task at hand and to strengthen the independence, the political stability and the economic growth of a region. We are glad to see that the idea of regional association among states with equal rights is gaining ground in all parts of the world and we support this trend.⁴⁶⁸

In 1984, the European Community continued their tradition of political dialogue with the Contadora Group in seeking a political solution to the Central American Crisis stemming from civil wars in Nicaragua and El Salvador.⁴⁶⁹ In February 1988, the European Community extended this tradition to the “Rio Group,” enabling the

⁴⁶⁷ Edwards, pp. 192, 193.

⁴⁶⁸ Ibid, p. 189.

⁴⁶⁹ Ibid, p. 190.

participants to informally discuss Latin America's economic crisis and the problem of foreign debts.⁴⁷⁰

Group-to-group dialogue has proven a very successful venue for the European Union in implementing a European foreign policy.⁴⁷¹ The United States must develop a tradition of multilateralism in order to compete with the European Union's successful venue of group-to-group dialogue. In order to achieve a successful dialogue with regional economic associations, it will be important to supersede the turn-of-the-century charter of the United States Information Agency (USIA), affirmed by President Clinton:

To promote the national interest and national security of the United States of America through understanding, informing, and influencing foreign publics, and to broaden dialog between American citizens and institutions, and their counterparts abroad.⁴⁷²

It is necessary to deepen the dialogue and to pursue a stance, which presupposes to our would-be politico-economic partners that the United States does not hold a monopoly over knowledge. The United States could deepen and broaden its relations with regional economic organizations by courting a policy of multilateralism, rather than traditional bilateralism.

3. Social Arena

For more than three hundred years, the Americans and Europe have shared, to some extent, socio-cultural foundations. During the twentieth century, the United States

⁴⁷⁰ Ibid, p. 191. Argentina, Brazil, Columbia, Mexico, Panama, Peru, Uruguay, and Venezuela.

⁴⁷¹ Ibid, p. 196.

⁴⁷² *Foreign Relations Authorization for FY 1998-1999: US Information Agency and National Endowment for Democracy*, Hearing before the Subcommittee on International Operations and Human Rights of the Committee on International Relations, House of Representatives, One Hundred Fifth Congress, First Session, March 13, 1997, p. 9.

and European nations have fought together to decide the outcomes of two world wars and participated in the largest coalition in history, Desert Shield/Storm. NATO has, to date, been extremely helpful in keeping open and active the lines of political dialogue between the United States and its European partners, but falls short in supporting economic and social issues. Rather, the UN has long been the forum for environmental and humanitarian issues, as well as seeking out international solutions to the incongruencies between domestic and international politics of nation states.

Fundamentally, the United States and the European Union have different attitudes toward the role of the state and market intervention, which leads to distinct policy approaches towards two core domestic economic tenets — agriculture and steel production.⁴⁷³ Because complex interdependence is so prevalent, this incongruity often creates problems for the United States and the European Union regarding bilateral economic and trade relations. The emergence of regional security regimes suggests that group identification is becoming the norm, rather than the exception. The United States and Europe are distinct in many ways, but the foremost social distinction is found in terms of identity and, as a result, domestic politics.

C. DEALING WITH THE EU POLITY

From an economic perspective, the United States and the European Union are hurdling toward economic parity. From a political perspective, the European Union is lurching forward in the international system with an air of confidence, because it is a more or less unified polity exercising almost fifty years of cooperative experience. The United States, on the other hand, has exercised 225 years of bilateralism, a political stance which is quickly losing legitimacy in the international system today. The level of convergence of the European polity far exceeds the level that the United States will ever allow itself within NAFTA or the FTAA. Because the United States acts as a single entity, it will never have the experience of group-to-group political cooperation, which

⁴⁷³ Featherstone, Kevin and Roy H. Ginsberg, *The United States and the European Union in the 1990s, 2nd Edition*, New York: St. Martin's Press, 1996, p. 233.

the European Union is afforded by its very nature. In order to sustain its current level of prestige in the international arena, the United States must formulate a new multilateral paradigm.

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VII. RESEARCH CONCLUSIONS

A. REVISITING THE TOPIC

Since the consummation of the international system after 1648, the evolution of Europe has been unceasing. Following WWII and the implementation of a number of US-led regimes to reconstruct the international landscape, albeit in favor of US hegemony, Europe has emerged as an economic contender for US hegemony in the unipolar international system in the post-Cold War era.

B. REVIEW OF RESEARCH QUESTIONS

In the conduct of this research, this thesis has answered several questions, in order to recognize the rise of the European Union as a contender for US marketshare and political influence in regional world markets and to suggest implications for revising US foreign policy to respond to declining US influence in those world markets:

1. *How has the evolution of the European community of nation-states posed a new threat to US hegemony?*

Since 1973, the decline of US hegemony in the international system has been hyphenated by the undeniable ascendancy of the European Community as an economic, and more recently, since Maastricht, a political polity. The politico-economic polity of the European Union threatens US hegemonic contention with regard to economic marketshare and political prestige within regional world markets and their accompanying security architectures. This circumstance threatens to reduce US prestige and influence within the international system.

2. *How has the evolution of US domestic and foreign policy contributed to the weakening of US hegemony in the post-Cold War era?*

Although the United States established a number of the economic and political regimes following WWII, which reshaped and propped up war-ravaged Europe, the United States has lost its leadership role in many of the regimes since 1973 and more so since 1989. The Third World movement and the liberal use of voting privilege by third countries in the post-Cold War era has led to a weakening in US prestige within the UN, as well as European countries. Although the Western powers were clearly the victors in the Cold War, the sheer magnitude of their success brought to mind the question of the future necessity of the European defensive alliance — NATO. More importantly, the push by the United States to have the European Union include all of the newly independent countries of eastern Europe in its membership has precluded the United States from developing a sense of urgency in cultivating US-favored, bilateral and multilateral ties with those countries, including solid economic and political ties. This is threatening to become most apparent in Central Asia, where civil unrest will certainly threaten US-led counterterrorism efforts.

3. Has US-EU economic competition in regional world markets led to the development of competition within regional security architectures?

Without question, economic issues are tied to regional security architectures. The European Union has made great inroads to third countries through its very effective ACP aid program. The EU tactic of group-to-group cooperation in both economic and political arenas is a clear source of competition to the US bilateral style of trade and politics. By almost every account, with the exception of the Asia-Pacific and ASEAN, the European Union supersedes US marketshare. With the European Union's successful assumption of import and export marketshares in NAFTA, the European Union has successfully threatened to assume ascendancy within the US-led security architecture, thereby compelling the United States to pursue the FTAA to block further encroachment and to maintain marketshare. This will certainly become a trend in other regional markets as the European Union gains economic and political prestige through enlargement and engagement.

4. What are the implications for US economic and foreign policy for the post-Cold War era?

Put simply, the United States must continue to pursue a policy of managed multilateralism, rather than regional rivalry with the European Union. Although, in order to do so effectively, the United States must develop a new multilateral paradigm — one that will successfully compete with EU group-to-group cooperative management style. The United States must continue to pursue leadership roles within internationally-focused regimes, without taking its leadership role for granted. Likewise, the United States can no longer afford to be regarded as a *reluctant sheriff*,⁴⁷⁴ rather, as the United States is currently doing with regard to its leadership role in the war against terrorism, the United States must continue to seek out those roles, which it is uniquely qualified to fulfill. Whether it be an alliance, a coalition, or a posse, the United States must assert its leadership within a multilateral context and court the leadership of regional security structures in order to strike a firm balance between US interest and regional security needs. This is the policy that the United States must pursue to ensure continued US leadership and prestige in the international system of the 21st century.

⁴⁷⁴ Haass, Richard N. *The Reluctant Sheriff: The United States After the Cold War*, Council on Foreign Relations Press, 1997.

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