

THE STATE OF THE TRANSATLANTIC WORLD 2014



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About the Transatlantic Academy

The Transatlantic Academy is a research institution devoted to creating common approaches to the long-term challenges facing Europe and North America. The Academy does this by each year bringing together scholars, policy experts, and authors from both sides of the Atlantic and from different disciplinary perspectives to research and analyze a distinct policy theme of transatlantic interest. The Academy was created in 2007 as a partnership between the German Marshall Fund of the United States (GMF) and the ZEIT-Stiftung Ebelin und Gerd Bucerius. The Robert Bosch Stiftung and the Lynde and Harry Bradley Foundation joined as full partners beginning in 2008, and the Fritz Thyssen Stiftung joined as a full partner in 2011. The Joachim Herz Stiftung and the Volkswagen Stiftung joined in providing additional support in 2011, as did the Aurea Foundation and the Hungary Initiatives Foundation in 2013.

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**THE STATE OF THE
TRANSATLANTIC WORLD
2014**



Transatlantic
Academy

April 2014

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■ FROM THE EXECUTIVE DIRECTOR

As the Transatlantic Academy completes its sixth fellowship year and has developed a substantial network of over sixty former fellows, we have decided to publish the first of what we plan to be an annual survey of transatlantic relations drawing on the expertise and analyses of this impressive group. The Academy brings together scholars, policy analysts, journalists and practitioners from both sides of the Atlantic to examine themes central to the transatlantic relationship and to offer perspectives from both North America and Europe. Past themes have included immigration, Turkey's new foreign policy, the shift in global power away from the West, the competition for natural resources, and the challenges to the liberal order at home and on the international level. These themes and others are examined in this publication. We hope the reader will gain not only a sense of what of significance occurred in the transatlantic world in 2013 but what we should be looking for in 2014.

The past year in transatlantic relations was dominated by the revelations of Edward Snowden and the damage they have done to Europeans' trust in the United States. As a number of the commentaries point out, beyond the basic revelation that America is spying on its closest allies, the perception that the U.S. government is oblivious to the rights of citizens in allied countries and seems unconcerned about taking actions to change the situation has undermined trust and the sense that the Transatlantic Community is a value-based one. It risks undermining cooperation against terrorism as it has become clear that the National Security Agency's activities could not be linked to counter-terrorism alone, but reflected a distrust of such key partners as the German Chancellor and representatives of the European Union. It also carries real economic costs, especially to American information technology companies and possibly to the big transatlantic economic project, the Transatlantic Trade and Investment Partnership (TTIP). Talk of a separate European "cloud" is a metaphor for a deeper split and separation. The impact is most significant in Germany, which has clearly emerged over the past several years as Europe's indispensable power.

All of this occurred in the context of an announced Pacific pivot by the U.S., which unsettled many Europeans and followed warnings from leading Americans that Europe would have to play a larger role in its neighborhood

and beyond. As NATO looks forward to a post-Afghanistan strategy with a new leader, the Alliance and the larger transatlantic relationship are now confronted with the unfolding situation in Ukraine and the questions it raises for the West's approach to Vladimir Putin's Russia.

Beyond Snowden and Russia, the problem of a lack of Western cohesion and leadership remained a concern. Europe was on hold until the German national election and its long aftermath. It took three months to form a new government, but Angela Merkel remained Chancellor. While no major national elections are on the 2014 agenda, with the exception of Turkey, critical elections for the European Parliament (EP) are set for May, to be followed by a new European Commission and EU High Representative for Foreign Policy, as well as a new NATO Secretary General. The prospect of a major increase in anti-EU parties in the EP will have important implications for Europe. Immigration combined with continued slow to no economic growth is raising serious questions for not only the EU but even more its member states. Italy has a new government but has not resolved its political instability and seems likely to remain on the margins of Europe, while France has a weak President at home and has been marginalized in the EU but remains an important geopolitical player abroad. The U.K. faces a referendum on the independence of Scotland and remains a marginal player in the EU. So it comes back to Germany and whether the new Merkel government will be willing to play a more active leadership role.

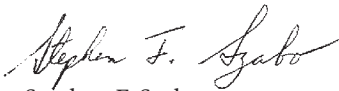
Given that the Academy spent a year on Turkey, it is not surprising that it gets a good deal of attention in this survey. Clearly, 2013 was a turbulent year in Turkey and reopened a lot of assumptions about that country's domestic stability and foreign policy, especially in the Middle East. Turkey will have three elections in 2014, but it is unclear if they will resolve a serious political crisis. Turkey has emerged weakened both at home and abroad with implications for its transatlantic partners, especially the United States.

Energy and natural resource supplies remain a main driver in shaping the transatlantic future. The combination of the North American energy revolution, the German *Energiewende*, and the new questions about European dependence on Russian gas and oil have fundamentally shaken up the strategic environment and have made energy a strategic tool. The development of gas and oil fields in the eastern Mediterranean has also begun to unblock the stalemate on Cyprus and opened up major possibilities in that region. Climate and environmental policy is also confronted with

new challenges regarding renewable energy sources and the climate implications of shale exploitation and increasing German reliance on American coal, not to mention the implications for Canada's relationship with the U.S., Asia, and Europe.

Finally, global challenges like immigration, development assistance and democracy promotion are clearly on the agenda. The creation of the European Endowment for Democracy may be an important step in promoting the liberal values of the West while immigration continues to challenge these values and remains a stalemated area on both sides of the Atlantic. The world beyond, especially in the Middle East, Africa, and Asia, remains afflicted with major difficulties — from resource scarcity to resurgent authoritarianism, from insurgencies to the specter of interstate conflict — which pose important challenges for transatlantic policy. While Europe and North America face major problems of their own, the transatlantic world still looks good in contrast to these regions and remains the hub of the global economy. How it handles its ambitious TTIP project will be one of the big stories to watch in the coming years.

Great thanks to Ted Reinert for editing and pulling this report together. Thanks as well to Academy interns Konstantinos A. Kanelopoulos and Leonie Willenbrink for their work on the timeline and the artwork, respectively, and to Jessica Hirsch for administrative support. Finally, the Academy would like to thank its partners and other donors for their continued support. The caliber of the contributors to this report is a testament to the continuing and building legacy of their confidence, ideas and encouragement.



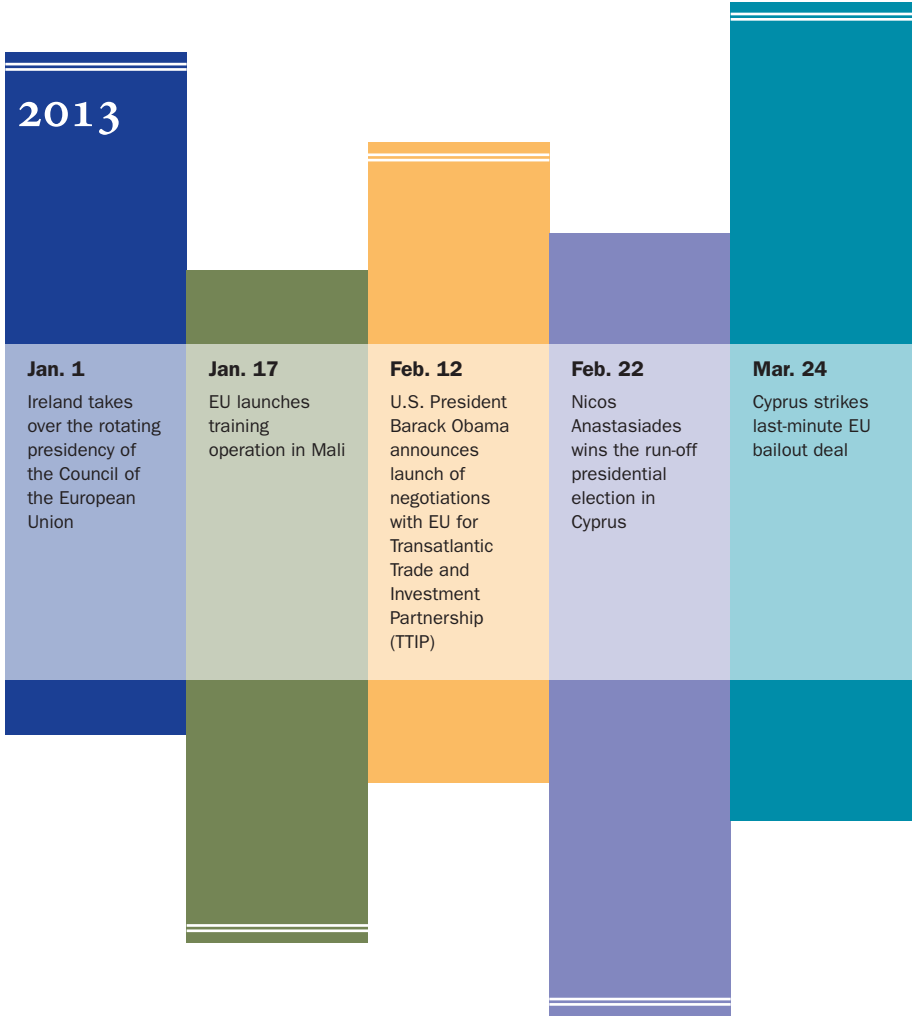
Stephen F. Szabo

Executive Director

The Transatlantic Academy

TIMELINE 2013–2014

– COMPILED BY KONSTANTINOS A. KANELLOPOULOS



Apr. 27

Enrico Letta forms a coalition government in Italy after weeks of political deadlock

May 28

Protesters in Istanbul, Turkey contest the urban development plan for Gezi Park

Jun. 11

Luxembourg PM Jean-Claude Juncker resigns over a spy scandal after 18 years in office

Jun. 17

U.S. and EU announce the official launch of TTIP negotiations at the G-8 summit in Lough Erne, Northern Ireland

Jun. 19

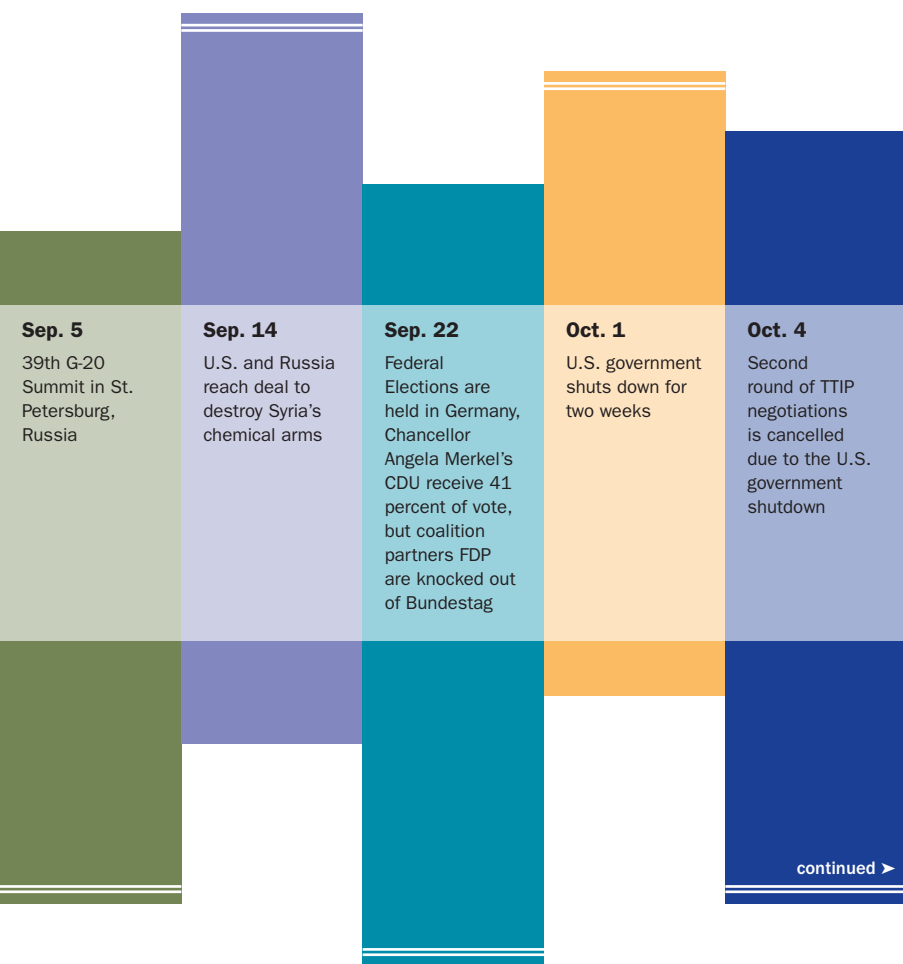
President Obama visits Berlin on the 50th Anniversary of President John F. Kennedy's "Ich bin ein Berliner" speech

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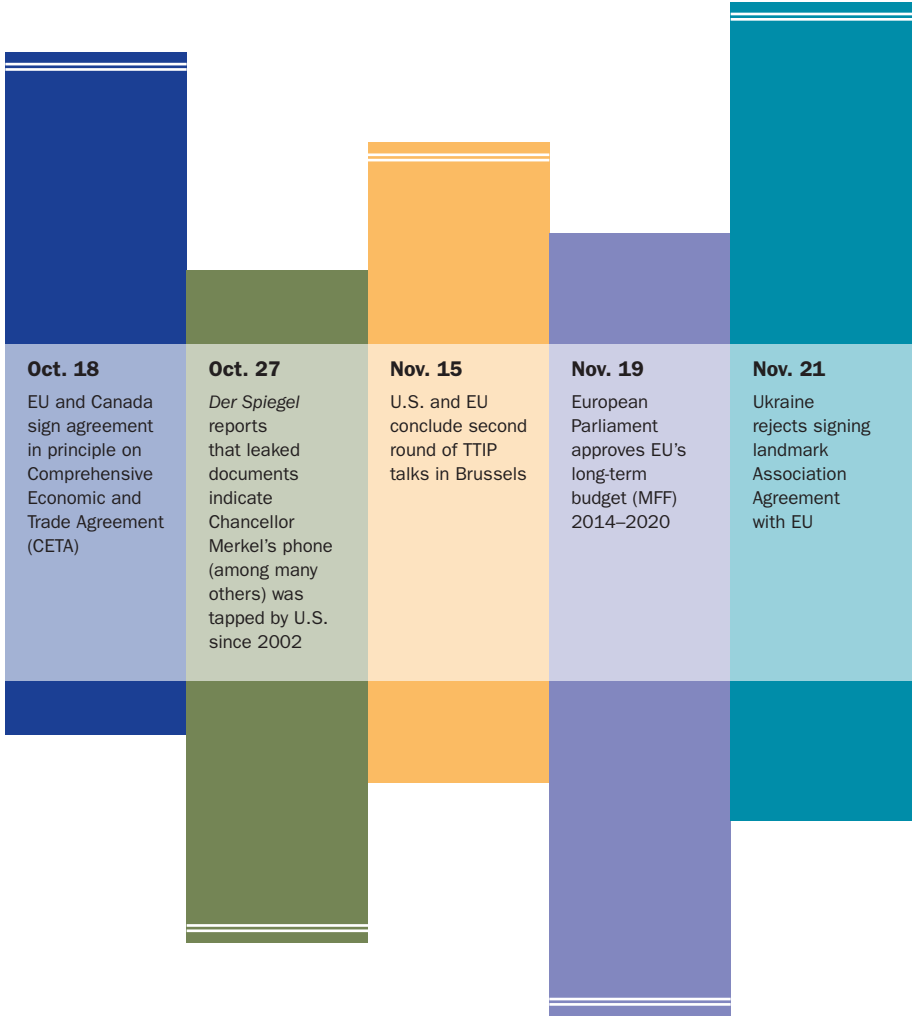


TIMELINE 2013–2014—CONTINUED





TIMELINE 2013–2014—CONTINUED



Nov. 22

“Euromaidan”: a wave of demonstrations begin in Ukraine demanding closer EU integration

Nov. 24

Major powers reach deal with Iran to freeze its nuclear program

Nov. 27

Angela Merkel forms German “grand coalition” government

Dec. 2

Greek Parliament approves construction of Trans-Adriatic Pipeline (TAP)

Dec. 15

The EU suspends talks with Ukraine on Association Agreement

continued ▶



TIMELINE 2013–2014—CONTINUED



Feb. 7

2014 Winter Olympics open in Sochi, Russia

Feb. 14

Italy's PM Enrico Letta resigns

Feb. 20

EU foreign ministers agree on sanctions against Ukrainian officials after at violence in Kiev leaves at least 26 dead

Feb. 21

Deal brokered by EU foreign ministers in Kiev in effort to end standoff is signed after at least 77 killed in three days; President Viktor Yanukovich leaves Kiev

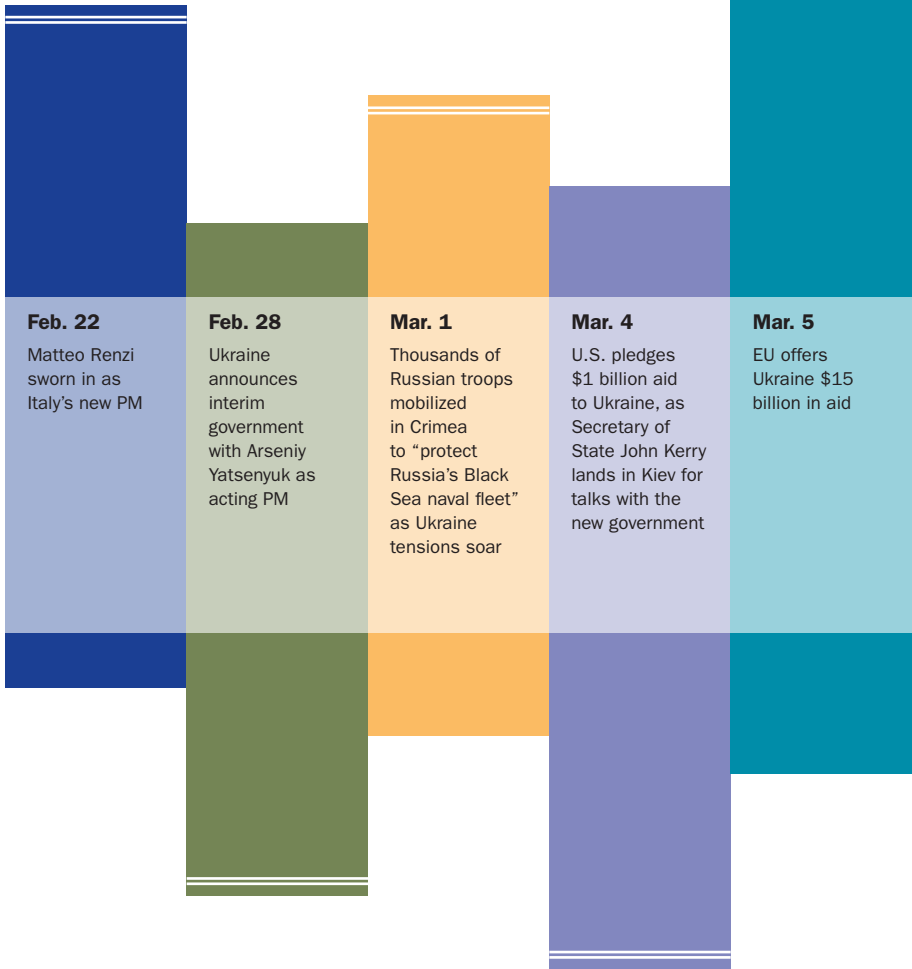
Feb. 22

Ukrainian Parliament votes to oust President Yanukovich; former PM Yulia Tymoshenko is released from detention

continued >



TIMELINE 2013–2014—CONTINUED



Mar. 16

In referendum, Crimea votes to secede from Ukraine and join the Russian Federation

Mar. 17

U.S. and EU announce sanctions against Russia

Mar. 18

Russia annexes Crimea and Sevastopol

Mar. 24

Nuclear Security Summit (NSS) takes place in the Hague

Mar. 25

EU-U.S. Summit in Brussels, Belgium

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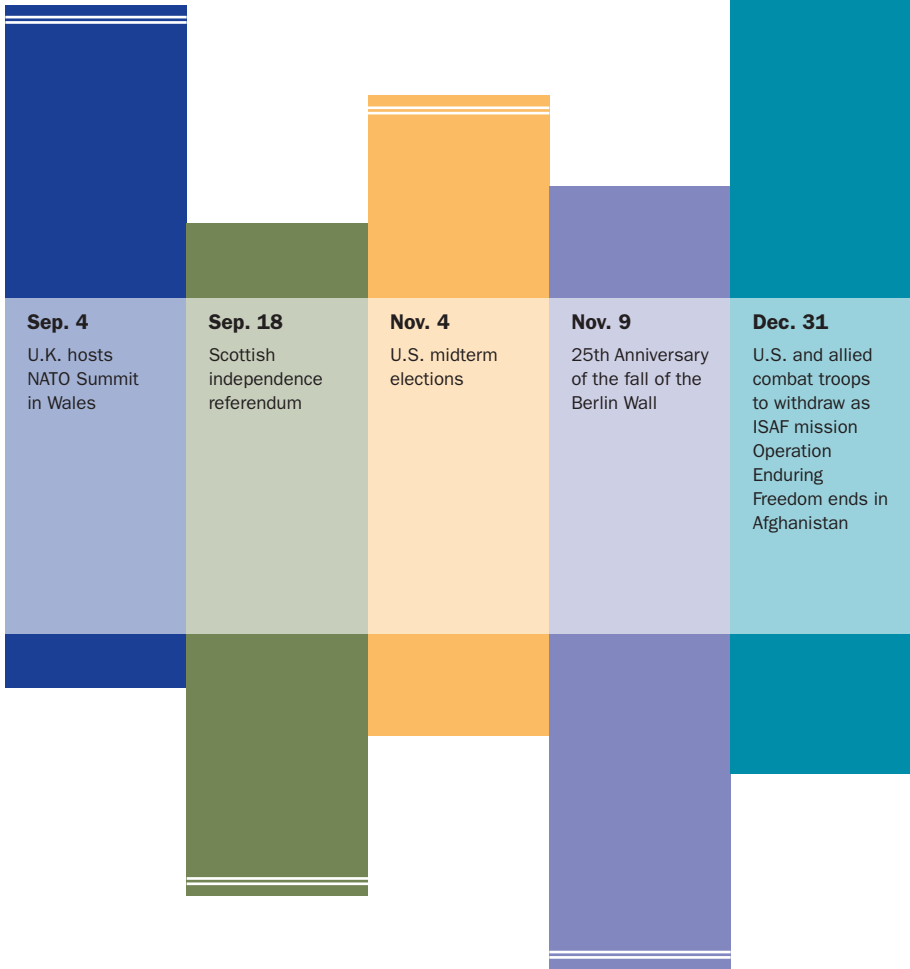
TIMELINE 2013–2014—CONTINUED



Jun. 28	Jul. 1	Jul. 1	Jul. 31	Aug. 2
100th anniversary of the assassination of Archduke Franz Ferdinand	First Plenary of the European Parliament's 8th Legislature (2014–19)	Italy takes over rotating Presidency of the Council of the EU	Anders Fogh Rasmussen's term as NATO Secretary General ends	Turkish presidential election
				continued >



TIMELINE 2013–2014—CONTINUED





WASHINGTON, BRUSSELS, AND BERLIN

THE OBAMA ADMINISTRATION AND THE ATLANTIC LINK



CHARLES A. KUPCHAN,
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2013–2014 Liberal Order in a Post-Western World

After years of strategic focus on the Middle East and East Asia, the United States has been pivoting back to Europe, prompted by Russia's bold grab of the Crimean peninsula from Ukraine. In a manner uncomfortably reminiscent of the Cold War, transatlantic diplomacy focused intently on the containment of Russian ambition and the imposition of costs on Moscow for its aggressive behavior. NATO began to beef up capabilities on its eastern frontier — a task that its newer members have been calling for since they joined the alliance. Albeit for an unfortunate reason, Europe is back in vogue in Washington.

The attention that the Obama Administration has recently been paying to Europe is not, however, altogether new. The successful conclusion of a transatlantic free trade pact has been a top priority since the opening of Barack Obama's second term. Indeed, Obama's discovery of the merits of Atlanticism took place several years ago — in the middle of his first term. The pivot to Asia — and the NSA scandal — notwithstanding, America's economic and strategic partnership with Europe has been flourishing during the Obama presidency. The transatlantic coupling has proved remarkably resilient, and is now even more so due to renewed concerns about the Kremlin's intentions.

To be sure, Obama's initial arrival in the Oval Office did prompt speculation that he would be a "post-Atlanticist" president. His multicultural background and his readiness to seek new partners beyond America's traditional allies suggested that a more diversified U.S. diplomacy was in the offing. Moreover, Obama was frustrated by Europe's unwillingness to do more in Afghanistan, its embrace of economic austerity when Washington was calling for more fiscal stimulus, and an EU that seemed to be spending

more time sorting out quarrels among its member states than addressing global challenges.

Well aware of Washington's impatience, Europeans worried that Obama might forsake the Atlantic link in favor of a "G-2" — a global condominium between the United States and China. At a minimum, EU member states were anxious that Washington was losing interest in the Atlantic connection.

Such anxieties, however, soon proved to be unwarranted. Washington discovered that working with China, India, Turkey, and other rising powers was tougher than initially expected. It soon became apparent that Europe, despite the inward preoccupations resulting from its financial crisis, remained America's go-to partner for addressing most international challenges. As Obama explained in a *New York Times* op-ed in advance of the 2010 NATO Summit in Lisbon, "our relationship with our European allies and partners is the cornerstone of our engagement with the world, and a catalyst for global cooperation. With no other region does the United States have such a close alignment of values, interests, capabilities, and goals." In May 2011, Obama spent a full week in Europe, primarily to stress the enduring value of the Atlantic link.

Obama's focus on Europe in his second term is thus a sign of continuity, not change. The priority assigned to negotiating a free trade pact with the EU is novel, but that move is aimed at stimulating growth and demonstrating transatlantic solidarity; it will not come at the expense of U.S. engagement in East Asia. Indeed, the United States is simultaneously pressing ahead with the Trans-Pacific Partnership, and the successful conclusion of an Atlantic trade pact could well help convince nations in other regions that they too need to tap into the benefits of trade liberalization. Market-opening deals across the Atlantic and the Pacific may be just the medicine the global economy needs to get back on its feet.

In response to the crisis in Ukraine, some gaps in transatlantic perspectives did appear, with the EU somewhat more reluctant than the United States to confront Moscow with economic sanctions. But on balance, this most recent bout of Russian adventurism will do more to strengthen than weaken the transatlantic link by reawakening concern about the need for strategic solidarity to counter more traditional geopolitical threats.

For both Americans and Europeans, transatlantic solidarity has traditionally produced an outward-looking perspective rather than a fortress mentality.

The same is true today. Europe and the United States have both been internally preoccupied as they have confronted economic sluggishness and political malaise. Should transatlantic teamwork succeed in stimulating growth and consolidating strategic cooperation, the result will be greater activism and internationalism on both sides of the Atlantic. As the saying goes, the United States is not pivoting away from Europe to Asia, but pivoting with Europe as both deepen their engagement in Eastern Europe and the Asia-Pacific.

The old debate in the United States between “Europe firsters” and “Asia firsters” is today a historical artifact. Washington will for the foreseeable future continue to nurture its special partnership with Europe, even while Asia day by day looms larger in America’s — and Europe’s — economic and strategic future.

THE LONG TAIL OF THE SNOWDEN SAGA



MARK LEONARD,¹
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Bosch Public Policy Fellow, 2012–2013 *The Democratic Disconnect: Citizenship and Accountability in the Transatlantic Community*

The National Security Agency (NSA) scandal over phone tapping in Europe was the biggest story in transatlantic relations in 2013. Although the initial fuss has died down, the public outrage that the affair has spawned could potentially be more damaging to the transatlantic relationship than the Iraq War was a decade ago.

If it was all up to leaders, it might be easier to manage the fall out. After all there have been few concrete implications since Edward Snowden’s revelations were made. But governments — along with their intelligence services — are increasingly boxed in by a public opinion that can be easily mobilized, and that no longer has the reflexive Atlanticist identity that its predecessors had. It’s not the spying or the lying that European citizens find most hurtful. It is the perception that U.S. agencies are as oblivious to the rights of allies as they are scrupulous at upholding the rights of their own citizens.

Seen from Europe, the NSA saga is another episode in the long-running story about the asymmetry of power across the Atlantic. A decade ago, the fight was about Iraq. In an influential essay, Robert Kagan saw Europe and America as archetypes for power and weakness. “Americans come from Mars and Europeans from Venus,” he said. But President George W. Bush’s invasion of Iraq did not “shock and awe” the rest of the world into submission. It was, in fact, a graphic illustration of the limits of American power, accelerating the arrival of what Fareed Zakaria called a “Post-American World.”

¹ This piece is adapted from an article that was first published by Reuters.

Kagan was honest enough to admit, after the Iraq War, that Europeans helped rein in American behavior by challenging its legitimacy. “If the United States is suffering a crisis of legitimacy,” Kagan wrote, “it is in large part because Europe wants to regain some measure of control over Washington’s behavior.”

The Franco-German response to the hegemony of the NSA has echoes of their response to the “Global War on Terror.” European citizens were not shocked that the NSA spies, but they were surprised by the power and reach of American intelligence.

When I interviewed José Ignacio Torreblanca, a Spanish foreign policy expert, he compared the NSA’s approach to data to the Library of Congress’ approach to books. When he asked a librarian about the Library’s acquisitions policy, he learned that it didn’t have one. “We just buy everything,” the librarian told him. He compares this approach to the NSA probing the emails of all European citizens and justifying the purpose afterward.

One of the few unwritten laws in international politics is that when a country reaches a level of power that is out of control, other countries will come together and balance it. Although American power in other spheres is subsiding, it remains supreme in the intelligence world. What is more, two European institutions — the unelected European Commission and the unloved European Parliament — have the power and the incentive to try to take on the region’s closest ally.

The most obvious possibility for this is cooperation on counter-terrorism. After the revelations surfaced, the European Parliament voted to suspend the SWIFT agreement, which governs the transfer of some bank data from the EU to anti-terror authorities in the United States. Although the U.S. does not always take Europe seriously as a military power, it does care about cooperation on data-sharing and the regulations that govern it — including bank data. This is one reason why the former American ambassador to the EU, William Kennard, was the former chairman of the Federal Communications Commission (FCC).

As the latest revelations show, Europe’s intelligence agencies have often been willing co-conspirators with their counterparts across the Atlantic, but they will now be under much stronger public pressure not to comply.

There could be commercial implications to the NSA's behavior. In Germany, politicians are encouraging private companies to develop a "eurocloud" or "Schengen Routing" to stop German emails being taken across the Atlantic. Furthermore, the European Commission is the most powerful regulatory body in the world, and it has the strength to impose its will on America's corporate titans. In 2004, EU regulators hit Microsoft with a record fine of \$613 million for violating European Union antitrust laws. Five years later, they used the same tactics to force Microsoft to unbundle its Internet Explorer from Windows.

Sebastian Dullien, a German economist, argues that some people might call on the European Commission to use these sorts of tactics against American tech companies. "If they really wanted to hurt the United States, they could pass a law which said that any company that gives personal information on European citizens to foreign intelligence agencies would have to pay a fine of one million dollars per instance," says Dullien. "If that happened, it might force many of the tech giants to shutter their operations in Europe."

The European Commission, together with the European Space Agency, successfully funded the \$5 billion Galileo project to develop a European answer to GPS. In the wake of the NSA scandal, there are calls for the EU to use similar tactics to develop safe cloud servers for Europe. Such a move could lead over time to a balkanization — or at least a de-Americanization — of the Internet.

Third, there will be consequences for the much vaunted Transatlantic Trade and Investment Partnership (TTIP), which some have argued would usher in a "New Atlantic Century." Both sides have called for a "deep" and "comprehensive" agreement to create jobs and forge a "free, open and rules-based world." But whatever deal that European and American negotiators agree on will have to be ratified by Congress and the European Parliament. The NSA scandal will probably not scupper a deal, but it will make it more difficult to agree a comprehensive one. Fears about data privacy will make it more difficult to have mutual recognition of regulations on digital services. The same is true of government procurement. There will be resistance to give American companies access to European government programs if they leave the back door open for American intelligence agencies. Rather than become the economic foundation for a new Atlantic century, the deal that emerges could look more like a piece of Swiss cheese — so riddled with opt-outs and exemptions that it has little effect.

The real toxicity of the NSA revelations is that they replace a sense of shared values with deep public mistrust on both sides of the Atlantic. As Torreblanca argues: “Americans do not seem to realize that powers of surveillance that are used not just for counter-terrorism but also for commercial advantage could put them in the same category as China.”

The scars of the Iraq war live on long after the protagonists of that episode have moved on, as we saw in the debates about intervention in Syria. But the NSA scandals have the potential to leave an even deeper impression on an already weaker transatlantic alliance. The intelligence relationships that did so much to unite allies in the Cold War now threaten to blow up their relations during a time of peace.

FROM MR. KAGAN TO MRS. KAGAN: MARS AND VENUS, PART II



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The United States and the member states of the European Union have a well-established security community — with NATO as its institutional basis and democracy as its firm normative foundation. The growing conflict between the U.S. and its Asian allies on the one side and China on the other has underlined that both sides of the Atlantic have, in principle, a lot in common, recently shown in the opening of the negotiations on the Transatlantic Free Trade and Investment Partnership (TTIP).

All too often, the transatlantic partnership is taken for granted and it is assumed that citizens on both sides will continue to support the relationship as they did before the revelations in 2013 of spying on Europe by the U.S. National Security Agency (NSA). The question to be asked, though, is how far away — to paraphrase a frequently quoted thesis by Robert Kagan (2002) — “Venus Europe” and “Mars America” really are from each other? And what are the implications of the transatlantic rift for future cooperation between the EU and the United States?

People in Europe and the U.S. share basically the same norms and values. The political systems are established on democratic principles, the rule of law, and a deep commitment to human rights. Although the revelations over the spying practices of the NSA did provoke a broad political debate, the transatlantic partnership is of strategic importance for both sides and without any realistic alternatives.

It is also true, however, that the very different approaches of the U.S. and the EU to countering non-state security threats have put the partnership under significant strain. Both partners differ in their evaluations of the challenges posed by terrorism and in their choices of adequate means for meeting these challenges. Ever since 9/11, the United States has considered terrorism as

an existential threat to its security. The military interventions and drone attacks in Afghanistan, Pakistan and Yemen and the broad activities of the NSA are evidence for this perception. The EU and its member states, on the other hand, view terrorism first and foremost as a problem of internal security to be dealt with by selecting appropriate policing measures. This difference of opinion is not simply a matter of international coordination. Quite the contrary.

U.S. allies clearly no longer trust the United States and American companies as much as they did before the NSA revelations. In response to the revelations, Germany and Brazil have drafted a non-binding resolution at the United Nations calling for the protection of civil and political rights in the digital era. The resolution reaffirms the International Covenant on Political and Civil Rights, to which the United States is a party, and also calls for rights enjoyed offline to be protected online, in particular the right to privacy. Its adoption expresses a profound loss of trust between the United States and its allies.

In Europe, there has been an increase in government and public mistrust of American intentions. The justice and home affairs committee of the European Parliament recommends holding U.S. tech firms accountable to European law. Germany and France are pushing for “safe communication networks” in the EU in the wake of the spy scandal. And subsidies are being considered for European firms to challenge the technological advantages of their U.S. competitors and to retain European data on European soil. The European Parliament is demanding that the safe harbor agreement be put on hold and wants to have a new umbrella agreement on data protection with the U.S. Some have even suggested reconsidering TTIP. European Commissioner for Justice Viviane Reding is demanding the establishment of a European intelligence agency.

The German government has also been pressing in recent months to grant to German — and, by implication, European — citizens the same rights of judicial redress as U.S. residents if their personal data is mishandled. Germany’s Bundestag has set up an investigation committee on the NSA surveillance. It has also reactivated the notion of “technological sovereignty,” emphasizing stronger data protection and reducing cyber vulnerability. Germany’s main communications provider, Deutsche Telekom, is already doing research on an “Internetz.” This policy comes after the government tried, and failed, to get the U.S. to agree on a “no-spy” agreement, as well as

the inclusion of France and Germany in the Five Eyes intelligence sharing group (constituted by the United States, United Kingdom, Canada, Australia, and New Zealand).

It is an irony of history that in February 2014, when recordings of U.S. and EU diplomatic conversations with ambassadors in Kiev were leaked (with Russia or the Yanukovych regime as suspected culprits), it was Robert Kagan's wife, U.S. Assistant Secretary of State for Europe Victoria Nuland, whose words caused a storm. Telling U.S. Ambassador to Ukraine Geoffrey Pyatt that she wanted a UN diplomat to go to Kiev to seal an accord on a new government, Nuland said: "So that would be great, I think, to help glue this thing and have the UN help glue it and you know, f*** the EU." In the other recording, a senior EU foreign service official, Helga Schmid, says to Jan Tombinski, the EU Ambassador to Ukraine: "But what you should know is that it really bothers us that the Americans are going around naming and shaming us." The statements are snapshots in transatlantic diplomacy but underline the lack of understanding in the current relationship.

After Edward Snowden leaks, the Obama Administration and U.S. businesses have declared their intention to restore trust and confidence. Doing so will require concrete policy changes and strong democratic oversight in the pressing debate about transatlantic principles and norms. President Obama's speech and presidential directive of January 2014 on NSA regulation can only be a very first step in improving relations. Under the Obama directive, U.S. spies can only target foreign leaders after a due process that weighs up the two sides' "economic and strategic alliance." In February 2014, the justice and home affairs committee in the European Parliament recommended consenting to TTIP only if the final text does not intrude on matters of data protection. Because U.S. engagement is more global in scope, the threats to U.S. security are thought to be more serious than those faced by Europe. For this reason, the EU (Venus) and the U.S. (Mars) are unlikely to find common ground on data usage and data protection in the near future.

REBUILDING TRUST: A MISSION IMPOSSIBLE?



KLAUS-DIETER FRANKENBERGER,
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The reports of intelligence activities by the U.S. National Security Agency (NSA) in Germany and particularly targeting the communications of the German leadership have once again brought to the surface simmering disagreements between Germany and the United States and a widening disconnect on matters of principle. The German public has reacted to these reports with an emotional intensity and a level of anti-Americanism not seen since the early years of George W. Bush's presidency. It has seen the "NSA spy scandal" as further evidence of American hubris and as a manifestation of an unequal partnership. Chancellor Angela Merkel was outspoken in her condemnation saying that spying among friends was unacceptable. Echoing the transatlantic recriminations over the Iraq War, the German leadership and public once were again united in feeling betrayed, misled, and not taken seriously. There is a general bipartisan feeling that trust had been violated and was eroding fast. Naïve or not, that was the reality during the second half of 2013 and in the early months of 2014.

Policymakers and officials who in the past had not wavered from the cause of Atlanticism, even when there was a heavy political price to pay for domestically, have felt — as they see it — a massive violation of trust almost more than anybody else. For those who are skeptical about the United States, the behavior of the Obama Administration is only a confirmation of their deeply held beliefs. These skeptics simply turn away when they hear the government proclaim that the transatlantic relationship continues to be of the utmost importance for Germany. This is very well true, but the trust gets lost as major parts of the public are up in arms and as the American leadership, both in the White House and in the Congress, does not seem to understand how bitter many Germans feel about the affair.

Worse, many Germans have the impression the U.S. simply does not care about them. So even while the German government and the chancellor in particular denounced “unacceptable” and “illegal” U.S. behavior, they tried to make sure that, from their standpoint, lasting damage to the relationship was avoided.

But two things conspired to turn this into an almost fundamental challenge. Firstly, how the Obama Administration handled the crisis in the relationship with Germany was seen here as a demonstration of self-righteous negligence and lack of interest. And it did not help when a senior U.S. official thought it was wise to tell Germans that they allegedly still failed to understand the consequences of “9/11” for Western intelligence operations and the threat posed by Islamist terrorists in general. When Secretary of State John Kerry and Secretary of Defense Chuck Hagel addressed the Munich Security Conference, the Germans in the audience were stunned — not by what they said, but by what they did not say. Neither secretary even briefly touched the NSA issue. It was reported that the chancellor was furious about this deliberate omission. A second factor was in substance totally unrelated, but was immediately amalgamated into a broadening perception of a United States that was outrageously arrogant. It was a remark by a senior U.S. diplomat who was overheard commenting on the EU’s policy toward Ukraine: “F*** the EU,” was what she had to say. Chancellor Merkel immediately vented her anger, calling the remark “totally unacceptable.”

By now, quite a few things have become unacceptable in the transatlantic relationship. And so, when German Foreign Minister Frank-Walter Steinmeier visited Washington in late February, he was simply resigned to the fact that the disagreement with the Obama Administration over the scope and depth of foreign intelligence operations by U.S. agencies is simply here to stay. It is remarkable that this and other disagreements are acknowledged openly, publicly, and matter-of-factly. It is not pretended anymore that U.S., Germany and other members of the Atlantic community always agree on principle and on serious policy matters. Actually, we disagree a lot. One may come to the conclusion that less than a year after President Obama’s visit in Berlin, the German-American relationship needs a “reset.”

Angela Merkel will visit the White House and meet with Barack Obama later in the year. She will not be shy to let her disappointment be known, he will not apologize to his visitor, of course not. Maybe he still does not even

see the damage done. So pragmatism will reign in a relationship among the two leaders that is already not the most cordial. They will turn to the future, devoting time and energy to global and regional flashpoints, from Syria to Ukraine. Very well, but is there something else?

Obviously, Germany and the United States have reached another crucial moment in their relationship. And there is a paradox: The economic and commercial interconnectedness between the U.S. and Germany profoundly dwarfs that between the U.S. and any other mature economy. Both countries call themselves allies and friends. But this is only part of the story. The U.S. is interested in partners whose values are measured in capabilities and willingness to resolve major problems, both regional and global. This sounds logical, but the U.S. political leadership is interested less and less in the partner itself (while the American public may be interested for the most part in German luxury cars and state-of-the-art manufactured products). Germany, on the other side, is showing more self-confidence and assertiveness than it ever has since the Second World War (sometimes on weak grounds, for example in energy transformation). Germany's handling of the sovereign debt crisis is a case in point. On the basis of a remarkably strong and resilient economy, German leaders brushed away American calls not to insist so unrelentingly on austerity measures. They simply could not care less.

Apparently, we finally grasp the long-term consequences of the end of the Cold War. The old glue is gone. Nothing positively forceful enough has replaced it, and neither have the new threats and risks — or so it seems. Will Vladimir Putin do the trick to bring the “old West” back together?

NATO'S NECESSARY BUT UNLIKELY SUMMIT AGENDA: THE "TRUST DEFICIT" AND DIVERGING SECURITY INTERESTS



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2013 was possibly the least eventful year in NATO's post-Cold War history. No major crises or dazzling achievements spring to mind. This is of course not to say that the Alliance did nothing in 2013 — in fact, as highlighted in the Secretary General's Annual Report for 2013, NATO did what it could be expected to do — “protect our common values and our shared security.”² In many ways 2013 was a good year, albeit a rather uneventful one in terms of headlines, characterized by the implementation of past decisions and continued engagement with long-standing issues.

However, despite the apparent absence of significant developments, it is possible that 2013 will enter into the history books as the year when tectonic shifts started to become visible in the transatlantic relationship, which inevitably will have important implications for the Alliance and which ought to (but probably won't) be on the agenda for the upcoming Summit in Wales in September 2014. Two developments can be rated as especially significant in this regard — the commencement of negotiations for a Transatlantic Trade and Investment Partnership (TTIP) between the U.S. and EU and the revelations of U.S. National Security Agency (NSA) spying on Europe.

² The report highlights many activities, such as “keeping the situation in Syria under close review,” replying positively to Libya's request for assistance with building up its security sector, and continuing working with partners. It also lists encouraging areas of progress: in Afghanistan, Afghan forces assumed lead responsibility for security across the country; NATO's command structure has been reformed; progress has been achieved in Kosovo; there has been a significant reduction in piracy; and several new Smart Defense initiatives have been launched.

Tectonic Shifts

NATO's traditional narrative portrays a strong and cohesive Alliance that is characterized by trust among its members. The remarkable success of NATO is often attributed to common security interests and shared values. Yet paradoxically, if there is anything that can be rated as significant developments in the Alliance in 2013, it is precisely a growing divergence in security interests (but convergence in economic interests), coupled with a sharp decline in the level of trust following the NSA revelations.

The commencement of negotiations for TTIP is widely regarded as a major achievement and a successful conclusion to the negotiations will undoubtedly provide major benefits on both sides of the Atlantic. However, NATO should be aware that TTIP signals a fading significance of security cooperation as the main expression of the depth of the transatlantic relationship. This is a shift that should be seen in the context of the American "pivot" towards Asia and the American intention of "leading from behind" in possible future security operations in the European neighborhood. Both developments highlight the fact that American and European security interests no longer fully align. At the same time, transatlantic economic interests have converged in recent years, as it has become increasingly clear that both sides of the Atlantic face growing economic competition from Asia. A successful TTIP could further shift the essence of the transatlantic relationship from its traditional focus on defense and security to trade and investment. Such a change would constitute nothing less than a tectonic shift in how transatlantic relations have been conducted so far.

In many ways, this is a development that should be welcomed as a sign that the original security challenges have largely been alleviated and that Europe now is (with a few important exceptions) whole and free. In a mature relationship, it should not be either a surprise or a problem that Asia is more of a security problem for the United States (which after all is tied to the region through a number of defense treaties) than for Europe (who is not), and that Ukraine, the Middle East and North Africa are more pressing security challenges for Europe than for the United States. However, it is important that these fundamental changes are incorporated into NATO's official narrative in a positive way and that they are reflected in NATO's actions, which is not the case at present.

The time has come to acknowledge the increasingly diverging defense and security interests, and to appreciate that the U.S. and Europe may sometimes prefer different approaches and solutions. It would be sensible to agree a division of labor based on pragmatic geographic considerations and actual security interests. In this sense, NATO needs a new narrative that more accurately reflects the Alliance of today rather than a mirage of the Alliance in the past. Such an undertaking would always be a challenge because some Allies still cling to that mirage. However, if the change could be framed as a normal development of a healthy and mature relationship, there might be a chance for the Alliance to move on. The problem is that such an undertaking requires more than ever a relationship based on trust and shared values — something that the 2013 NSA revelations have disturbed.

The NSA revelations signaled that the transatlantic relationship is not — as Europeans perhaps naively have assumed — based on trust, friendship and common interests. After all you do not spy on your friends and you do not eavesdrop in a relationship based on trust. Moreover, the American reluctance to impose meaningful legal restrictions on their surveillance activities on foreign nationals only served to underline that the United States is not willing to compromise on its national interests for the sake of transatlantic relations. But if that is so, would the United States then be willing to compromise on its national interests in other situations — most importantly to honor its security guarantee to Europe if that were called for? These are the kinds of worries that have always marred the transatlantic relationship, but which have been alleviated by the belief that the transatlantic relationship was built on sound foundations of trust, shared values and common interests. Clearly the NSA revelations bring these foundations of the relationship into doubt.

Towards the 2014 Wales Summit

The Summit in Wales should set out to address the “trust deficit” caused by NSA and to more clearly agree upon a division of labor between the two sides of the Alliance in order to end the uncertainty brought on by the divergence of transatlantic security interests and the convergence of economic interests. The Strategic Concept agreed in 2010 certainly provides a good foundation for doing so and as there seem to be few new and pressing issues for the Summit agenda, the Wales Summit could be an excellent opportunity for the Alliance to reflect on how the Alliance might best move forward. The aim should be for a frank discussion of

some of the underlying tectonic changes outlined above in order to finally launch a NATO narrative that accurately reflects “real NATO in the real world” — rather than the NATO that is only a mirage from the past. Open and frank discussions are not NATO’s key competence, but residual anger from the NSA debacle may serve to spur the Allies on.

ON THE STATE OF THE TRANSATLANTIC RELATIONSHIP



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Transatlantic relations continue to play a significant role in global economics and politics, despite the restructuring of the world order that has taken place following the end of the Cold War. The present balance of geopolitical power in the global economy shows a distinct superiority of the Atlantic partners in terms of size and strength — both economic and military.

The combined weight of the United States and the European Union in world GDP, although falling, still reaches 45 percent. The key emerging superpowers — China, Brazil, India and Russia — add up to close to 20 percent. Japan is not included in either camp. Similar differences persist in defense budgets despite the limited European contribution. However the trends in the next couple of decades play out, the predominance of the West is unlikely to be seriously affected so far as the measured indices are concerned. Qualitative factors, in particular the economic vitality, social inclusiveness and cultural appeal of the Atlantic powers, may exert greater weight on the future course of the competition for global influence between the West and the Rest.

In recent years, the reputation of Western economics has been severely damaged by the global financial crash, while the eurozone is facing unprecedented financial and political strains and the United States' political system shows signs of dysfunction, reflecting deeper social divisions.

Against this background, two developments stand out in 2013 so far as the transatlantic relations are concerned.

First, the growing difficulties encountered by President Barack Obama in overcoming Congressional opposition to implementing his second-term agenda. The specter of a lame-duck President is limiting the scope for

substantial initiatives in either domestic or foreign fields which might help restore the West's leading power. Such initiatives would include the speedy implementation of the trade liberalization pacts with the EU and the Pacific powers — the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP) — global financial reform, and development assistance policies in line with the Millennium Development Goals, as well as more effective intervention in resolving problems affecting global or regional security, such as the Arab-Israeli conflict, Iran's nuclear program and Syria's civil war.

Second, Angela Merkel's triumphant reelection for a third term as German Chancellor and the creation of a grand coalition government. This development helps to confirm German supremacy within the EU while also making likely that the eurozone will persist in applying intergovernmentalism and incrementalism in addressing Europe's economic and political weaknesses. This, in turn, would reflect Germany's self-centered approach, consisting in promoting narrow national interests and retaining control over economic policies, both at home and — thanks to its preeminent position — in the monetary union as a whole.

So long as Germany and the other countries of the eurozone's core continue to block significant moves to economic and political integration and also insist on the universal pursuit of austerity policies, the monetary union is unlikely to escape from its present stagnation and growing internal disparities, notably between the North and the South.

Developments in 2014 should be viewed within the context indicated by the above remarks. No elections are expected to take place — barring unforeseen events — in any major country that forms part of the Atlantic community, with the exception of the U.S. mid-terms for Congress. Domestic politics will tend to follow established patterns. The U.S. economic recovery is likely to gradually gather pace while the eurozone's core economies will also start to move out from the recession, albeit in a hesitant way partly owing to constraints posed by restrictive fiscal policies and undercapitalization of the banks. In peripheral economies output fall seems to have hit the bottom, but recovery will be limited, with Italy and Greece also facing social tensions and political uncertainties.

In the international field, no major development is in sight. Trade negotiations in the framework of TTIP and TPP will proceed at a slow pace

while progress in other areas such as financial reform and development assistance will be limited. Europe's banking union will enter the first stage of implementation, marking a step in rationalizing the eurozone's system of economic governance. However, the step is a timid one as extensive powers will be retained by national supervisors.

Transatlantic cooperation in resolving global or regional conflicts will continue, as in the past, constrained by domestic resistance to foreign intervention and Europe's overall weakness and political fragmentation. Domestic factors prevented President Obama from acting more decisively against Syria's use of chemical weapons allowing Russia to emerge as a fair international arbiter. Parliamentary opposition cancelled the U.K. government's intention to join forces in the planned action. France was left out in the cold waiting for guidance from the United States. Germany consistently refrains from taking or joining military initiatives in the international field, wary of domestic controversy and constitutional restrictions. Though public rhetoric on the subject is evolving in a positive direction, perceptible changes in attitude are unlikely. Weak European military budgets are further curtailed by recession and fiscal austerity and, together with political disunity, underline EU's foreign policy impotence. France, by consistently showing decisiveness in deploying forces abroad in association with the U.S., looks like the exception that proves the rule.

The overall picture is not a happy one. The transatlantic relationship falls far short of exhausting its potential for cooperation and related synergies, and displaying its leadership capabilities. International economic coordination is stumbling while global or regional security problems get less attention than they deserve and are, thus, allowed to eventually produce threats for stability and peace. Relations with China and Russia are also left relatively unattended as the U.S. "pivot," or rebalance, to Asia is proceeding slowly and the "reset" with Russia failed to lead to meaningful results — stretching beyond Dmitry Medvedev's presidential term — while European policies towards these two superpowers are guided more by economic than by political considerations.

2014 looked as if it would not produce game-changing events in the transatlantic space. However, history has a tendency to outsmart political analysts, in much the same way as economists are often proven wrong in their predictions, and the Ukraine crisis may yet serve this role.



WIDER TRANSATLANTIC RELATIONS

EUROPE IS A FOUR-LETTER WORD: A CANADIAN PERSPECTIVE ON THE TRANSATLANTIC RELATIONSHIP



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CETA (the Comprehensive Economic and Trade Agreement) is now an important focus of Canadian political discourse. All of a sudden, it is economics that is at the heart of the Canada-Europe relationship, a relationship traditionally characterized as much by sentiment and shared security.

Changes in Canada, in Europe and the United States all have fostered this new Canadian approach to the relationship. The maturity of European integration has been an obvious spur. EU institutions are now seen as “the someone to talk to in Europe” that can manage issues of concern to Canada in this important economic relationship (second only to that with the United States). Codifying the relationship now is possible. It is also opportune.

For five decades, Canadian governments (especially Liberal governments) have seen diversifying away from our economic and security dependence on the U.S. as a key national objective. The modern Conservative party, on the contrary, has historically championed that relationship. The government of Brian Mulroney concluded the 1988 Canada-United States Free Trade Agreement to cement it. The FTA was supposed to guarantee Canadian access to the U.S. market. What it has delivered is still the subject of controversy, but there is no doubt that it had a powerful psychological impact on Canadian business. The downturn of 2008, subsequent “Buy America” legislation, and the controversy that continues to surround the access of Canadian heavy oil to the United States have, however, been very sobering, and the current Conservative government, mid-mandate, re-designated itself as the champion of trade diversification. CETA, an idea

they first pooh-poohed in favor of more intense engagement with the Asia-Pacific region, was their first significant accomplishment in pursuit of that goal, and they are making the most of it to buttress their economic record.

Wide support for the agreement is not a given, especially as the terms are not yet finalized, nor are they public. It may also be less automatic than in the past as Canada is becoming increasingly less a European society. The weight of non-European immigration has created powerful constituencies for a focus on other regions, particularly East and South Asia. Not only is Asia demanding more attention, but the sentimental links that tied many Canadians to their European homes of origin are also fading. Second and third generations no longer live with the trauma of World War II or Soviet oppression that had colored so much of Canada's security and social engagement with Europe into the 1980's. The emotional default that would have been strongly in favor of closer ties with Europe (including but not limited to economic ties) a few decades ago is much less in evidence.

Nor is the Government really helping to build it. Rather it is seeking symbols of Canadian identity in the country's history but doing so, paradoxically, in a way that leaves many Canadians of European ancestry cold. The Government's "roots" project has been at pains to highlight only the British character of our past, giving much attention to the Crown (an institution of fading relevance to most Canadians), to the point of placing a picture of the Queen in the reception hall of our foreign ministry. While Great Britain is, of course, in Europe, it is, and is seen in Canada, as a "distinct society" within Europe. Privileging our relationships with the U.K. implicitly downgrades the relationship with the rest of Europe, and more so with the EU.

All this aside, CETA is virtually certain to be approved without much controversy, including by the provinces, which had all participated in negotiating it. The agreement may have a somewhat more rocky passage in European capitals. Most European governments have seen Canada fade from their world over the past decade. Some have grievances, particularly against the Canadian visa regime that targets illegal refugees from Eastern Europe. Some are obliged to temper their approach to Canada by pressure from animal rights groups protesting the traditional harvesting of seals in the Maritimes, Newfoundland and by the Arctic Inuit (not so much with Norway). The development of the Alberta Oil Sands is the source of a more serious public antipathy in some European states. Some of Canada's

traditional “middle power” partners in global affairs have lost interest in an indifferent Canada (to the point that Portugal beat out Canada for what had been its traditional UN Security Council seat when it was last eligible). What continues to interest Europeans in Canada, however, is very important. It is Canada as the “other advanced North American state,” which makes it a potential bridgehead for investment in North America, a position that CETA, with its investment and patent protection regimes, is intended to reinforce. CETA is, furthermore, helpful to the EU in establishing aspects of an eventual deal on an agreement with the United States (however far that prospect recedes without Fast Track).

CETA is not, therefore, the fulfillment of the vision of a “third option” pursued by previous governments, but it is the first substantive step towards a new, more focused transatlantic relationship, one based on mutual economic interest.

U.S.-RUSSIA RELATIONS



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The big story of 2013: Russia's finest diplomatic triumph since the end of the Cold War, forging an agreement on Syrian chemical weapons removal that staved off a U.S. military strike and strengthened the Bashar al-Assad regime despite the West's long-standing demand that he step down. Russian President Vladimir Putin's masterful performance at the G-20 in St. Petersburg in September and Foreign Minister Sergei Lavrov's skillfulness on the world stage enabled Russia to drive the narrative on Syria's future.

The big story of 2014: Russian military deployments in Ukraine create the most significant crisis in U.S.-Russia relations since the end of the Cold War, threatening to isolate Russia in Europe and globally, and leading the G-7 advanced industrialized countries to state that Russian actions were "incompatible" with the premise of the G-8. Only days before the Russian occupation of Crimea, Lavrov promised U.S. Secretary of State John Kerry that Moscow would respect Ukraine's sovereignty and territorial integrity. The savvy Russian foreign minister was uncharacteristically silent as Russian troops moved forward.

The roots of both stories are similar, though the endings may prove dramatically different: Putin has assessed his strategic interests as much greater than those of U.S. President Barack Obama. In Syria, he has sought to ensure that the opposition does not succeed in taking power, and despite Western calls for Assad's departure, there is enough general concern about Islamist extremism that Putin's approach has prevailed. In Ukraine, Putin believes that a pro-Western government threatens his core interests, particularly his larger goal of establishing a Eurasian Union, and he has strongly flexed Russian muscle while claiming both the need and legitimacy to defend the Russian-speaking community in the southeastern region of the country. But his triumph in Syria has given way to a potential deep morass in Ukraine.

The United States' reticence to intervene in the Syrian civil war enabled Russia to take the lead. Obama painted himself into a corner by declaring that Syrian use of chemical weapons would cross a "red line," but, once the red line had been crossed, the president continued to have little desire to strike the Assad regime and hoped to identify an alternative to military action. The agreement on chemical weapons satisfied both Obama and Putin's aims, at least in the short term, though it has not succeeded in halting a civil war that continues to slaughter or starve thousands and send refugees fleeing. As the key figure in the agreement's implementation, Assad's future as Syria's president was much less in doubt after the agreement was signed, despite continued Western calls for his departure. Given the lack of external pressure — to say nothing of the vast support Russia and Iran have provided the Syrian government — Assad has lasted longer than most prognosticators in and out of government in Washington believed possible two years earlier. Significantly for Putin, the United States decided not to use force, which would have occurred without United Nations Security Council authorization, as appeared possible in late August. Russia thus approached the Geneva negotiations in early 2014 from a position of tremendous strength and continues to block any real effort to settle the civil war or to protect the Syrian civilian population.

Putin's diplomatic triumph in Syria has faded rapidly with his risky move into Ukraine. While in the short term he demonstrates his willingness to do whatever it takes to prevent the new Ukrainian government from building close ties to the West, it is difficult to fathom how Russia's military deployment will strengthen him over time. Perhaps he believed that the costs from the 2008 Russia-Georgia war proved insignificant, but his unprovoked action in Ukraine is likely to be more damaging to him, particularly if the West imposes serious economic costs on Russia's elite.

Obama's first term was marked by a reset policy that sought to demonstrate shared interests in order to rebuild the U.S.-Russia relationship. Obama shelved the George W. Bush missile defense plan in favor of one that appeared less threatening to Russia, retreated from the Bush policy of pursuing NATO membership for Ukraine and Georgia, and offered Russia an arms control treaty. Russia in turn provided the United States with a new supply route into Afghanistan and support for increased sanctions against Iran.

That policy has run its course. Obama canceled his summit with Putin last summer not just out of pique with Moscow's willingness to grant asylum

to Edward Snowden, but because the two sides had nothing to accomplish at their meeting. Putin has engaged in a systematic effort to repress (at times violently) civil society at home and pursue a foreign policy strongly at odds with Western interests — first in Syria and now in Ukraine. As Putin continues to pursue a tough policy at home and abroad, Obama will have to decide how far he is willing to go to isolate the Russian president. If the past is any indication, the answer is “not very,” but Putin’s recent military actions may yet jolt the United States into taking a stronger stand.

UKRAINE AND TRANSATLANTIC RELATIONS



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As this publication is going into print in early March 2014, every major news agency is busy with live updates on the on-going crisis in Ukraine: an explosive mixture of the Russian military occupation in Crimea, civil unrest in other parts of the country, imminent economic collapse, and energy insecurity, including energy transit to Europe. Ukraine's future will have a major impact on the geopolitical situation in the whole of Eurasia.

How did this nation of 45 million that seemed on course towards greater European integration turn into the theatre of the worst great power confrontation in the region since the end of the Cold War?

The tragic sequence of events was prompted by the refusal by Ukrainian President Viktor Yanukovich to sign the painstakingly negotiated Association Agreement with the European Union at the EU-Eastern Partnership Summit at the end of November 2013. The agreement was seen by many Ukrainians as the ultimate guarantee against further autocratic consolidation by President Yanukovich and a safeguard against the lawlessness and corruption associated with his regime. What started as a relatively small peaceful protest against this decision grew into an unprecedented mobilization of Ukrainians, first in the capital and then throughout the country. Over the three months — between November 21 and February 18 — the protests evolved from a peaceful demonstration into a revolution that ousted President Yanukovich.

This revolution may well be a historic chance for the country to complete its half-hearted transition to democracy initiated in 1991 after the collapse of the Soviet Union. The nation-wide civic mobilization may be a sign of the

changing civic and political culture and may give rise to a new generation of reformers the country needs. Like any revolution though, it also leaves the country extremely fragile and its democratic gains highly uncertain.

In addition, the recent Russian de facto military occupation of Crimea and the unrest in eastern and southern parts of the country that clearly shows signs of Russian meddling may well be the final piece of Vladimir Putin's grand design for the future of Russia's "near abroad." Russian moves since the ouster of Yanukovych leave no doubt that Putin spares no means to exploit the fragility of this situation; they also raise concerns over how far he is prepared to go in occupying Ukraine's territory.

Whether Putin's aim is to destabilize the country or to go as far as open military aggression beyond Crimea, the transatlantic community has an important role to play. Proper coordination and concerted action will prove key. Both sides of the Atlantic have to appreciate the gravity of the situation and learn from their past mistakes.

Over the past two decades, the EU's mode of engagement with Ukraine, and indeed with the whole region, has been markedly technocratic, aimed at forging gradual governance reform and convergence with European rules and procedures. Despite recent efforts to boost its "eastern" policy, the EU and most of its member states seem to have been largely disinterested in the former Soviet states. As the crisis in Ukraine unfolded, the EU came out as largely unprepared and the habitual divisions between member states resurfaced, especially on the question of what constitutes an adequate response to Russian bullying of its neighbors. It is now imperative that the EU clarifies its geostrategic position on the region and finds a way to forge a consensus on ways forward.

The U.S., on the contrary, maintained a more pro-active and explicitly political stance on the region during the 1990s. Its more recent retreat towards a policy of putting its weight behind the EU's efforts should not boil down to a knee-jerk reaction to the crisis. U.S. policy should evolve into a more effective strategy of coordination with the EU. Recent attempts at dissuading Russia from military aggression on Ukrainian territory make it clear that U.S. sanctions, if not complemented by similar steps by the EU, are unlikely to yield much.

The crisis seems to have left major international players bereft of leverage over Russia. Both the EU and the U.S. seem to have misread completely

Putin's understanding of Russia's strategic interests in Ukraine, as well as of its role in Eurasia more broadly. The question of whether the EU and U.S. will be able to alter Putin's cost and benefit calculations remains unclear, yet the joint arsenal that these countries possess, including their ability to act via multilateral organizations, should not be underestimated.

At the moment a number of diplomatic moves are being discussed: the U.S. announced the suspension of military cooperation with Russia; the EU can suspend its on-going negotiations on visa regime liberalization and a new trade agreement. While the U.S. threatened an arms embargo, there seems to be no consensus on the issue in the EU. Asset freezes and visa bans that are being discussed could put additional pressure on key Russian elites but for these measures to work the EU has to be fully on board. A number of G8 members have suspended their participation in the preparatory meetings before the Summit scheduled to take place in Sochi during the summer. This can grow into Russia's expulsion from the club. Russia can also be turned down from joining the OECD and the International Energy Agency.

Taken together, these moves are likely to have a negative impact on the Russian ruble, provoke capital flight and worsen Russia's economic situation. The international community, however, should be well advised not to push for the total isolation of Russia through sanctions. As other precedents show, this will only help Putin consolidate his grip on power domestically, and the price will be borne by ordinary Russians, not the country's elite. Pressure on Russia should also be accompanied by the wide-ranging and generous assistance to Ukraine, including economic assistance, support for urgent political reforms, and for confidence and security building measures.

Whether any of these steps are likely to make Putin change his policy towards Ukraine remains a big "if." Yet not showing concerted action will certainly send him the signal that there is no price to pay for his aggressive actions in the region. Not drawing clear red lines in these early stages of the crisis will alter the balance of power for good. It remains to be seen whether the Ukrainian crisis will help forge a new transatlantic reset, but the fast-evolving crisis in Ukraine may certainly become a point of no return.

GEORGIA AND THE TRANSATLANTIC RELATIONSHIP



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Three months have passed since Georgia's new President, Giorgi Margvelashvili, and the new Prime Minister, Irakly Garibashvili, assumed their offices. The new government led by the Georgian Dream coalition announced a radical break from some of the policies implemented by the previous government led by the former president Mikheil Saakashvili's United National Movement. Yet the one area where Georgia's new government has continued the policy of its predecessor is a commitment for European integration and NATO membership. The government has repeatedly signaled that this commitment is steadfast. Garibashvili stressed at a press conference on January 16 that "our foreign policy is unchanged. It remains aimed at the Euro-integration and NATO membership." In light of the upcoming NATO summit in September 2014, the Georgian government maintains realistic expectations. In relation to the hopes of being granted the Membership Accession Plan (MAP), the Prime Minister stressed that the government aspires to avoid repeating the mistake of its predecessor, which created unrealistic expectations.

However, Georgia's road toward Europe and NATO might not be easy. The Georgian government does not exercise effective control over approximately one-third of Georgia's internationally recognized borders. The secessionist republics of South Ossetia and Abkhazia, which so far have only been recognized by the Russian Federation, Nicaragua, Venezuela, and the microstates of Nauru and Tuvalu, are under strong Russian military and economic influence. Russian military forces have been engaging in a so-called "creeping occupation" — gradually expanding the territory occupied as a result of the 2008 Russia-Georgia war and installing barb wire fences around it. The halt in the construction of the fence, which supposedly was installed to guarantee security at the Sochi Olympics, turned out to be

temporary. Immediately upon the end of the Olympics, Russia resumed the “creeping occupation.” In February 2014, a new fence was built in the village Atotsi, occupying about 10 acres of agricultural land and leaving approximately 11 families without access to their property.

Upon coming to power, the Georgian Dream Coalition announced its objective of stabilizing relations with Russia. President Margvelashvili gave an exclusive interview to the Russian TV Program *Voskresnoe Vremia* on the ORT Channel and declared, “we took the first step aimed at reducing tension. We said that despite the problems Russia is not the object of our aggression. We have declared our objective that we will attempt to transform our dialogue with Russia from aggressive to rational framework.” On November 1, 2012, the Georgian government created the post of Special Representative for Relations with Russia and appointed Georgia’s former ambassador to Moscow, Zurab Abashidze, to the position. The Georgian government resisted the pressure to protest the holding of the Olympic Games in Sochi and to decline to send the Georgian team to the competition. Even in response to the new fence construction around the occupied territories, Georgian government leaders have maintained peaceful rhetoric. “Georgia will not fall for any provocations, we will no longer allow emotional and spontaneous steps,” Margvelashvili announced during his trip to one of the villages torn apart by the occupation.

However, Russia’s expanding occupation of Georgia’s territory is a dilemma for the Georgian leadership and the Euro-Atlantic leaders alike. The Georgian government has repeatedly signaled that military response to Russian actions is out of question. Yet, solely diplomatic responses that do not lead to demonstrable results are not effective safeguards for Georgian residents whose security is affected by Russia’s policies. Thus, domestic constituencies demand the government’s performance yield tangible results. Although Georgian leaders have appealed to their Western partners to halt the so-called “creeping occupation,” and the U.S., NATO and EU leaders have made statements objecting to the erection of fences on occupied territories, these statements have had little impact. Moreover, in light of the recent instability in Ukraine and the statements by U.S. leaders in relation to Russia’s intervention in Ukraine, it is less likely that Euro-Atlantic leaders will want to exacerbate the tensions with Russia in relation to Georgia. Yet, if the Georgian government’s continuous and persistent dedication to Euro-Atlantic aspirations won’t be acknowledged at the upcoming NATO summit, it will find itself alone facing Russian expansionism and domestic discontent.

The EU approach to the membership of Cyprus is often mentioned in Georgia as an example of successful balancing between territorial integrity issues and EU membership. The Government of Cyprus concluded an Association Agreement with the EU in 1972. The occupation of the Northern Cyprus in 1974 created difficulties, but it did not prevent Cyprus joining the EU 32 years later in 2004. The EU has recognized the territorial integrity of Cyprus and has been supporting diverse diplomatic and economic initiatives for conflict resolution. Although the situation at hand is different, the challenges posed in Georgia also call for proactive, principled, and creative solutions.



IN EUROPE

POPULIST POLITICS IN EUROPE



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Elections for the European Parliament will be held in late May. Every five years, all adult citizens of the European Union's 28 member states can cast their vote for one of their national parties — who together build the EU's parliamentary factions. This time around, the elections are more important than ever before because the Parliament has gained considerable influence as a result of the Lisbon Treaty. After May, the Parliament will be co-deciding on most EU policies — on an equal footing with the Council of the European Union; i.e. the ministers representing their national governments. In effect, voting results for the Parliament have serious consequences. If past experience is anything to go by, we should, however, expect turnouts that do no justice to these new powers. The previous elections, in 2009, saw an average turnout of just forty-three percent, the lowest rate ever.

At the same time and somewhat paradoxically, the European elections present an opportunity to populist parties who rally against Europe. Their agendas are varying compilations of such issues as: the loss of national sovereignty and presumed concentration of power in the hands of Brussels' elites and bureaucrats; the alleged negative economic effects of having a common currency and the ensuing bail-outs of bankrupt Southern member states (notably Greece); and the freedom of movement for workers from the newer member states (namely Romania and Bulgaria) and the possible resulting resettlement of impoverished and welfare dependent migrants in the "old" member states in the West. It should be noted that these parties are not in all cases right-wing extremists; they include the United Kingdom Independence Party (UKIP), the Dutch Socialist Party (SP), the Italian Five Star Movement (M5S) or the Spanish (or rather Catalan) Popular Unity Candidates (CUP), which strives for Catalan autonomy.

These parties do have agendas in common with populists of the far right, however. Apart from blaming European elites and bureaucrats for national ailments, they identify marginalized groups within society as further sources of their problems: Muslims as they think Islam to be a backward religion or vile ideology; non-immigrant minorities such as the Roma who they see as fundamentally alien and crime-prone people; poor migrants and refugees from outside of the European Union who are depicted as trespassers into prosperous welfare states. Among the oldest and best known representatives of such sentiments are the French National Front (FN), Flemish Interest (Vlaams Belang) from Belgium, and the Austrian Freedom Party (FPÖ), while the Freedom Party (PVV) of the Netherlands is a more recent model. Initiatives from some of these party's leaders to join forces, e.g. in order to build a joint faction in the EU's parliament and benefit from the financial and administrative benefits coming with it, met with enthusiasm from some populist group but were turned down by others such as the UKIP. In other words: not all populists are willing to join into a single parliamentary family akin to those uniting the Christian Democrats, liberals or socialists. One consequence is bound to be that the anti-Europeanist voice is not going to be as loud as it theoretically — with the estimated support of a fifth to a quarter of the voters — could have been.

On the national level, room for populist politics is not likely to decrease any time soon. For what can be said about these movements on a more abstract level? Populism as it currently manifests itself in Europe usually takes aim at one or a limited set of symptoms of much wider issues (ones that defy immediately effective political interventions). Those symptoms are either real in that they affect the lives of a sizeable part of the population or are suggested to be real. Example of the first type would be the effects of immigration and an ensuing cultural and religious diversification of the national population as it manifests itself in certain distinct — usually urban — settings, or competition on the labor market when cheaper or better qualified workers are preferred over those who were previously employed. In populist rhetoric, beneficial effects for other parts of the population or overall macro benefits are simply ignored or being set aside as belonging to “the political elite” who, always, are the “others.” One example of the second type would be instances in which “Islam” is framed as a threat undermining liberal values or as a breeding ground for terrorism. Another instance is where “mass immigration” is being invoked as requiring urgent attention. This fear is constantly voiced by the Dutch Freedom Party, despite the fact

that actual net-migration rates for recent years lay close to zero. Moreover, about three-quarters of all immigrants are either from other EU member states (and can thus not be subjected to restrictions) or Dutch nationals. Of the remaining immigrants, a sizeable share consist of expats, students and others whose skills are indisputably of considerable value to Dutch society and a threat to no one.

Not only should it to be expected that the political room for populist parties will persist because the symptoms they rally against also persist. These parties are also likely to gain in influence. In a number of the older EU countries, mainstream political parties are gradually losing their natural voting bases. Growing secularization undermines Christian Democracy — once or still a stabilizing factor in many EU countries — and social democrats too lose support, to parties focused on the interests of the middle class or to more radical “socialist” ones. This fragmentation potentially increases the political leverage for new parties with radical agendas. In some of the newer member states in Central Europe, the same holds true but the causes are not entirely similar. Nationalism and notions about traditional — religious — values appear high on the agenda and work to legitimize radical thought about outsiders, be they national minorities or immigrants, and actions against them.

Are meaningful responses to populist policies and rhetoric feasible? Structural causes of political friction defy quick-fix solutions but sometimes their symptoms can be dealt with better than they are today. The European welfare state of old can play an important role in this respect. Populist rhetoric is hard to counter because balanced opinion always requires patient ears. However, it would seem ill-advised to copy such rhetoric, for it would require making promises mainstream liberal politics is unable to keep. It is the populists who will reap the benefits of failed promises.

SUFFERING TUNNEL VISION? GERMANY AND THE WORLD IN EARLY 2014



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Germany may be of this world, but is it in this world? Doubts may be permitted, if one looks at Germany's position in international affairs in early 2014. In Europe, Berlin's contribution to efforts to cope with the crisis in the Eurozone consists in pushing simultaneously for European and national solutions. European solution are advocated — and rammed through — by Berlin to deal with the public and private debt overhang in the southern periphery countries. They are expected to conform to the German recipes for international competitiveness and fiscal responsibility, with all that implies for those countries' institutions and societies. At the same time, Germany is pushing essentially national solutions for refinancing Europe's indebted banks. This rather contradictory approach conveniently ignores two fundamental truths. First, reducing public debt through fiscal austerity will at best allow anemic growth, and at worst produce continued stagnation or further declines in economic activity, with all that implies for unemployment and social stability. The second inconvenient truth is that avoiding to tackle head-on the problem of indebted banks and thus to cut the pernicious ties between banks and their treasuries will continue to throttle economic activity even further and particularly damage the backbone of economic resilience and revival, small and medium enterprises.

With such a bleak outlook for the future of the southern periphery, it is a mystery how Germany expects the political support in those countries for further European integration to come about. Berlin seems to trust governments and politics in those countries to secure monumental feats of institutional and social reform within a few years against all odds. Yet at the same time, Germany itself demonstrates how timid governments have become vis-à-vis vested social interests and well established lobbies: not only

have recent governments refused to develop and tackle a reform agenda for Germany, but the ruling parties have also continued to channel public money into handouts for pet projects of their respective constituencies.

Beyond the Eurozone crisis, the previous government at least seemed to have lost all interest in Europe, busily pushing its own, narrowly defined national interests but resisting any temptation to provide vision, impulses and leadership towards a reinvigorated European project. This lack of commitment has been particularly damaging for the Common Foreign and Security Policy and its military component, the Common Security and Defense Policy.

In other words, Germany's resolute focus on the Eurozone problems has produced a serious case of tunnel vision in Berlin's perspective on Europe. Something similar has also happened in Germany's relations with the wider world. Here, Berlin's vision has zoomed in on its "strategic partnerships" with big emerging economies, above all China. Officially, this has been justified as a necessary complement to Germany's traditional alliances and dressed up in ambitions to contribute to a strengthening of the fabric of international order. In fact, however, those strategic partnerships seem to be mostly about the promotion of German export and investment interests.

While Berlin thus busily has been catering to its own economic concerns and those of its strategic partners, it has for all practical purposes ignored some unpleasant realities and trends in international relations. Among those are the unresolved challenges of state failure and state building in the Balkans, in Africa and in central Asia, the persistence of violence, civil war, terrorism and organized crime, and the revival of virulent nationalism in East Asia. In Berlin's global tunnel vision on world affairs, nasty, violent aspects are ignored so as to be wished away; for every problem there exists a political solution, but please refrain from bothering Germany too much with it. True, the German government has, somewhat reluctantly, kept its old pledges and provided significant contributions in money and personnel to NATO's and European military efforts in the Balkans and in Afghanistan — but it also clearly has been loath to enter into any new commitments.

Finally, tunnel vision also seems to be a problem in Germany's most important "strategic partnership" and alliance beyond Europe, that with the United States. Here, Germany refused to recognize to what extent American society has changed, and how American government has mutated since

September 11, 2001 into a new national security state, driven by its own obsessions with the fight against global terrorism. This innocent, indeed somewhat romantic but hardly realistic view of America in large segments of the German elite and German society has been neatly caught in Angela Merkel's annoyance at having her own cell phone hacked and monitored by the National Security Agency (NSA). There can be no doubt that America has become an awkward partner and ally, but it continues to be indispensable for any serious German/European effort to play a meaningful role in world politics.

So far, Berlin has failed to overcome its own disappointment about an America, which has turned out to be different from what Germany thought it was. Tellingly, it has responded by pushing the idea of a transatlantic free-trade agreement, the Transatlantic Trade and Investment Project — yet another foreign economic initiative, presented as a “strategic” response to the disarray in the transatlantic relationship. Beyond that, it demands (and, to the great discomfort of its own spy agencies, apparently expects) the American government to conform to German law and refrain from impudent attacks on German privacy.

Will Germany be able to shed its tunnel vision under new management? The new grand coalition government gives reasons for hope. First, the last coalition of this kind in 2005–2009, also chaired by Angela Merkel, did a rather better job on foreign policy than its successor government. Second, the Social Democrat Foreign Minister of this grand coalition is the same as the one in its previous incarnation, and Frank-Walter Steinmeier has sounded quite a few promising notes since this return to the helm of the *Auswärtiges Amt*, including the remarks he made at the Munich International Security Conference in January 2014 along with President Joachim Gauck, and Defense Minister Ursula von der Leyen (one of the leading contenders to follow Angela Merkel as Chancellor). Third, Germany will again assume the chair of the G8 in 2015, which provides the government with an opportunity to demonstrate initiative and leadership. Against this, foreign policy making, which has tended to migrate away from the Foreign Ministry to the Chancellery over the last two decades, will likely continue to be shaped by Angela Merkel, who is profoundly skeptical of strategic visions and notoriously risk-averse. Hold your breath, and say a prayer for the patient.

FRANÇOIS HOLLANDE'S FRANCE



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Until the recent public airing of his complicated love life, French President François Hollande's record-setting unpopularity could mostly be explained by the difficult economic context. No one is emerging unscathed from this — except German Chancellor Angela Merkel. Like Germany in the early postwar decades, France frankly faces a situation of constrained choices. If the Federal Republic was long the “semi-sovereign state,” then France is today's semi-sovereign economy.

President Hollande's most promising way out of his difficulties at home has been to play an outsized role on the international stage, where he encounters much less resistance than at home. The timing of the recent state visit to the United States couldn't have been better nor the metaphor for François Hollande's presidency more apt: in the midst of a crisis on his “domestic front” — in all senses of the word — the French President changed the subject by projecting continuity and growth of French influence abroad.

Hollande has been consistently assertive of French national interest, appealing to those who retain “une certaine idée de la France.” He has been active in memorializing and honoring past French service and sacrifice. This has not been merely a recitation of past glory: his mandate has coincided with a set of round number anniversaries: 100 years since World War I, 70 years since World War II, 50 years since Algeria, and 50 years of the Elysée Treaty with Germany. Despite the publication of an unfortunate photo of him reading “French History for Dummies,” the President's handling of these events was seen positively.

More critically, Hollande has also been actively involved in writing new chapters of French glory: his commemorations are being done in combination with genuine involvement in foreign affairs and dedication to current global commitments in Mali, Syria and the Central African Republic. It is possible to see Hollande and his Foreign Minister Laurent

Fabius concentrating on areas where a distinctly French impression can be made, projecting French military strength and tracing the contours of France's 21st century humanitarian mission. Hollande's actions on the world stage command his voters' respect: 64 percent approved of the Mali intervention (i.e. three times as many as approve of him personally).

If Sarkozy wound up being known as l'Américain, Hollande could do worse than wind up being known as Hollande l'Africain. In December, President Hollande personally opened and chaired a Summit for Peace and Security in Africa in Paris, receiving African leaders as a "chef de guerre." Today's "devoir d'assistance" is the French national consensus over Responsibility to Protect (R2P). The military has intervened efficiently to stem genuine tragedies; to prevent failed states, and avoid power vacuums that favor the spread of terrorist networks. The fact is, there is a gendarme role for France to play, although it would perhaps prefer the word "Pompier" (fireman). France sent thousands of troops to Central African Republic — the second time France has boosted its presence there, and Hollande's second African campaign in a calendar year. France has also tried to continue tightening ties with Algeria as the country celebrates 50 years of independence and stands on the brink of politically significant generational change. Prime Minister Jean-Marc Ayrault has led the flow of ministerial visits. The first Renault cars made in Algeria have started to come off the production line.

France remains one of the few remaining countries with a powerful executive with real military powers. Hollande enjoys a hard power advantage over his British, French or American counterparts, even if his powers are enhanced by those same allies: he doesn't have to consult his legislature before small scale military interventions. And French public opinion has recently shown itself more tolerant of belligerence and casualties. As the French armed forces have deployed (on a small scale) at will, liberating hostages and staring down regional bullies, the French defense ministry's white papers of the early 2010s still mean something important in spirit if not in letter.

France is punching over its geopolitical weight class abroad but faces serious obstacles in the Eurozone. Hollande has demonstrated underwhelming influence within EU: he has never successfully sold his message of "croissance" (growth) across the Rhine. Hollande is eager to see Europe's interest prevail over national parliamentary objections — including those of the Bundestag. But despite Hollande's occasional assertiveness

vis-à-vis counterparts in Berlin and Brussels, the reality is that when it comes to Eurozone governance he is constrained on spending (less) and taxation (more).

This has domestic political consequences, making it harder for Hollande the domestic politician to distinguish himself from the offerings of his predecessor (and possible successor) Sarkozy, who negotiated in March 2012 a very similar policy package to what Hollande was endorsing six months later. As the French center-left has had to swallow the ideology of austerity, the fall of ideological axioms has not gone unnoticed by the remaining few party members and faithful.

In such polarized times, where the center sags and the National Front is has the support of a quarter of voters ahead of upcoming EU parliament elections, Hollande concentrated on promoting the EU as the future home of French foreign policy and as a clear alternative to the populist Le Pen dynasty. He has demonstrated realism, supporting a Europe with “variable speeds” organized in different “circles”: an “avant-garde,” “precursor states,” and a “hard core.” While paying rhetorical respect to the preservation French sovereignty, Hollande has also said that the French government supports a “better coordination of economic policy and should make decisions country by country.” He has called for monthly meetings with heads of state and government of the Eurogroup and has made bold predictions: budgetary union, banking union, social union — and, over time, political union. These are all timely reminders that Hollande is the direct heir of Jacques Delors — along with party ally Martine Aubry, Delors’ daughter.

The recurring spectacle of public intellectuals’ public pessimism has become an annual ritual. The recent additions to the funeral pyre include Alain Finkielkraut’s “End of French Civilization” and even François Heisbourg’s “End of the European Dream,” which provided a road map out of the Euro. But like the Mayan calendar predicting the end of time, definitive French decline seems to have been announced and passed on multiple occasions. But as Hollande noted in a recent interview in *Le Monde*, the greatest danger the country faces at present is “Nationalism, not Nation,” and “the absence of Europe, not the European Union.” Given the rise of populist right, these are choices the French public will soon have the chance to weigh in on.

ITALY: CHANGE WITHOUT IMPROVEMENT



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Since 1994, Italy has never enjoyed government that was both stable and efficient. Often stability was bought at the price of a lack of implementation of policies that might encounter obstacles and produce reactions in a highly divided, corporatist and selfish society. The dissatisfaction with all the parties, with party politics, and with the political and non-political nomenclatura dubbed “the Caste” by two successful journalists found an outlet in the February 2013 elections. In its first appearance, the Five Star Movement (M5S) led by the comedian Beppe Grillo won an astounding 25 percent of the national vote. M5S’s total unwillingness to join any governmental coalition produced a prolonged parliamentary stalemate. Following two rounds of inconclusive voting for the President of the Republic, the stalemate was broken in favor of incumbent President 88-year-old Giorgio Napolitano. For reasons personal, institutional (not to create a precedent), and related to age, Napolitano had made it clear that he did not want to be re-elected. But for the sake of the political system, he felt obliged to accept the request humbly made by the major parties (with the exception of M5S), chastising them and posing some conditions.

The new government had to be supported by the Democratic Party, by former prime minister Silvio Berlusconi’s People of Freedom, and by former prime minister Mario Monti’s Civic Choice. Led by the Democrat Enrico Letta, the government had two overriding goals: 1) to formulate a new electoral law and to reform the institutions and 2) to reduce unemployment and to create the premise for renewed economic growth. The so-called “broad agreements” lasted until October when Berlusconi was found guilty of bribery, sentenced to several years in jail (subsequently reduced to two), and deprived of his senatorial seat. His decision to abandon the

governing coalition was followed by a split in his own party that gave birth to a minor parliamentary group, the New Democratic Center, indispensable for the survival of Letta's government. In December 2013 the Democratic Party replaced its secretary through a popular vote involving almost three millions of participants. The young mayor of Florence, 38-year-old Matteo Renzi, decisively defeated the old guard. He won a triangular competition in a landslide, receiving 68 per cent of the vote. Always critical of Letta's government for its slowness and lack of audacity in tackling those very problems, institutional and socio-economic reforms, which it had been created to solve, and bolstered by his success, Renzi started playing the role of a challenger. The new secretary's agenda appeared immediately quite different from the government's.

A sudden acceleration of events led to the resignation of Letta and his immediate replacement by Renzi, not even a member of Parliament. In line with the average tenure of the more than sixty governments Italy has had since 1946, Letta's government has lasted 9 months and 25 days. The shrinking of the spread between Italian and German state bonds must be considered its most important achievement. The new government led by Matteo Renzi was formed in less than a week. It relies on the same parliamentary majority as its predecessor's. With one exception, the important Minister of Internal Affairs, all the Ministers are newcomers. Also they are rather young and half of them, in a major achievement, are women. The problem is that they are all inexperienced, none of them having previously held a governing office, not even at the local level. The Prime Minister himself is an unknown entity on the European scene. Only the Minister of the Treasury, Pier Carlo Padoan, can boast a distinguished career in several international organizations.

Italian foreign policy will continue as usual. The new Minister of Foreign Affairs, Francesca Mogherini, and Minister of Defense, Roberta Pinotti, have superficial knowledge of their fields. Italy needs the European Union more than the European Union needs Italy, whose governmental instability and economic failure would, nevertheless, seriously affect the Union. Farfetched is Renzi's ambition to change and reshape EU's economic and social policies, especially in the light of the fact that only one undersecretary has personal and specialized knowledge of the working of the EU. Starting July 1, the Italian Prime Minister will serve as President of the so-called European semester in charge of drafting the agenda in the wake of the very important elections of the European Parliament to be held at the end of May.

In many fields the best prediction of future Italian policies is “more of the same.” However, the young Prime Minister has promised to make important and decisive changes in a short period of time. *Velocità* (speed) is his mantra. It remains to be seen whether he will be capable of guiding a sustained reformist effort. At the time of writing, his “boundless” (his own adjective) ambitions and his proposals for change seem to go well beyond his capabilities and his political and parliamentary support. If Renzi fails, but even if he is simply made prisoner of the far too numerous political, social, and economic players with veto power who remain alive and well in the Italian political system, not only will governability continue to remain a chimera, but negative institutional consequences may follow. Since 2006 the Italian political system and its democracy have benefitted from many intelligent decisions made by President Giorgio Napolitano and from his international credibility. Though the topic is not being openly discussed, his possible resignation and early retirement may open a serious institutional crisis.

SOFT POWER WORKS: THE EU'S EASTERN PARTNERSHIP



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Those who remember the discussions in 2012 on whether or not to partly boycott the Euro 2012 soccer championship, jointly hosted by Poland and Ukraine, due to the imprisonment of Yulia Tymoshenko and other Ukrainian opposition leaders, would not believe their eyes today. Ukrainians resisted Russia's devastating economic sanctions and after almost four months of strikes, conducted in crackling cold with European Union flags in their hands, they finally dismissed Viktor Yanukovich, their corrupted president for whom the EU appeared to be just a pawn in a game aimed at maintaining his own power and financial benefits. Though this impressive manifestation of the people's will escalated to bloodshed on the Maidan, and though the future of Ukraine seems very unsure, Europe should quickly draw important lessons from these events.

First, despite gloomy pictures of the EU's southern indebted countries, the rise of Euroskeptic parties across the continent, and declining support of further supra-national integration, the European dream is still alive and can be reinvigorated. If only the EU can admit that it is still an open project, it could have a powerful effect in its neighborhood. The EU makes a difference, especially when its foreign policy is really common and it is exercised jointly with the U.S. It is already visible in the Balkans and partly visible in the countries of Eastern Partnership (EaP), an originally Polish-Swedish project adopted by the EU in 2009 to guide relations with six former republics of the Soviet Union. Even in case of Turkey, when the EU offered a genuine promise of accession, a position also strongly advocated by the U.S., it proved to have enormous leverage.

Ukraine is not the only Eastern Partnership country where the EU has made a real difference. Before the 2013 Vilnius EaP summit, there were many people who proclaimed that Yanukovich's unwillingness to release

Tymoshenko de facto led to the Eastern Partnership's death. Despite many EU attempts, both Belarus and Azerbaijan have not made any steps towards abandoning their autocratic systems. The democratic transformations of Georgia and Moldova have also started to erode. Shortly before the summit, Armenia had turned its back on the EU, instead choosing to integrate with Russia. Many experts have persuasively argued that putting six very different countries into one basket was its original sin. The situation soon appeared to be even worse.

When President Yanukovich decided to halt the deal on an Association Agreement (and with it the so-called Deep and Comprehensive Trade Agreement) with the EU and instead started to talk to Russia and China about financial loans, only a few countries dared to note that both Georgia and Moldova had in fact initialed such agreements. It was not a bad sign, taking into account recent developments in both countries and Russia's hard retaliatory trade measures to punish them for their European aspirations. Then the surprising events in Ukraine unfolded.

In hindsight, the Eastern Partnership has been moderately successful. Having a very modest financial endowment at its disposal and the lack of real engagement by a majority of EU member states, the output is just measured. Imperceptibly, the EaP has become a competitor to bellicose Russia and its Eurasian Union.

It is surprising how Russia misjudged events. The former empire hasn't stopped treating the area in between its borders and the EU as its own "near abroad." At the very beginning of EaP, Russia completely underestimated the concept. For some time, Russia was even invited to the so-called "group of friends" of the Eastern Partnership. It ignored this idea, but did not actively work to prevent it, as it saw the EaP as an unimportant Polish invention. From Russia's point of view, it had huge assets of its own in the "near abroad": trade relations with EaP countries, military bases, visa facilitation regimes (or visa non-existence), a familiar language and media influence. Theoretically this looked like an unwinnable ground for the EU.

Once Russia woke up and realized that the reality may be slightly different, it immediately started to play hardball: trade embargoes, threats to cut energy supply, enormous political pressure, creating havoc via riots caused by Russian minorities living in EaP countries. But in fact these steps have

just worsened Russia's situation. Furthermore, they made the citizens of EaP countries more anti-Russian than ever before.

The same misperception was applied by Russia to NATO. Russia had completely overlooked the second NATO enlargement in 2004, bringing in the Baltic countries and four others (Slovakia, Slovenia, Romania, and Bulgaria). It simply thought of NATO as a relic. It woke up once the U.S. and Poland started to advocate for Membership Action Plans to bring Georgia and Ukraine into NATO. In 2008, Russia brutally crashed Georgia's dreams by force. Ukraine then stopped its NATO ambitions "voluntarily."

It seems that Russia never draws any lessons from history. Its development model has never been attractive to its neighbors. Either it is enforced over them or it decays over time resulting in the waning of Russia's influence. In the long-term, without resort to force, Russia will always be on the losing side when it is confronted with the EU model. Russia has never experienced a bottom-up modernization, while the EU helps precisely with this kind of transformation.

The countries of the Eastern Partnership are without a doubt European, though they have their own political and economic culture. However, some periods of their recent history show that they are not indifferent to Western-style bottom up modernization. Here is the second key lesson to a more successful Eastern Partnership in the future: endogenous change in the East is possible, but struggles with immense fragility. EU efforts should aim to ensure the durability of social changes. Financially it would be naive to expect a "Marshall Plan" for Ukraine. But if the EU and the U.S. are decisive in reaffirming their core principles when dealing with EaP countries, they can have a powerful leverage.

For now and the next several years, three issues are of absolute importance for countries like Ukraine, Moldova and Georgia: upholding their territorial integrity, making eventual EU membership a reliable strategic option for them, and being prepared for rapid response in case Russia imposes harsh economic and political measures. The EU and the US can deliver; they need just to be decisive. It is a winnable battle.

FRESH THINKING NEEDED ON CYPRUS



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WITH SCOTT MALCOMSON¹

A new round of talks has begun in Cyprus and the key parties seem eager to reach a settlement. However, the official goal — a bizonal, bicommunal federation — has stymied negotiators for decades. It is possible that the time has come to consider a mutually agreed separation, within the European Union, of the Greek and Turkish parts of the island

The closest the two sides have come to an agreement on federal reunification was a decade ago under the Annan Plan, named after United Nations Secretary General Kofi Annan. It built on decades of work and won the support of the UN, EU, United States, Turkey, and even Greece. Indeed, any federal deal will have to look pretty much like the one hammered out in those years of intense negotiations.

Yet the reality of public sentiment bit back. 76 percent of Greek Cypriots said no to this plan at referendum. As Annan wrote to the Security Council afterwards, “what was rejected was the [federal] solution itself rather than a mere blueprint.”

Today the two sides — whose infrastructure and administrative systems are almost completely separate — are, if anything, further apart. The numbers of people crossing the border have fallen, while polls show weakening support for a federal outcome. In 2004, the Turkish Cypriot side supported the Annan Plan with 65 percent of the vote. But in 2010, they firmly voted back to power a leader whose whole career has been dedicated to a two-state settlement.

Miracles may happen — and there are many on the island who remain desperate for a settlement — but my judgment is that any federal deal will have an even tougher time succeeding now.

¹ Scott Malcomson is Communications Director at International Crisis Group.

Fresh thinking is needed. The two sides should broaden the agenda alongside the well-worn process of UN-hosted talks between Greek Cypriot and Turkish Cypriot negotiators.

One idea that should be fully explored is what the terms might be if Greek Cypriots — the majority of the island's population — were to offer Turkish Cypriots citizens full independence and fully support them to become members of the European Union.

Such a deal would have to be agreed to by Greek Cypriots, voluntarily and through a referendum. This will be hard. Greek Cypriot public opinion still, in theory, absolutely rejects any partition. But even senior Greek Cypriot officials agree in private — especially around the dinner tables of business leaders seeking a way out of Cyprus's crushing banking crisis of 2013 — that there is an increasingly urgent need for a new way forward for the economy and for society.

There is also a growing drumbeat of expert opinion urging Greek Cypriots to consider outcomes beyond the traditional federal goal, which has become so discredited that few on Cyprus are paying much attention to the new talks. International Crisis Group has just published *Divided Cyprus: Coming to Terms on an Imperfect Reality*, while the U.S. Congressional Research Service concluded last year that “a ‘two-state’ solution seems to have become a more prominent part of the Turkish Cypriot/Turkey rhetoric and unless a dramatic breakthrough occurs early in the negotiations... that reality may gain more momentum.”

Polls show that key parts of what Greek Cypriots and Turkish Cypriots really want can look surprisingly similar. The Greek Cypriots have long wanted a solution securely embedded in European values and structures. That is what Turkish Cypriots say they want too: to become part of the European Union, not part of Turkey, even if they do wish that, *in extremis*, Turkey would protect their small community. The European part is crucial.

This can only happen with voluntary Greek Cypriot agreement, something that will have to be persuasively won by Turkey and the Turkish Cypriots. They will need to offer convincing terms: withdraw all or almost all of Turkey's 30,000 troops on the island; end the demand to continue the 1960s “guarantorship” so hated by Greek Cypriots; guarantee compensation of Greek Cypriots for the two-thirds of private property in the north that is

owned by them; return the ghost resort of Varosha to its original owners; and pull back to hold 29 percent or less of the island.

After what will necessarily be a multi-year transition, this will also produce the European solution that Greek Cypriots so often say they want. The two sides will share the same basic legal norms and regulations, the same currency, and the same visa regime. Secure and confident in their new sovereign rights, the Turkish Cypriot side will likely waive the un-European demand for “derogations,” or limits on property purchases by Greek Cypriots in the new entity.

Nobody is completely right on Cyprus: all parties share responsibility for the frozen conflict on the island. At the end of the day, an independent Turkish Cypriot state within the EU is not rewarding one side or another. Europe will doubtless flinch at accepting a small new Turkish, Muslim state in its midst. But Europe helped create this situation, since Brussels breaking its own rules contributed to the clumsy 2004 accession of the disunited island to the EU. Moreover, at least 100,000 of the 170,000 Turkish Cypriots are already EU citizens through their Republic of Cyprus passports.

Europe will also be among those who gain from resolving a dispute that has for four decades burdened so many local and regional processes, not least the long-hamstrung relationship between the EU and NATO, and the new question of how the countries of the East Mediterranean can most quickly, profitably and safely exploit new offshore natural gas reserves. This is not partition: it is reunifying Cyprus within the EU.



TURKEY AND THE WORLD

TURKEY'S POLITICAL TURMOIL AND ITS TRANSATLANTIC IMPLICATIONS



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As it entered its twelfth year in government with increasing electoral support and a command of absolute majority in parliament, the Justice and Development Party (AKP) looked invincible. The AKP leadership, too, believed it was invincible, since the party held a firm grip on the legislative process from the day it got elected. Fast economic growth swelled the ranks of its supporters, some of whom came from those segments of Turkish society which did not share the AKP's religious or cultural orientation. Enthusiasm that resulted from higher levels of income and the rise of consumerism obscured the question of ultimate sustainability of Turkey's economic growth model that became increasingly dependent on domestic consumption and "hot money" to cover the account deficit. Availability of cheap money in the global markets, and its influx to Turkey for higher returns, fueled the economy but also increased to uncomfortable levels the exposure of Turkish companies which liberally borrowed in hard currencies.

Satisfaction — domestic and international — with Turkey's economic performance deflected attention also from the purposeful implementation of the AKP's political agenda. That agenda included: (i) removing checks-and-balances by asserting executive control over institutions, notably the judiciary; (ii) reinforcing and legitimizing majoritarianism by means of its parliamentary domination and defining parliamentary decisions as manifestations of the "national will;" (iii) pursuing a comprehensive social engineering project to reshape Turkish society in the image of a conservative, observant Muslim community to the extent of regulating some facets of private life, such as limiting alcohol consumption and prohibiting male and female university students from sharing apartments.

The Gezi Park protests in summer 2013 began as an unorganized reaction to the increasing limitation and constrictions imposed on individual freedoms and the use of public spaces, both physically and figuratively. What was left of Istanbul's parks and green spaces was being destroyed daily by major urban renewal projects launched with a view to generating high returns for AKP supporters and politically connected persons. The removal of trees from Gezi Park to make way for yet another commercial building triggered massive demonstrations and a sit-in that continued for weeks. Many cosmopolitan Turks saw the plan to raze the park to build a replica of an Ottoman-era military barracks as one more step taken by the government in implementing its ideological program of reorienting Turkey by demolishing landmarks of Republican-era architecture and urban spaces. Consider the fact that Henri Prost, the French architect of the park, was personally invited by Atatürk to design a new urban landscape befitting the modern Republic.

These protests were important because they marked a new departure in Turkish political life by virtue of being a rare example of effective voluntary action by civil society. They attracted a broad range of women and men from practically all age and income groups, reflecting the dynamics of a pluralist society. The Gezi events succeeded in having an impact on domestic and international public opinion and thus served as an enabling model for political engagement by civil society.

The government's response was unyielding and tough. After Prime Minister Recep Tayyip Erdoğan's return from a trip abroad, a week after the protests began, security forces were ordered to crack down and disperse protesters as they regrouped day after day. The result was 11 persons killed, around 8,000 injured, and hundreds arrested and charged under antiterrorist laws, which allowed up to 10 years' detention.

Turkey plunged into deeper political turmoil when the police, in a surprise move, arrested 51 persons suspected of corruption on December 17. Among those arrested were the sons of two cabinet ministers, high-level civil servants, and prominent businessmen with close connections to the highest levels of government. Some of the alleged cases of corruption related to environmental destruction by means of rezoning protected sites with a view to opening them up for development. Not unexpectedly, massive demonstrations followed, which called for explanations, resignations, and greater accountability on the part of the political leadership.

After the initial shock and a cabinet reshuffle, the Prime Minister opted for an offensive strategy, possibly in light of the fact that prosecutors were ready to make arrests in connection with at least two other corruption cases. With Erdoğan's own son incriminated in one of these cases, the investigations had come too close for comfort. Over the past weeks, the government moved fast to push several radical pieces of legislation through the parliament, where it continues to enjoy an absolute majority despite recent resignations from the party. One of the new laws removed the last vestiges of judicial independence by placing the judiciary directly under the Minister of Justice. Another new piece of legislation placed draconian restrictions on the Internet by allowing the Telecommunications Authority to monitor and block Internet access to undesirable sites. In order to turn the tables against what it called a judicial-bureaucratic coup attempt, the government undertook a massive reshuffling of judges, prosecutors, police officers and governors.

The corruption scandals and the government's efforts to suppress information and prevent further investigations became a focus of attention in Washington as well as in European capitals. The European Parliament passed a resolution condemning the blatant departure from the Copenhagen criteria by a candidate state in the middle of accession negotiations. The Commission has sent a letter asking for an explanation of how the EU pre-accession funds were spent, a common first step before an inquiry is launched. This turn of events has presented the EU with the dilemma regarding how to keep Turkey anchored in Europe while Turkey continues to flaunt the most elementary rules that EU aspirants are expected to follow.

Turkey's political turmoil appears to have added to Washington's frustrations with Ankara's international behavior. A decade earlier, both the U.S. and EU had welcomed Turkey's proclamation of a "zero problems with neighbors" policy. However, Turkey's policies in the Middle East have essentially failed and it has squandered much of its credibility as an effective regional actor. The hackneyed rhetoric about Turkey not needing the West served only to accentuate Ankara's cavalier attitude toward its allies. The announcement in early October 2013 that Turkey might buy Chinese missile defense systems, nevertheless, came as a shock. A few weeks later, at a press conference in Moscow, Erdoğan asked Russian President Vladimir Putin to help Turkey become a member of the Shanghai Cooperation Organization. These two statements raised serious questions regarding where Turkey actually stands in relation to the transatlantic community.

The AKP government's response to the corruption scandals heightened Western concerns regarding Turkey's commitment to the rule of law and, therefore, its political and economic stability. Washington, which had criticized the disproportionate use of force during the Gezi Park protests, came to issue serious warnings to Ankara concerning judicial independence, rule of law and freedom of speech. The xenophobic rhetoric from the AKP leadership, blaming foreign manipulation as the cause of unrest in Turkey, has also irritated Washington, especially since the American ambassador was targeted. With the Prime Minister's aggressive campaign rhetoric, and deliberate use of excessive force by the police, expected to continue unabated at least until the municipal elections at the end of March 2014, Ankara's relations with the West cannot be expected to improve, at least in the short term.

TURKEY AND THE TRANSATLANTIC RELATIONSHIP FROM CRISIS TO COOPERATION



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2013 was not a good year for Turkey and its ruling party. Domestically, the political stability embodied in the AKP's decade-long hegemony started to crack. In May-June, varied segments of Turkey's vibrant civil society rose against the government's plans to raze Gezi Park in order to build a shopping mall in Istanbul's city center. Gezi became the rallying point of a disparate group of protesters, united by their shared frustration with the government's disdain for dialogue, tolerance and compromise. The mass mobilization in the summer was followed by the eruption of an even more consequential conflict, this time within Turkey's conservative camp, between the AKP and the movement led by Pennsylvania-based cleric Fethullah Gülen. The tension reached a tipping point in December 2013, when a mass corruption scandal involving cabinet ministers and their families was revealed by allegedly Gülenist police officers and prosecutors. Largely as a consequence of the political turmoil, Turkey's economic miracle also started fading. Growth projections have been lowered by almost 1 percent this year, inflation is rising, and the current account deficit risks ballooning again, this time not due to high growth and consumption rates as over the past decade, but rather due to a plummeting Turkish lira.

The foreign policy front has hardly been rosier. The Arab uprisings are now in full counter-revolutionary swing. The Egyptian coup and the turning of the tables in the Syrian civil war in favor of the Assad regime have significantly compromised Turkey's foreign policy posture, which had banked on the electoral success of the Muslim Brotherhood in Egypt, close cooperation with Qatar, and the downfall of the Baathist regime in Damascus. Turkish-Egyptian relations have been at an all-time low since the

Saudi-Emirati backed military coup ousting President Mohamed Morsi. On top, not only has the Syrian regime proven its resilience thanks to the strong backing of Iran and Russia, but Turkey's overzealous support for the Syrian opposition has boomeranged in Turkey, with extremist elements roaming freely across the country. Adding fuel to the fire are the growing economic and social problems caused by the close to 700,000 Syrian refugees in Turkey, as well as the empowerment of the Syrian Kurds raising the prospect of yet another autonomous Kurdish entity in this volatile region.

All this has complicated considerably the scope for cooperation between Turkey, the European Union and the United States. The counterrevolutionary moment in the Middle East has meant a downgrading of international attention to the transatlantic transformationist agenda in the region, which had seen a revival of the appeal of the Turkish "model" on both sides of the Atlantic in 2011–2012. With the Middle East falling into a vortex of instability, counter-revolution and violence, and the gloss of the Turkish model having been eroded by Turkey's domestic political and economic turmoil, a transatlantic transformation agenda engaging Turkey is no longer the talk of the day.

And yet precisely in view of Turkey's domestic troubles and regional developments, there is now an expectation for Turkey to reassess the direction of its foreign policy and seek new avenues for cooperation with the United States and Europe. Energy geopolitics in the Eastern Mediterranean offers one such avenue for EU-U.S.-Turkey cooperation in 2014 and beyond.

The recent gas finds in the Eastern Mediterranean and particularly in Israel and Cyprus could become an important element of Turkey and the EU's energy diversification strategy. Gas finds in the Levant basin have been estimated at approximately 3.4 trillion cubic meters (tcm). Although the precise quantities are a moving target, as companies are allotted licenses and constantly revise their estimates, as of 2013 most reserves seem to lie within the Israeli and Cypriot Exclusive Economic Zones (EEZ). Part of these reserves could eventually be exported to Turkey and be channeled into the Southern Gas Corridor, supplementing sources from Azerbaijan (and eventually Iraq). To do so, an underwater pipeline could be envisaged that would run from Israel to Turkey through Cypriot territorial waters (or EEZ), and then from the Turkish domestic network on to European markets. The pipeline at the very least would carry Israeli gas, but could ideally be envisaged as a multi-source solution to transport gas from the various East Mediterranean producers,

including Cyprus. The U.S., the EU and Turkey all stand behind this solution, appreciating its commercial and above all geopolitical value.

Two major political challenges question the viability of this option. Both however could be overcome in 2014. The first is the state of Turkish-Israeli relationship, which had reached its lowest point after the Mavi Marmara incident in May 2010. In 2013, the U.S.-brokered Israeli apology to Turkey not only has taken a major thorn out of Turkish-U.S. relations and weakened voices bemoaning Turkey's drift away from the West, but has also contributed to the political viability of the Israel-Turkey gas pipeline. The pipeline is both made possible by the rapprochement and would unquestionably consolidate the process of reconciliation in 2014.

The second, more challenging, issue is the Cyprus question. Insofar as the Israel-Turkey pipeline would need to pass through Cyprus' EEZ, the Republic of Cyprus would need to consent to the project. To date that consent has been lacking, as the Republic is wedded to the idea of an LNG terminal in Cyprus despite its questionable commercial viability. Provided that proven reserves were to justify multiple transport options, a possible solution would be an LNG facility in Cyprus plus an Israel-Turkey pipeline. Cyprus would thus consent to an Israel-Turkey pipeline if Israel were to send part of its gas to the LNG facility in Vasilikos. This would mean that Eastern Mediterranean gas would be partly channeled to Turkey and the Southern Corridor but also that Cyprus and Israel would liquefy part of their natural gas for exports to more profitable global markets.

Adding to the viability of this option is the resumption of the Cyprus peace process in February 2014, after an over two year hiatus. In 2014 Eastern Mediterranean gas could thus act as a catalyst for the successful conclusion of the Cyprus peace process. Such a peace process would ideally lead to a comprehensive settlement on the basis of a bizonal and bicomunal federation. At the very least there would be a partial agreement on resource governance and revenue sharing. Coupled to this, Ankara would be called to open its ports to Cypriot ships, while Cyprus would finally consent to the direct trade between northern Cyprus and the European Union. The EU-Turkey accession process would thus gain momentum with the lifting of EU and Cypriot vetoes on 13 of the chapters. Were this to happen, Eastern Mediterranean gas would concomitantly contribute to peace in the Eastern Mediterranean, to European energy security, and to closer EU-Turkey relations, which have been traditionally backed by the United States.

TURKEY IN TURBULENCE: ITS GEO-STRATEGIC MEANING FOR THE TRANSATLANTIC COMMUNITY



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The term “turbulence” is increasingly being used with respect to Turkish domestic and foreign policy as well as developments around Turkey’s neighborhood, ranging from Ukraine to the post-Arab Spring Middle East. The Gezi Park protests that erupted early in the summer of 2013, coupled with the corruption scandal involving cabinet ministers and their families later in the year, attracted considerable public attention to domestic political developments in Turkey. It has provoked considerable political and economic instability. President Abdullah Gül himself very recently used the term “turbulence” when referring to these recent developments in Turkey. The growing authoritarian style of governance that Prime Minister Recep Tayyip Erdoğan has adopted is being challenged by various groups in Turkey. His majoritarian understanding of democracy is increasingly polarizing the country as it continues to face unresolved major political challenges such as the Kurdish question. The challenge mounted most recently by the Hizmet movement led by Fethullah Gülen, a preacher based in the United States, has precipitated a major political crisis. This crisis is aggravated by structural problems that the Turkish economy has so far failed to overcome at a time when the days of “cheap money” that had benefitted Turkey’s economic performance is fast coming to a close. The Turkish currency in the first couple of weeks of 2014 has lost more than a quarter of its value against the U.S. dollar and the euro while interest rates have increased significantly in spite of Erdoğan’s resistance. These developments are likely to have serious consequences for the overall performance of the Turkish economy during the course of 2014. Yet, for the time being, the Turkish Prime Minister remains popular with his electoral base as Turkey enters an eighteen months-long electoral cycle. These developments are

likely to pave the way to greater turbulence in the country and are likely to impact on Turkey's foreign policy too.

Turkish foreign policy too has been experiencing considerable turbulence. The infamous “zero problems with neighbors” policy of the Turkish Minister of Foreign Affairs, Ahmet Davutoğlu, is increasingly called “zero neighbors without problems” by analysts. The Arab Spring that had so energetically been welcome in Turkey has evolved in such a manner that has left economic and political relations with pretty much every single Arab country, with the possible exceptions of Libya and Tunisia, adversely affected. Turkey's relations have remained problematic with Israel, too, in spite of the apology issued by Israel for the deaths of the Turkish citizens onboard the *Mavi Marmara* when it was raided by the Israeli military. This past year was also a period when Turkey's transatlantic relations were strained, especially over Syria but also Iraq, until very recently, and Egypt. These relations have also been challenged by Erdoğan's constant references to wanting to distance Turkey from the West and developing closer relations with Russia and members of the Shanghai Cooperation Organization. This is particularly striking as it comes at a time when in Ukraine, large public protests against a government that refused to sign an associational agreement with the EU culminated in the president deserting his government and fleeing the capital.

The turbulence in Turkey and in its neighborhood comes at a time when there is a geo-strategic contestation that continues to unfold between what could be called the advocates of “transatlantic form of governance” based on pluralist democracy, rule of law and liberal markets and a rival form of governance characterized by at best a majoritarian understanding of democracy, state capitalism and disregard for the rule of law. The recent events that have unfolded in Ukraine since November are a remarkably conspicuous manifestation of this contestation. Turkey straddles a geography where these two forms of governance are confronting each other. Turkey had long been envisaged as a country that could constitute a model for the transatlantic form of governance, which could have a transformative impact on its immediate neighborhood both politically as well as economically. However, the turbulence characterizing Turkish domestic politics and foreign policy coupled with the broader turbulence in the neighborhood is clearly undermining this.

Both turbulences have important policy implications in terms of the U.S. and the EU. In the second half of 2013 there were some signs suggesting

that Turkey's interests with its transatlantic partners may have started to converge more. This has become evident with respect to Turkey's efforts to repair its relations with the central government in Baghdad while continuing to deepen the ones with the Kurdish Regional Government. On Syria, both with respect to the idea of achieving a diplomatic and political solution to the crisis in Syria as well as isolating radical and foreign fighters, cooperation with the U.S. and the EU has been improving. On Iran too, Turkey is more and more on the same page with the EU and the U.S., although the corruption scandal has revealed some embarrassing links between Iran and Turkey, undermining sanctions against Iran. More importantly, EU-Turkish relations appear to be entering a more positive period. After three years long break a new chapter was opened for accession negotiations. A long standing and divisive Readmission Agreement was finally signed between the two sides. This agreement once ratified should improve cooperation against transit illegal migration into the EU and possibly open the way for Turkish nationals to travel to the EU without visas. However, these are still very precarious developments and may be undermined by the turbulence within Turkey. Turkey right now is quite far away from where it was only a few years ago when it was seen as a pillar of stability and a model for the neighborhood.

It is going to be important to explore new ways of engaging Turkey and especially Turkish society to mitigate the effects of internal as well as external turbulence. Turkey's stability and prosperity depends deeply on a well-functioning national economy and a stable neighborhood. Many in Turkey recognize that both objectives are much more likely to be achieved if the transatlantic form of governance prevails in Turkey and its neighborhood. Just as ensuring Ukraine's transition into a fully-fledged democracy and a liberal economy will be critical to the transatlantic community's geo-strategic interests, ensuring that Turkey remains a member of this community is essential. The U.S. and the EU will have to demand more strongly that the Turkish government respect the values of liberal democracy, ranging from freedom of expression to the rule of law and respect for human rights. Reviving the prospects of EU membership is likely to be an important motivation for the government, but also the country at large. Exploring possible ways of including Turkey in the Transatlantic Trade and Investment Partnership (TTIP) would be another path of anchoring Turkey in the transatlantic community. Actually, this was openly raised by Davutoğlu during his visit to Washington in November last year. Lastly, in

the light of the ever-increasing number of Syrian refugees, now close to one million, burden-sharing from the U.S. and the EU in the form of financial assistance, resettlement programs for at least some of the refugees, and closer cooperation in managing the refugee crisis would go a long way in generating goodwill in Turkey with respect to the transatlantic community.

THE U.S.-TURKEY RELATIONSHIP IN 2014



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2014 has not been a good year thus far in U.S.-Turkish relations. Beginning with the political uncertainty — stemming from a wide-ranging corruption probe that broke at the end of last year — Turkey, the region’s most stable democracy, is now more focused on its domestic rather than foreign policy priorities.

Unfortunately, there seems to be a perfect storm brewing over U.S.-Turkish relations. Prime Minister Recep Tayyip Erdoğan’s state visit to Washington last year was well-received and played an important role in establishing Ankara’s central role as a regional leader despite differences over Syria. However, the Gezi Park protests quickly focused non-stop media coverage domestically on Taksim Square, which became mistakenly equated in Americans’ minds with Tahrir Square, despite the major differences between Egypt and Turkey. Further complicating the relationship are recent threats from Ankara to expel the U.S. Ambassador over his comments on domestic developments. Against this backdrop, foreign investors are staying away from Turkey — causing the lira and the Istanbul-stock exchange to plummet.

Making matters more complicated, Turkey faces three elections in less than a year’s time, each of which will test the ruling Justice and Development Party’s (AKP) hold on municipal, presidential, and parliamentary power, all in an election year for America too. With all these factors at play, uncertainty is now the norm for Turkey. Even before the recent domestic developments, some analysts maintained that Turkey’s outlook for 2014 was sobering.

With domestic elections in both countries for 2014; continued regional chaos without clear leadership on, or direction in, Syria and Iraq; and accumulated frustrations from the peak of what once was called a “model partnership,” Turkey and the United States find themselves at a crossroads.

2014, it seems, will be as much about weathering this short-term storm as focusing on the long-term priorities that these two critical allies have shared since the end of World War II — even despite the changes and dynamics at play today.

Timing in 2014: Election Year and New Ambassadors

Election years always seem to bring about the worst in democracies. From electoral politics to powerful SuperPACs in America, the system often gets strained. Yet, elections are a necessary process, in which leaders must demonstrate to their domestic constituencies that they understand their daily concerns.

But generally speaking, elections do not hinge on foreign policy. Even though President Obama will never face another election, his State of the Union this year set up his party for elections along the domestic lines he has been pursuing from the beginning of his time in office, with minimal discussion of foreign policy matters. Erdoğan has taken a similar tack. In Turkey's factitious parliamentary system, Erdoğan has been campaigning since the beginning of the year simultaneously for Mayor of Istanbul, President, and Prime Minister in a populist tone — puzzling many outsiders not used to the style of Turkish politics. Listening to the nationalist/populist tone of Turkey's most successful campaigner and politician in living memory, analysts continually try to equate Erdoğan's words to Turkey's actions. Foreign policy concerns are falling by the wayside. Indeed, amidst Turkey's most consequential set of elections in decades, the champions and daily managers of U.S.-Turkish relations — Turkey's Ambassador to the U.S. and the U.S. Ambassador to Turkey — are set to be replaced.

While the timing of ambassadorships is determined by both political appointment and professional foreign service, losing these two long-serving diplomats is a further challenge for U.S.-Turkish relations. Change is always difficult and there is a steep learning curve to a city as complicated as Washington. Meanwhile, the new American ambassador will need to understand the new Turkey that he/she will inherit, without being too closely tied to any particular group within Ankara. At the same time, his replacement must cultivate personal empathy and connection to the average man on the street through an appreciation and love of Turkey, the way his predecessor did. As the principal officials in charge of day-to-day U.S.-Turkish relations, filling the shoes of these ambassadors in an election year in both countries will be a difficult balancing act to say the least.

Foreign Challenges

The attractiveness of Turkey lies not only in its strategic regional position, but also in the economic success and value of its partnership that has increased every year since Obama came into office. Like Washington, Ankara faces a new world in the aftermath of the “Arab Spring.” But the uprisings presented challenges in their own neighborhood.

This has forced Turkey to make difficult foreign policy choices — like aligning with imperfect partners. Hoping to create regional stability, Turkey backed the Muslim Brotherhood’s Mohamed Morsi in Egypt and Sunni rebels in Syria. But this left Turkey without ambassadors in either country where it once was seen as a major powerbroker. Having built and reoriented itself into a 21st century regional power, Turkey aspires to lead once again. This has, simply put, distracted its focus on building stronger ties with America. Meanwhile, the U.S. is desperately seeking reliable Middle East leaders with whom to partner.

What are the Solutions?

There is no panacea to these foreign policy crises. However, there is at least one policy framework that will help enable the U.S. to better understand and address them: a deeper Ankara-Washington partnership, even despite the domestic political concerns in both countries. As the Middle East’s largest and Europe’s fastest-growing economy and population, Turkey is uniquely situated to play a consequential role in a region critical to U.S. national interests.

The U.S. will continue to temper Ankara’s sometimes nationalist and populist policies in favor of pragmatic cooperation, such as with Israel and Cyprus (both of which may look to Turkey for energy transit or export projects in the near future) or even the European Union. Washington can play bad cop to Ankara’s good cop (or vice-versa if coordinated in advance), given their broad areas of agreement and mutual economic incentives. Where there are short-term disagreements, longer-term gains will eventually facilitate Turkey’s evolution as a responsible regional leader — one that has the strong backing of the United States, or if necessary, the tough-love of a stable partner.

Moving Forward for 2014

Finding a place for Turkey in the Transatlantic Trade and Investment Program (TTIP) is a critical short-term step, and a good place to start in

reassuring jittery foreign investors. As Turkey's EU membership continues to stall, Washington must be creative and fresh in its approach including pushing its European allies to do the same. Washington should leverage available resources in Ankara and other regional partners to develop key regions and sectors. The power of American brands — and symbolism of American investment — in Turkey will help the US private sector engage in a critical Middle East market. And, given that conspiracy theories and anti-Americanism makes engagement in other parts of the region almost impossible, the opportunity is growing more urgent every day.

U.S. policy towards Turkey has been stale for too long. In 2014, Washington needs a new, more comprehensive framework to coordinate and implement policies jointly with Ankara. Without a fresh, holistic approach — and regardless of domestic politics in both capitals — the U.S.-Turkish alliance will continue to have intrinsic worth, but miss its full potential in 2014 and far beyond.

PRAISING TURKISH POLICY TOWARDS SYRIAN REFUGEES, KEEPING AN EYE ON THE POLITICS



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In terms of asylum, 2013 represented an extraordinary year for Turkey: in 12 months, more than 500,000 refugees from Syria came onto Turkish territory, adding to the approximate 200,000 that had already arrived since April 2011. For reference, between 2001 and 2011, Turkey received between 4,000 and 16,000 refugees each year. If 2013 was extraordinary, 2014 is likely to be similar, with the Turkish government expecting a total of about 1.5 million Syrian refugees by next December.

Turkish responses to Syrian refugees have positively surprised a number of external observers. Since October 2011, the Turkish authorities have opened the door to Syrian refugees with very limited restrictions, they have built different types of refugee camps that now shelter more than 200,000 refugees, they have given Syrian refugees free access to Turkish healthcare system since January 2013, etc. Additionally, in the midst of the crisis, in April 2013, the Turkish parliament adopted a new comprehensive and protective Law on Foreigners and International Protection. While these efforts may not be fully sufficient to accommodate the immediate needs of 1 million refugees, Turkey's performance and generosity today is in striking contrast with previous Turkish policies, as well as with today's performance of other neighboring countries such as Lebanon or Jordan, or even with the limited assistance provided to refugees by both the EU or the U.S. These policies have gained Turkey a lot of praise externally, from sources ranging from international agencies to the international press. The *New York Times* (February 13) referred to Syrian refugee camps in Turkey as "perfect refugee camps," and this was on top of different reports mentioning "5-star refugee camps" and the "best refugee camps ever seen."

At home, however, the appraisal of these camps and policies are not as rosy as their depiction internationally. While some of these criticisms can easily be deconstructed, some are worth more considerations from both the Turkish government and its transatlantic partners.

The relatively negative coverage of Turkish policies towards Syrian refugees can be explained by an accumulation of diverse factors: (1) some genuine concern from Turkish citizens regarding the disruption caused by a substantial number of Syrians on Turkish territory, (2) the critical appraisal of invested civil society actors working on asylum whose role is to constantly push the Turkish state and society towards a higher standard, (3) the rise of anti-government voices in the Turkish public that sometimes readily assume that any government policy is ill-minded, (4) the close connection between Turkey's policy towards Syrian refugees and the much-more-controversial policy towards the broader Syrian conflict and (4) the weakness of pro-government voices defending and explaining to the public the specific policies towards refugees.

Many un-founded or ill-founded rumors circulated widely in Turkish social media claiming that the Turkish government was providing more relief to Syrian refugees than to the displaced from the Van earthquake of October 2011; that the subsidies given to Syrian refugees were more than twice the minimum wage in Turkey; that Syrian refugees had committed a very high level of vandalism and assaults; and — the more common and persistent of claims — that Syrian refugees were given easy access to Turkish citizenship and resettled strategically on Turkish territory so as to impact future elections in favor of the AKP. While these rumors proved exaggerated or wrong, they highlight the politically sensitive nature of the issue.

Other criticisms of Turkish policies towards Syrian refugees have focused on other aspects of the issue. An early set of concerns were raised in fall 2012 and summer 2013 regarding the ethnic composition of refugees (mainly Sunni Syrians) settling in areas of important Alevi communities in Turkey (especially in Hatay), and potentially destabilizing a fragile ethnic balance in the region. Existentially, the Syrian refugee presence on Turkish territory has also raised the issue of conflict spillover and insecurity, especially in the wake of the Reyhanlı bombing in May 2015 that killed over 50 people. Economically, locals complained about the impact that Syrian refugees have on increasing rents and lowering wages. Finally, there is a growing awareness that refugees are here to stay, and in a country that lacks appropriate

infrastructure for the long-term integration of these refugees, this will increasingly be an issue.

The 2013 *Transatlantic Trends* report from the German Marshall Fund had interesting data on Turkish public opinion regarding immigration that indicate that the Turkish public remains confused about the status of foreigners living in Turkey, the reason for their stay, and the rights and obligations that befall them. My own research suggests that the Turkish public has not yet formed solid opinions regarding immigration, including refugee movements. However, the context in which certain issues become politically salient will strongly influence whether the Turkish public will be receptive and inclusive of migrants and refugees, or rather suspicious and exclusive. It is therefore crucial that the Turkish public is pro-actively informed and educated on the situation of Syrian refugees, before further politicization of the issue negatively impact policy making — for the policies in place, and for the policies that need to be set-up to better address the immediate security concerns of Syrian and Turkish citizens alike, and the long-term well-being of Syrian populations residing in Turkey.

Beyond the refugee issue, Turkey, domestically, is in the midst of a very complex and tense situation. Syrian refugees may not be the number one priority in mind when Turkish voters go to the voting booths, but no one can afford to see their plight become victim of petty politicization. Syria is unlikely to see a rapid political solution to the conflict, in turn paving the way for a continued dramatic humanitarian situation. We need Turkey to be able to continue provide as much relief as possible to Syrian refugees. This means preventing the issue of Syrian refugees from becoming entangled with Turkey's domestic politics. This also means that the U.S. and the EU should step-up their assistance to Syrian refugees and symbolically and materially really help Turkey to help Syrian refugees.



ENERGY AND THE ENVIRONMENT

BRIDGING THE ENERGY DIVIDE? EU-U.S. ENERGY RELATIONS AND THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP



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WITH JULIA HOWALD AND KIRSTEN WESTPHAL¹

At the G8 summit in Northern Ireland on June 17, 2013, the European Union and the United States officially kicked off the negotiations for a comprehensive Transatlantic Trade and Investment Partnership (TTIP). The first round of negotiations took place in July 2013. The transatlantic partners want to abolish tariffs, dismantle non-tariff barriers (NTBs) and set, among others, new rules for government procurement, investment, and competition. Another topic on the agenda is energy. Energy issues were discussed during the third round of negotiations; concrete results are still pending. What can TTIP deliver on energy?

Different Energy Trajectories

While the transatlantic partners are highly integrated in many economic areas, energy interdependence between the United States and the EU is low, even though U.S. petroleum exports to the EU have been rising steadily in recent years. The United States and the EU also seem to be on very different energy paths: While the United States is on track to become self-sufficient with regard to natural gas, the EU's import dependence will increase significantly as domestic production continues to decline. In the early release overview of its Annual Energy Outlook 2014, the U.S. Energy Information Administration (EIA) forecasts the net import share of total

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U.S. energy consumption to decline from 16 percent in 2012 to 4 percent by 2040. Dependence on foreign oil is at its lowest level since the 1990s, while the United States could become a net exporter of liquid natural gas (LNG) in 2016 and of natural gas in general in 2018.

There is also a large price differential between the United States and the EU. According to the World Energy Outlook (2013) of the International Energy Agency (IEA), European industrial consumers paid on average more than twice as much for electricity than their competitors in the United States. Particularly energy-intensive sectors (steel, aluminum, chemicals, pulp, and paper, to name just a few) as well as those which use natural gas as feedstock, such as the fertilizer, chemical, and plastics industries, have noticeably benefited from low gas prices. Against the backdrop of refinery closures in Europe and structural change in the feedstock use in the petrochemical industry, European industries feel the manifold pressure. Some industries warn that TTIP could increase this pressure by granting U.S. producers greater access to the EU market.

The two partners also have different reference points with regard to energy security: for Europe, this is Russia; for the United States, it is traditionally the Middle East. The U.S. coordinate system is shifting from the Atlantic to the Pacific. And China, being perceived as a greater competitor for scarce resources than Europe, is watched with extra care.

Common Interests

Despite their differences, the transatlantic partners also have common interests. Foremost, they are both dependent on open, transparent, competitive, and sustainable energy markets as well as in the development of cleaner energy technologies. To jointly advance these interests, the United States and the EU created the EU-U.S. Energy Council in late 2009. In this forum, the transatlantic partners discuss three broad topics: energy security, energy policy, and energy technology. At the last summit in 2012, they, for example, discussed EU and U.S. sanctions on the export of Iranian crude oil and petroleum products. A recurring topic at the Council meetings is the EU's high dependence on Russian gas. Regulatory issues such as the energy-efficiency labeling program "Energy Star" and test methods for determining the efficiency of energy-related products, as well as smart grids and e-mobility standards, are dealt with in the Transatlantic Economic Council (TEC).

Energy in TTIP

The TTIP negotiations will focus particularly on market access issues. Currently, the United States only exports small amounts of oil and gas. Exports of crude oil are prohibited with the exception of a few special cases. A liberalization of the oil export regime does not seem very likely, not only because of the high oil price but also because oil is very much perceived as a security issue. For gas exports, two types of federal licenses are necessary: an export permit from the Department of Energy (DOE) and a facilities permit from the Federal Energy Regulation Commission (FERC). If the export destination is a country with which the United States has signed a free trade agreement (FTA), the exports are deemed consistent with public interest and a license is granted without much delay. In the case of gas exports to non-FTA countries, the DOE has to determine whether such exports are in line with public interest. So far, 32 projects have received approval to export domestically produced LNG to FTA countries, while only six projects have also received permits to export to non-FTA countries. Only one project, Sabine Pass, was granted all necessary approvals. In principle, as soon as the United States and the EU have signed a trade pact, the EU would register as FTA country. To ensure that the EU does not fall victim to unfavorable changes in the export regime, the EU wants the United States to commit to removing export restrictions in general.

The Road Ahead

An ambitious energy chapter in TTIP would also be in the interest of the United States. The United States is one of the main proponents of stricter WTO rules on export barriers. Keeping its own export restrictions undermines its credibility. Apart from TTIP, the transatlantic partners should continue to use the U.S.-EU Energy Council to discuss energy security concerns and to promote sustainable energies and energy efficiency efforts. Within the multilateral context, the United States and the EU should foster new consumer-producer-transit country dialogues, building on the initiatives of the IEA and the G20. The United States should also rethink its stance towards the Energy Charter, as it could be an important tool to secure energy supply. Given the unprecedented uncertainty in energy markets, an exchange of information and experience as well as continued cooperation is more important than ever.

THE NORTH AMERICAN ENERGY REVOLUTION: FADING STAR OR WAVE OF THE FUTURE?



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Developments in North American fossil energy production over the last decade are impressive, well-known, and from the perspective of the climate, scary. Last year continues recent trends and provides further evidence that the global gas and oil landscape continue to be shaped by remarkable advances in technology and know-how that were largely home-grown in Canada and the United States.

Here are some facts: Around 40 percent of American and 15 percent of Canadian natural gas production in 2012 was shale gas, and China was the only other country in the world reporting commercially produced shale gas, where it comprised less than 1 percent of production. Total U.S. natural gas production has increased by nearly 35 percent between 2005 and 2013, wiping out early declines in production of mainly conventional gas, and the U.S. has now surpassed Russia as the world's largest gas producer. Nearly everyone expects the U.S. to become a net exporter of gas in the coming years, which will make the already globally apparent ripple effects of the shale revolution even more pronounced. Those ripples, for example, made the dramatic turn of events in Japan post-Fukushima — a 44 percent reduction in nuclear generating capacity — less of a global problem because developments in America meant that competition for liquid natural gas (LNG) was weak, so that much of it ended up going to Japan and supplementing other sources of energy. As a future gas exporter, the U.S. would have a strategic energy tool to use in pursuit of foreign policy goals — and if discussions in Congress of LNG exports are any indication, it will use this tool to help allies such as Japan, South Korea, and Poland, against perceived threats to energy supplies by Russia, China, and the like.

The same technologies that made a shale gas revolution possible—horizontal drilling, advances in hydraulic fracturing, and others—are also being successfully applied to shale oil and other forms of tight oil. Given historically low natural gas prices in recent years, oil is where the money is in unconventional energy. The U.S. has witnessed at least an eleven-fold increase in production of tight oil since 2000, and the U.S. Energy Information Administration expects tight oil production from places such as North Dakota and Texas to exceed conventional crude production in just a few years. In fact, North Dakota, home to most of the Bakken shale formation, has now surpassed Alaska to become the second largest petroleum producing state in the U.S. behind Texas, while the U.S. as a whole will likely surpass Saudi Arabia as the world's largest oil producer, possibly as soon as this year. After peaking in 2005, net oil imports have since fallen by 36 percent, or as BP's chief economist Christoph Rühl points out, the equivalent of Japan's entire oil consumption in 2012. And Japan is the third-largest consumer of oil in the world behind the U.S. and China. Meanwhile, in Canada, in addition to their own shale oil and gas revolutions, the Athabasca oil sands in Alberta are filled with bitumen equivalent to the third-largest proven crude oil deposit in the world behind Saudi Arabia and Venezuela. There is little doubt that even if the U.S. does not approve the controversial Keystone XL pipeline to move that bitumen to the Gulf Coast, the Canadians will find other ways to move this lucrative, dirty, and climate-destabilizing resource to market, by rail, truck, and alternate pipelines. North America, it appears, has become once again a source of petroleum plenty.

Who is benefitting from all of this? Obviously, energy companies, especially oil companies. Natural gas producers, which rely on regional markets, have faced several years of extremely low, even unprofitable, price levels, though 2013 began to see prices rising as industry players shifted into more profitable gas liquids. In certain regions, in particular North Dakota, Texas, and Pennsylvania, energy-related job growth has been impressive, though often not as robust as had been predicted. Some manufacturers have co-located with booming shale gas production, especially in the petrochemical branch. If anything, the debate over the environmental consequences of the energy revolutions in North America has become more intense over the last year. Tim Boersma and I have written extensively on the

environmental aspects of shale gas production, in particular,² but suffice it to say that questions about methane leakage rates (methane is a much more potent greenhouse gas than CO₂), waste water disposal, and the seismic impacts of hydraulic fracturing are largely unresolved. Unconventional energy has distracted American policy makers from making any significant progress on renewable energy, though there have been positive steps on efficiency, especially in setting fuel economy standards for automobiles. We have argued that shale gas and oil could be treated as a gift of time as a comprehensive plan is developed for addressing climate change and pricing carbon to make us actually burn less. Instead, both Canada and the U.S. have treated the energy revolutions as an excuse for business as usual.

And what have recent developments meant for transatlantic relations? Europeans are impacted in a number of ways by the energy revolutions in North America. Natural gas is cheap in North America and expensive in Europe, so unsurprisingly European negotiators have put energy on the list of topic in negotiations over the Transatlantic Trade and Investment Partnership (TTIP). The EU would like to see unambiguous support by the U.S. for increased exports of its energy. But in other ways, Europeans are already feeling the impacts of shale gas and oil. The volume of coal exports from the U.S. has increased by 250 percent since 2005, and half of exports go to Europe. The rise in coal exports is a direct result of the growing share of natural gas in electricity generation in the U.S. The German decision to close its remaining nuclear power plants in the wake of the Fukushima disaster certainly contributed to increased demand for coal in Europe.

2014 promises to be an interesting year — TTIP, Ukraine, and LNG exports could help determine whether Europe and North America continue on their diverging paths on energy market dynamics and climate policies seen in recent years or whether what has been an exceptional American experience becomes more of a transatlantic phenomenon.

² See, e.g., Boersma, T., & Johnson, C. 2013. “Twenty Years of US Experience — Lessons Learned for Europe.” In C. Musialski et al. (eds.), *Shale Gas in Europe*. Deventer (Netherlands): Claeys & Casteels Law Publishers, and Boersma, T. and Johnson, C. 2012. “Risks and Potentials of the Shale Gas Revolution Consequences for Markets and the Environment,” German Institute for International and Security Affairs (SWP), Berlin, SWP Comments #39.

EUROPEAN UNION ENVIRONMENTAL POLICY AT 40-SOMETHING



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Europe is undergoing significant economic and social transitions, causing major political disagreement over public finances and currency weakness. Some politicians argue that “at a time when disquieting monetary or trade problems” oblige a search for lasting solutions, “the time has come for Europe to realize the unity behind her interests, the scope of her capabilities and the importance of her obligations.” While some cling to narrow national interests others push for further pooled authority and increased federalism as the only viable way forward. In the midst of all this, governments seek to protect the environment and formulate an energy policy that “ensures a reliable and lasting supply.”

Welcome to Europe — in 1972. The quotes above are contained in the official declaration of the first summit conference of the heads of state or government of the member states of the European Economic Community, in October 1972. In the wake of a recent expansion in membership from six to nine countries, this meeting marked the birth of EU’s environmental policy. Leaders from across the ideological spectrum — including France’s Georges Pompidou (Gaullist), West Germany’s Willy Brandt (Social Democrat), and the U.K.’s Edward Heath (Conservative) — launched the political processes that yielded both a massive expansion of European environmental health and safety regulation, and the acceleration of European political and economic integration and expansion.

42 years later, it is not clear if contemporary European leaders are similarly up to the task of steering a course through regional economic and political turmoil and waning global influence. Over the past four decades, pan-

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European environmental policies have gone from weak attempts to set broad goals and rather unambitious standards to the single most stringent and influential body of environmental policies on earth. In many ways, the formulation of an ambitious body of environmental law and regulation is among the clearest EU successes. Yet, as environmental policy matures, it is uncertain whether the formerly young environmental wunderkind can sustain its run of success.

The remarkable achievements of EU environmental policymaking include the development of a huge body of environmental law on every significant environmental challenge, from air and water pollution, to chemicals management, waste reduction and disposal, recycling, greenhouse gas reduction and renewable energy development, food safety, consumer protection and product standards, and habitats and nature protection. Yet, the EU's signature policy to reduce greenhouse gas emissions, the Emissions Trading Scheme, is limping along with bargain basement prices and corruption scandals, the victim of a the repeatedly demonstrated inability of Europe's political leaders to figure out how to fix its patently obvious problems. Sound familiar?

Over the last 10-15 years, EU environmental policy is unrivaled in its global influence. When environmental advocates — whether in U.S. environmental organizations, Asian government ministries, or academia — want to assess state-of-the-art environmental policies to tackle a particular regulatory problem, they usually turn to Brussels. Though the results of global environmental cooperation are often underwhelming, it is hard to see how anything could be accomplished in global fora without EU participation and sponsorship.

The seemingly endless European economic/governance crisis is casting a long shadow over contemporary European cooperation of all kinds, leaving many asking if this is the beginning of the end for the EU. Even if reports of the EU's death are wildly exaggerated, as seems likely, European leaders desperately need to regain optimism and faith in the European project across the continent. Just as in 1972, part of the answer lies in environmental policy. In the 1970s and 1980s, environmental policy was used to advance economic and political integration and harmonize standards and regulations. These developments, in turn, leveraged changes in the treaties that detail how the EU functions and to what it aspires.

This line of thinking is not new. Functionalist theories of integration stress the importance of day-to-day operations for slowly solidifying and deepening cooperation over time. For Jean Monnet and other architects of European integration after World War II, mundane tasks were essential to build trust and advance political agendas. Very few people get excited about technical issues of developing standards for harmonizing risk assessments of hazardous substances. But polling suggests that environmental and consumer standards rank among the most popular of EU activities across the member states.

Environmental policy is an important indicator for the strength of broader processes of European integration. Many environmental issues are transnational. Their management intersects with the functioning of the common market and the fulfillment of core economic and social goals. As more environmental policy-making authority has been transferred from the member states to the EU level, environmental policy expanded to become one of the largest areas of EU law. Currently, most new European environmental policy — and reforms of existing ones — is formulated at the EU level, not in national capitals.

While many will scream at the notion of making more environmental policy in economically challenging times, EU policies have already passed this test. Beyond being a vehicle for greater regional integration, they can also enhance global competitiveness. The EU has set many of the world's highest product standards — for example, for energy efficiency, recyclability, toxics reductions and product safety. By leveraging the fact that the EU is the largest single consumer market on earth, these high standards often become the de facto global standards.

A major strength of EU environmental policy-making over the past 40 years has been the ability to formulate common positions across divergent national interests and differences in political ideology. Yet, significant challenges remain. A recent State of the European Environment report published by the European Environment Agency concludes that the record of EU environmental policy is mixed beyond the successes seen in air and water pollution reduction. Unsustainable development of key economic sectors is a major barrier to further improvements. The source of many European environmental problems has changed from production-related challenges to consumption patterns. European consumption substantially exceeds regional natural resource production. Europe is highly dependent

on others for nearly all of its basic resource demands — and a lot of wealth flows out of the EU as those imports flow in. It is precisely this resource dependence that suggests that Europe should lead the world toward much-needed resource efficiency revolutions.

The European environmental agenda is inextricably tied to efforts to change this pattern. Shifts in consumption behavior are needed, as are substantial improvements in resource efficiency in nearly every economic sector. Furthermore, much better integration of environmental and economic objectives is required across major policy areas, including energy, transportation, agriculture, industrial production, the service sector, and land-use and urban planning. Addressing interrelated environment and economics issues offers opportunities both to save the environmental agenda from a painful mid-life crisis and to tackle economic problems. This requires rediscovering common purpose and reducing nationalist finger pointing.

A sustainable Europe would be one living within both ecological and economic limits where political institutions engender sustainable development. Currently, too many member states exceed both types of such limits, externalizing the costs on others. Recognizing common responsibilities and shared interests is the path toward regaining stability and development. Learn from history. European leaders can use the environmental agenda to help rebuild regional unity and the EU's global influence. Together, Europe's environmental policies and its economy can be fabulous after 40.

EUROPEAN UNION ENERGY POLICY: 2013 IN RETROSPECT AND 2014 LOOKING FORWARD



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After two years of intense debates and negotiations, European member states in April 2013 agreed to accept the EU regulation on guidelines for trans-European energy infrastructure. For the first time in history, European institutions will have a structural mandate regarding the construction of energy infrastructure, an area that had always been an exclusive domain of the member states. Member states partly acknowledge that further integration of European electricity and natural gas markets requires more supranational streamlining of regulations and occasional European funding of infrastructure projects. Some member states, mostly those in northwestern Europe, are not excited by this as their energy networks are comparatively well developed, and therefore most of the funds would go to other countries. As expected, the final version of this regulation turned out to be a compromise: in the period up to 2020, little over €5 billion has been reserved under the Connecting Europe Facility for energy infrastructure, a small portion of the estimated €200 billion that is required. Member states have been asked to suggest so-called projects of common interest before actual support is allocated, even though a comparable policy in the past did not generate impressive results and mostly proved to be a time-consuming effort.

Some still believe that cheap U.S. natural gas will eventually reach European shores, but for the time being Europe will have to do with cheap U.S. coal. In the liberalized European electricity market, coal sets the price, pushing out old gas-fired electricity plants. As a result, the share of coal in electricity generation has risen in several northwestern European member states, and subsequently carbon emissions have gone up.

Energy intensive industries have seized the opportunity of low U.S. energy prices due to large scale unconventional oil and gas extraction to organize a vocal protest against renewable policies in Europe. It is often claimed that high electricity tariffs in Europe are a result of those policies, though there is no empirical evidence to support this notion. These industries (e.g. steel, cement) do not mention that they are generally exempt from paying into renewable support schemes. European Commission studies show that the rise in electricity costs is mostly due to infrastructure investments and rising taxes and levies. Ironically, member states with a high penetration of renewables have generally lower wholesale prices for electricity, but have so far not been able to transfer those benefits to the consumer level, due to a lack of market integration among other factors.

In June 2013, the Shah Deniz II consortium decided that it would opt for the Trans Adriatic Pipeline (TAP) to transport natural gas from Azerbaijan to the EU. At the same time, the chance that the EU and U.S.-backed Nabucco pipeline will be built became negligible. The decision was welcomed in Brussels, however, even though in the coming years the share of gas that can be transported through TAP is not substantial. This may change in the longer run, if initiatives to broker a deal with Iran are successful and Tehran starts exporting some of its vast reserves.

European Competition Commissioner Joaquín Almunia launched an antitrust case against Russian gas supplier Gazprom, which is accused of abusing its dominant position in Central and Eastern Europe. Several member states have complained about “unfair” pricing, and contract clauses that prohibited buyers from reselling natural gas that they had purchased from Gazprom. The antitrust case adds another chapter to the deteriorating relations between the EU and one of its most important suppliers of natural gas.

In March 2014, European leaders will have to agree on the proposed climate and renewable directives for 2030, which were presented in mid-January. The proposals, containing an obligation to cut carbon emissions by 40 percent in 2030 compared to 1990, installing an overall EU target for renewable energy of 27 percent, and reforming the European emissions trading scheme (ETS), were not as bad as many expected. However, further watering down of these proposals would undermine Brussels’ efforts to move away from fossil fuels, and it remains to be seen whether having one

European target for renewable energy as opposed to national targets will be sufficient to realize actual investments.

A new European Parliament and a new European Commission will come into place this year. Much of what can effectively be done in Brussels in the coming years depends on their shape. For the first time, there appears to be a serious possibility that the majority of Parliament will be on either the far left or the far right of the political spectrum.

The member states will continue to debate over projects of common interest with regard to energy infrastructure. Further market integration will proceed, but it will not be enough to complete the internal markets for electricity and natural gas, as envisaged for 2014.

The largest producer of natural gas in the EU, the Netherlands, will scale down operations after a series of earthquakes that has disturbed the local citizenry. For the moment a financial injection of over €1 billion in the affected region seems to be sufficient to keep everyone calm, but new earthquakes could change that assessment.

The German government is set to reshape its support scheme for renewable energy. People who installed solar panels or windmills on top of or near their homes have been exempt from paying electricity prices and instead receive a standard rate for electricity plus an add-on for all electricity produced. This has caused many Germans to contribute to the *Energiewende*, but the downside is that the amount of people paying the actual bill has become ever smaller, affecting public approval of the support scheme.

Cyprus may find additional supplies offshore, which would be a welcomed by its government as potential relief from the yoke of its IMF/EU program. Extraction is expected to remain problematic though, for a variety of reasons including problematic relations with neighboring Turkey.

Although the government of the United Kingdom released ambitious policies just at the end of 2013 to promote the exploration of shale gas, no significant developments are expected in the short term. This is partly due to increased public opposition to shale gas development. Meanwhile, the German government decided to ban hydraulic fracturing for the foreseeable future. For the time being, European institutions have not been able to enact more binding EU regulations regarding unconventional gas extraction.

The Ukrainian crisis urges European member states to actively explore alternative energy resources. Some member states will do so by further developing their shale gas ambitions, and hopefully European institutions will take this opportunity to redouble efforts regarding renewable energy, energy efficiency, and demand reduction. At the same time, both Europe and Russia know that when the turmoil will be over, both sides will have to come to some form of collaboration with one another, because alternative supplies of natural gas are often more expensive. For that reason, and because Russia has been a reliable supplier of the larger part of Europe for a number of decades, there is no realistic scenario for Europe in which Russia is not a prominent supplier of energy resources — just as Russia needs European demand to fill its state coffers. Ongoing debates such as the antitrust case against Gazprom and Russia's ambitions to construct South Stream have been put on hold, but will be picked up in due time.

In sum, European energy and climate policies are slowly moving forward, but much work remains to be done to complete the internal gas and electricity market and establish long-term and binding goals for a transition away from fossil fuels.

THE GERMAN *ENERGIEWENDE*: DRYING UP OR MOVING FORWARD?



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The expected change in the German government in late 2013 has marked a turning point in the country's *Energiewende* — the plans to phase out nuclear energy by the year 2021 while continuing to reduce energy-related greenhouse gas emissions and to derive at least an 80 percent share of electricity from renewable energies in 2050. For the electorate, putting a grand coalition into power could be seen as a vote to gain without pain. And that's exactly the challenge.

The newly appointed Minister of Economics and Energy, Social Democrats (SPD) Chairman Sigmar Gabriel, has moved the *Energiewende* away from the Ministry for the Environment and merged it within his portfolio. In doing so, he faces at least two tough challenges. The first is external competition. Energy prices have risen for industry and private households in Germany and the EU, while the new supply of unconventional fuels in North America has led to more favorable energy prices in the U.S. Therefore, it is no wonder that energy-intensive industries are speculating about relocation. Green industry also causes concerns: German solar cell producers (along with others) face stiff international competition, and significant scrutiny that has been exacerbated by a recent financial scandal within Prokon, a giant German wind farm planning firm. The second is internal burden sharing. The previous government was generous in relieving industry from paying its share, with some 1,900 companies being declared “energy intensive” and therefore exempt from the *Energieumlage*, a surcharge paid by German electricity consumers for clean energy production. The publication of details related to these exemptions created a public outcry during the election campaign in late summer 2013. At the same time, the European

⁴ I wish to thank Melissa C. Lott for useful comments.

Commission has lodged a complaint against Germany alleging unbalanced state aid.

These concerns over affordability and fairness culminated in a statement in late 2013 made by Hannelore Kraft (SPD), the powerful Prime Minister of North Rhine-Westphalia, arguing in favor of competitiveness and a cap on expanding renewable energy production (REN). This statement came in parallel with findings about an uneven fee distribution within Germany, according to which Bavarian users (governed by the Chancellor Angela Merkel's allies the Christian Social Union) receive a high share of the surcharge revenues while North Rhine-Westphalian users pay high levels of fees. The social underpinnings of this imbalance are potentially disruptive: wealthy citizens put photovoltaic cells on their posh houses and receive support, while poor citizens struggle to pay their electricity bills in rented homes.

No wonder that the Coalition Treaty of the new German government was quite reluctant to pave the way forward. However, the appointment of two Secretaries of State — Rainer Baake and Jochen Flasbarth — has communicated a tougher message about the future. Baake, who is a renowned supporter of REN and former secretary of state under the Green Minister for the Environment Jürgen Trittin, has taken over this position under Gabriel. Flasbarth is a former President of the Environment Protection Agency and has been appointed Secretary of State at the Ministry for the Environment. Both are seen as strong administrative leaders with strategic capacities to accomplish the *Energiewende*. The main relevant competencies (economy, energy, housing, environment) are now ruled by Social Democrats, which should facilitate policy coordination.

Will this trio be able to rock the country and push the *Energiewende* forward? The political challenges for 2014 are enormous and cast some doubt on this possibility. In particular, the renewable energies law (EEG) is going to be revised by summer 2014. According to a proposal made by Gabriel in January 2014, a more focused support, direct sales, new capacity mechanisms, and competitive bidding should make deployment more cost effective. Both the steep rise in the energy surcharge from 3.59 Eurocent/KWh in 2012 to 6.24 Eurocent/KWh in 2014 and the state aid complaint raised by the European Commission will challenge the Minister to cut back the industry exemptions. However, one of the biggest beneficiaries, rail operator Deutsche Bahn, has announced price increases if such cuts will

become reality. Additionally, investments into a better power grid, including some 8,300 km (5,171 miles) of new transmission lines to connect northern renewable energy generation with southern demand centers, still need to be planned and will raise local resistance.

But there are promising trends as well as challenges. In 2013, 23.4 percent of electricity in Germany was generated by renewable energy sources. The country could mark a new record in exporting power. Foreign observers note that no major interruptions have occurred; the system continues to be reliable. Programs on resource efficiency help manufacturing industries to cope with high commodity prices. And there is citizens' support: Germans are busy renovating their homes to make them more energy efficient. Energy cooperatives are on the rise. More than 100 municipalities intend to become "100 percent renewable."

But the *Energiewende* is NOT merely a national game. Ongoing consultations with EU neighbors about transmission technologies and trade are a key. The European Commission is active in carbon emissions reductions (with a target of 40 percent by 2030!), delivering the internal electricity market and facilitating investments in smart grids. The proposed European Commission text for revised state aid guidelines in the field of energy and the environment (currently in public consultation) leaves the door open for financing renewable energy support, though details are likely to remain controversial.

Over time, the EU aims to harmonize national REN support schemes and facilitate renewable energy integration into a fully European energy market. Neighbors such as Iceland and Norway are already large producers of REN, and the Western Balkans may become REN exporters. The European Energy Charter and partnerships with Russia, Ukraine, Turkey, Central Asia, as well as the EU neighborhood policy with Northern Africa offer further perspectives. The new German government can be expected to play a more active role in any such foreign energy policy.

Who is going to win the race for new energy strategies? Analysts expect electricity costs to increase by 2020, and potentially decrease slightly after this point due to replacement of fossil fuels with REN and a decline in wholesale electricity prices. The U.S., on the other hand, is now reaping benefits from its abundant unconventional fuel supply, but it may have difficulties in the long run if the boom comes to an end and infrastructure

isn't modernized. Besides a lot of political rhetoric, there should be an active joint interest in REN, international energy security, and access to the raw materials necessary to maintain the energy systems and manufacturing industries.



GLOBAL CHALLENGES FOR THE TRANSATLANTIC COMMUNITY

IMMIGRATION POLICY IN THE TRANSATLANTIC WORLD



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In the United States, 2013 was supposed to be the year of comprehensive immigration reform, a package which would combine increased border security and worksite enforcement with legalization of unauthorized migrants and increase future flows of legal immigrants and temporary workers. Reform packages have brought together “strange bedfellow” coalitions that have been necessary to secure enough votes to pass both houses of Congress, but such a coalition had not been assembled since legislation passed the Senate in 2006 and 2007. In the wake of President Barack Obama’s reelection with over 72 percent of the Latino vote, prominent Senate Republicans who want the party to remain competitive in future presidential elections eagerly joined Democrats to forge a comprehensive immigration reform bill and then succeeded in pushing the bill through the Senate in July with a 68–32 vote.

Speaker of the House John Boehner could then have allowed a similar comprehensive immigration reform bill to be introduced in the House and it could very well have passed with the votes of most Democrats plus enough Republicans. However, Boehner was afraid of violating the “Hastert rule” by bringing a bill to the floor that did not have the support of “a majority of the majority,” because several House Republicans said that if he did, they would challenge his leadership position. Instead, Speaker Boehner deferred to Judiciary Committee Chairman Robert Goodlatte (R-VA), who said his committee would “examine these issues in a step-by-step process” and introduced a stand-alone temporary migrant farm worker bill. Similar bills have failed to be enacted by previous Congresses over the past two decades, indicating that a piecemeal legislative initiative is unlikely to succeed in this Congress either. After Boehner decided not to introduce the Senate bill, he and the House Republican leadership put forward a statement of principles

outlining a more palatable legislative package that would give unauthorized migrants a form of legal status without a path to citizenship. Given that a majority of fellow House Republicans rejected these efforts as well, it is unlikely that any immigration legislation will become law before the 2014 midterm elections, if not the 2016 presidential election.

Meanwhile, in the face of persistent unemployment, many European governments have tightened policies on labor migration. For example, the U.K. reduced the annual number of high-skilled non-EU immigrants admitted from 15,000 to 1,000 and eliminated post-graduation work visas for foreigners who earn advanced degrees from U.K. universities. As stipulated by the EU accession treaty for Bulgaria and Romania, restrictions on rights of citizens of those countries to reside and seek employment in all EU member states were lifted on January 1, 2014. As the date approached, politicians increasingly expressed concerns about the numbers of Romanians and Bulgarians who would come, whether they will push natives out of their low-skilled jobs, and the prospect of increasing “social welfare tourism” and increasing numbers of homeless in their large cities. Of course, a major subtext is more Roma and Sinti migrating from Romania and Bulgaria. British Prime Minister David Cameron proposed restrictions on access to social welfare benefits to new immigrants and the coalition agreement forming Germany’s new government included measures aimed at “poverty migration.” Along similar lines, a February 2014 referendum requiring the Swiss government to tighten its immigration laws threatens to nullify bilateral agreements with the EU to lift border controls between Switzerland and its neighbors within the Schengen framework as well as to enable free movement of workers between EU member states and Switzerland.

With respect to illegal migration, estimates of the number of unauthorized migrants in the EU declined during the 2000s to between 1.9 and 3.8 million unauthorized migrants in 2008, which is much lower than the 11.6 million unauthorized migrants estimated in the U.S. at that time. In most EU member states, major train stations and highway rest areas are routinely patrolled and, aside from the U.K. and Ireland, ID cards issued to EU member state citizens can be readily checked and verified. Interior and labor ministry officials frequently audit employers and conduct worksite inspections, often supported by teams of national, regional and local law enforcement officers. Given the lack of mandatory ID cards and systematic enforcement of sanctions against those who employ unauthorized migrants in the U.K., it is not surprising that it has the largest estimated unauthorized

migrant population in the EU. In response, the Cameron government proposed an immigration bill that requires landlords and health care providers to verify the legal status of renters and patients and increased fines on those who employ unauthorized migrants. Nevertheless, relatively few employers have been fined and there is little evidence that these sanctions are enforced, which was recently highlighted when U.K. immigration minister Mark Harper stepped down because his house cleaner was working in the country without authorization.

Waves of asylum seekers generated by the “Arab Spring,” most recently from Syria, have focused policymakers’ attention on border security cooperation through FRONTEX and triggered conflicts among EU member states as some member states threatened to re-impose border checks to stop asylum seekers they say should have had their asylum requests processed in the first EU member state in which they arrived (i.e. Italy, Greece or Spain). European governments then scrambled to respond to humanitarian tragedies like the hundreds of asylum seekers who died in October when a boat carrying 500 caught fire and capsized off the Italian island of Lampedusa.

While Syria has fast become one of the EU’s top sources of asylum seekers (as documented by Juliette Tolay in her contribution to this volume), a rapidly growing number of EU citizens, children, and grandchildren of immigrants from the Maghreb and the Middle East have gone on vacation to Turkey then slipped over the border into Syria to fight the Assad regime. Given that al Qaeda-affiliated groups have been edging out more moderate groups in the Syrian opposition, European policymakers are very concerned, not only for the safety of their citizens in Syria but also of the return of Europeans who have been radicalized in Syria. More recently, the numbers of U.S. citizens going to fight in Syria have increased as well. In response, U.S. and European and intelligence agencies have been working together to track their nationals seeking to cross the border into Syria from Turkey.

THE STATE OF DEMOCRACY

ASSISTANCE



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Democracy assistance or “promotion” has been a core form of U.S. and European engagement in the developing world for decades. A component of foreign assistance spending, “democracy aid” includes providing financial support and/or technical guidance to central governments and civil society actors “working either to strengthen an emerging democracy or to foster conditions that could lead to democracy’s rise where a nondemocratic regime holds power.”

Broadly conceived, the foreign policy logic underpinning transatlantic democracy assistance is that democratic (or less authoritarian) states are — over the long haul — more stable, better allies, and more viable trading partners.

For democracy and those external actors seeking to help spread it across the globe, this year was a mixed bag; with setbacks in countries seeking transitions away from authoritarian rule juxtaposed with promising developments on the supply side of democracy assistance.

Troubles within the transatlantic democracies aside, elsewhere across the globe there was more “backsliding” — according to Freedom House this was the eighth year in a row where more countries (54) experienced declines in freedom than those which garnered gains (40). The countries which regressed are not insignificant for transatlantic interests and include Russia, Turkey, Ukraine, and Indonesia, among others. This relapse was readily apparent in the Middle East and North Africa (MENA), which saw the worst civil rights scores of any region. From the extra-legal ousting of

¹ I would like to thank Leonie Willenbrink, Transatlantic Academy intern, for her research assistance in the preparation of this paper.

Egyptian President Mohamed Morsi to renewed clashes in Libya, indigenous attempts to transition regional states toward less autocratic forms of government experienced setbacks. Transatlantic efforts to support these processes came under fire for a lack of coordination, incoherent strategy, or insufficient resources.

American public support for engagement abroad in general—and democracy assistance particularly—also took a hit in 2013. 52 percent of Americans agreed their country should “let other countries get along the best they can on their own,” according to Pew. Though never high to begin with, U.S. public support for democracy promotion as “a top policy goal” dipped to 18 percent from 29 percent in 2001. 63 percent polled said having stable regimes in MENA was more important than democracy taking root there.

U.S. rhetorical support and funding for democracy aid seemed to roughly approximate the sentiments of taxpayers who bankroll such efforts abroad. Reflecting on U.S. interests in MENA during a speech to the UN General Assembly in September, for example, President Obama listed “democracy and human rights” fifth behind confronting external aggression against allies, ensuring the free flow of energy, dismantling terrorist networks, and preventing the spread of weapons of mass destruction. This contrasts somewhat from spring 2011, when Obama said “it will be the policy of the United States to promote reform across the region and to support transitions to democracy.”

Following news that the U.S. would reduce by \$160 million democracy assistance dollars for MENA, some said the Administration was “abandoning” democracy in the region and downgrading democracy promotion as a foreign policy tool. Though funding indeed declined, these statements are overblown. Mitigating terrorist threats and safeguarding energy flows in MENA were rightly always considered more vital to U.S. national security than helping democracy take root there; and the administration’s calibration toward “nation building at home” tracks prior statecraft patterns where years expending blood and treasure abroad render domestic stakeholders weary of such endeavors, and those they elect (generally) follow suit. The U.S. perhaps moderated its focus on democracy assistance abroad but by no means permanently tossed it from the foreign policy toolkit.

On the “supply side” of democracy aid, two developments signal that — rhetoric and funding decreases aside — the transatlantic democracies remain committed to supporting democracy abroad in the coming years.

First, the European Union launched the European Endowment for Democracy (EED). Currently focused on the EU’s strategic neighborhood — from Ukraine to Lebanon — EED is a grant-making foundation that draws on experience from member states in order to “promote the European values of freedom and democracy” in order to help “advance and encourage deep and sustainable democracy in transition countries and in societies struggling for democratization.”

Two factors make the EED’s launch a notable development. First is its leaner operational platform comprised of “flexible, non-bureaucratic and dedicated procedures that are tailored to the needs and demands on the ground.” In practice and relative to the extant democracy aid donor landscape, this could translate into less red tape for grant-seekers, faster turnaround times for allocating financial support, and monies focused on activities in target countries rather than home office overhead. And second is the EED’s mandate to support to a wide range of pro-democracy actors, with the sole/core criteria being they “adhere to core democratic values, and human rights as well as subscribe to principles of non-violence.” Where many Western donors are hamstrung by stove-piped funding streams earmarked for a specific area/actor, the Endowment has liberty to support actors ranging from “pro-democratic movements” and youth activists to newspapers facing forced closure. It remains to be seen if EED’s model will bear intended fruit; nonetheless, its expansive mandate and nimble operational structure should position it well to make impacts moving forward.

The second significant development occurred in Washington, where the U.S. Agency for International Development (USAID) rolled out its new strategy for supporting democracy abroad. USAID’s “Strategy on Democracy, Human Rights, and Governance” builds on lessons learned from the Agency’s prior engagements and lays out a coherent framework for Washington to constructively support human dignity and freedom across the world. Importantly, it elevates human rights as a key component to USAID’s strategy and creates staff positions to ensure marginalized persons’ considerations (gender, LGBT, and others) are integrated across all programming streams. USAID remains the largest bilateral donors for

democracy- and human rights-focused programming and the new Strategy will help the leading player in this sphere continue to make positive impacts.

The transatlantic policy communities should look for three developments in 2014.

First, there will be no rapid reversals on 2013's democratic backsliding. This is particularly true for the Middle East, where a long road lies ahead for polities reconciling religious principles with pillars of representative governance to chart the most appropriate path for their peoples. It now seems clear that what many hoped would take two years will likely take two decades or more.

Second, funding decreases aside, the U.S. and Europe will by no means jettison democracy aid to the foreign policy trash bin. Rather, and building from new strategies such as that of USAID, the transatlantic allies will continue and perhaps inject new energy into support for democratic processes and activists abroad as a strategic tool. In so doing, however, democracy aid providers will continue to confront the evolving and expanding "backlash" against their efforts by less-than-democratic governments who have more to lose than gain from democracy taking root within their borders.

And finally, the European Endowment for Democracy may swell its role in the democracy aid world. Pending outcomes of its initial interventions, EED's modest budget (€6.2 million) should increase and perhaps attract allocations from the U.K., France, and Italy, who have yet to pony up cash for the fund.

POLITICAL, ECONOMIC, AND ENVIRONMENTAL CHALLENGES IN THE MIDDLE EAST



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2013 was a bad year for transatlantic relations with the Middle East. Expectations had been high in Europe and North America that the upheavals in the Arab world which began in late 2010 and early 2011 with the overthrow of leaders in Tunisia, Libya and Egypt would usher in a new political era. This, in turn, would bring greater stability and prosperity to a region of vital importance to the Western democracies. The prevailing narrative was that that terrorism, poverty and instability encouraged migration to Europe from the Middle East and North Africa. Hence better governance would result in higher growth rates and less propensity for conflict and out-migration.

However by 2013, while there were some marginal political successes in Tunisia, most of the news from the region has been extremely depressing. Egypt has morphed from one dictatorship to another, and is now on the verge of returning to a military autocracy. The civil war in Syria has intensified with over 100,000 killed and 2.5 million refugees, both internally displaced within Syria and in other countries. The war has brought mayhem to the neighborhood, particularly Lebanon, Turkey, Iraq, and Jordan. Israel is slowly getting drawn into the conflict given its ongoing confrontation with Iran and its surrogate Hezbollah. The refugees who have fled across the border have had negative impacts on host countries and it may take decades before they can return home. At that point, Syria, as we know it, may no longer exist.

In addition to the Arab uprisings, two other major conflicts have preoccupied American and European diplomats. The first is the unresolved issue of the Iran's nuclear program. With the election of President Hassan

Rouhani in 2013, a glimmer of hope has emerged that nuclear talks between the P5+1 and Iran may make more progress than could have happened when Mahmoud Ahmadinejad was President. Nevertheless there remains skepticism as to whether a deal can actually be struck that meets the minimum requirements of the P5+1, Israel, and the Arab Gulf countries, and yet allows Iran to retain some of the nuclear technology which it has spent billions of dollars developing. A breakdown of the negotiations could quickly evolve into a major international crisis, which will be more difficult to manage given the crisis between the West and Russia over Ukraine.

The second issue concerns the unresolved Palestinian-Israeli conflict. While the U.S. Secretary of State John Kerry has embarked on an energetic effort to bring about some final settlement to the conflict, little progress can be detected in 2013 and the prospect for breakthroughs in 2014 does not look good. Neither Israel nor the Palestinian Authority want to be blamed for breaking away from this important initiative but the scope for reaching common ground on the fundamental issues of security, borders, settlements, and the status of Jerusalem and refugees, remains as deadlocked as ever.

Against this backdrop of diplomatic stalemate in ongoing conflicts, the economic and environmental challenges in the region continue to grow. There is increasing demand for scarce resources such as food, fresh water and land, while environmental change, particularly increased drought and rising sea levels, has forced millions of agricultural workers off their land in search of a better life, creating significant refugee problems. It is notable that Israel's latest long and expensive fence, built in the Sinai along the border with Egypt, is less focused on stopping terrorist infiltration and much more on stopping illegal migration from Africa.

Israel's problems with African refugees is mirrored imaged in Europe, where waves of refugees that come by boat or land have led to much tougher policing and surveillance systems. The impact of immigration is a growing factor in European domestic politics and has increased the support for ultra-nationalist political movements throughout the continent.

The reality is that while politicians in both the United States and Europe bemoan the weaknesses of Western economies, in comparison to the rest of the world, North America and Europe remain highly desirable places to live. The global gap between rich and poor countries and within rich and poor countries is probably the most serious crisis the world faces in the years

ahead. This asymmetry is linked to growing and unresolved environmental threats. The challenges facing transatlantic communities on issues of demography, climate and wealth distribution provide the backdrop for intensified ethnic, religious and regional conflict and the parallel growth of virulent global nationalisms not seen since the 1930s.

CHINA'S INCREASING ROLE IN THE MEDITERRANEAN



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Over the past three years, Mediterranean security has taken on new meaning in light of the Arab Spring and growing role of China to the security scene. The Levant especially has been a flash point for Mediterranean “conflict,” with the protracted Syrian crisis, Israel and the West’s confrontation over Iran’s nuclear ambitions, the longstanding Arab-Israeli conflict, and energy scramble among states in the Levantine Basin. Across the Middle East and North Africa (MENA), there is a retrenching of western influence and the U.S. rebalance towards the Asia-Pacific reinforces such a trend after a decade of war in the Middle East.

In midst of such a region-wide scramble, China has entered the Eastern Mediterranean basin and MENA at large by expanding its economic, political, and military footprint. The readjustment of sensitive regional balances in line with the gradual penetration by China, as a unique global actor aiming to be a player along with the EU and the U.S. in the Mediterranean, will have security implications for key regional stakeholders.

In light of perceived waning U.S. influence, already traditional western allies such as Israel and Turkey are readjusting and upgrading ties with China.

Turkey Between NATO and SCO

In 2013, NATO member Turkey shocked its allies when it chose a U.S.-sanctioned Chinese firm to co-produce a \$4 billion long-range air and missile defense system. Despite NATO’s warnings that such a system would compromise NATO intelligence and therefore not be interoperable with its early warning assets, Turkish Prime Minister Recep Tayyip Erdoğan chose to make the deal.

Moreover, Erdogan has repeatedly announced his desire for Turkey to join the Shanghai Cooperation Organization (SCO), a China-led and Russia-supported Eurasian security organization that also includes partners such as Iran and Pakistan as observers. Frustrated with the stalled EU accession process, Turkey is increasingly turning from a westward European orientation to an eastward Eurasian orientation.

Much like the missile defense deal is causing a rift between Turkey and its NATO allies, technology transfers to China are also damaging U.S.-Israeli ties.

Israel, China, and the Middle East Peace Process

In December 2013, the head of Israeli defense exports resigned, after U.S. outrage upon discovery that U.S. military technology used for missiles and in electro-optic equipment had been transferred to China. In pursuing warmer ties with China, Israel had hopes to leverage its skills in high technology, agricultural innovation, and its most lucrative industry, weapons. The push for upgrading Sino-Israeli ties comes in midst of deteriorating relations between Israel and the U.S. and EU.

In November 2013, while the Great Powers were hammering out an interim agreement with Iran over its nuclear program, former Israeli UN ambassador Dore Gold — who has the ear of Prime Minister Benjamin Netanyahu — was joined in Beijing by retired Gen. Uzi Dayan, former deputy chief of staff for the Israeli Defense Forces, to explain the need for defensible borders in the West Bank to Chinese military brass. They also presented their case on a nuclear Iran, Syria, and the Palestinians, with materials translated into Chinese.

With EU boycott over Israeli institutions that operate in the West Bank and East Jerusalem, and increasing disaffection with the U.S. rapprochement with Iran, Israel is looking to China as a new partner. Likewise, Beijing has also expressed interest to join the Middle East Peace Quartet.

Given China's unique posture in the Levant — simultaneous good ties with Syria, Israel, the Palestinian Authority, and even ties with Hamas and Hezbollah, which the West declines to engage, one wonders if it is a matter of time before the Quartet becomes a Quintet.

Syria as the New Afghanistan

Next door to Israel, Syria is what some Chinese scholars call a new “Afghanistan” — a witch’s brew of international jihadists group exporting terrorism, as well as a battleground for proxy war between great powers.

Syria presents a new threat to China: the internationalization of the Uyghurs’ separatist cause forming in the crucible of the Syrian war. Chinese Uyghurs from Xinjiang as well as those residing in Turkey have crossed over to Syria to join jihadi fighters, with goals of returning to Xinjiang to launch attacks. Beijing further fears that through linking with international jihadist groups, Chinese Uyghurs and their terrorist cohorts would spawn homegrown radicalization of China’s 20 million Muslims.

Fearing an Islamist regime would replace Bashar al-Assad and export terrorism to China, Beijing thus joined Russia and Iran to help Assad “politically, militarily — and also economically,” in the words of Syrian Deputy Prime Minister Kadri Jamil. In September 2013 when the U.S. threatened to attack Syria and Russia responded by dispatching a naval flotilla, China also deployed warships to the coast of Syria to “observe” the situation. In January 2014, China and Russia further conducted joint naval war games in the Eastern Mediterranean in a “show of flags.”

Quo Vadis?

In the year ahead, China will continue to attract countries in the Levant and the Eastern Mediterranean with its expanding economic and maritime footprint, and play a more assertive role both in the political and security realm in order to safeguard its interests.

ASIA'S FAULT LINES STROKE TENSIONS



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Asia's dramatic economic rise led some analysts to hastily conclude that the relative decline of the West is inevitable. Developments since 2013 highlight that dangerous new fault lines have emerged in Asia, posing a major risk to peace, stability and prosperity in the world's largest and most populous continent. The developments create a diplomatic opening for the transatlantic alliance to play a more active role in shaping Asia's trajectory positively.

Asia today is at a defining moment in its history. Yet the international spotlight on its rapid economic ascent has obscured the serious challenges it confronts. These challenges range from recrudescence of territorial and maritime disputes and increasingly fervent nationalism to sharpening competition over natural resources and toxic historical legacies that weigh down its major interstate relationships.

Two fault lines in particular are putting Asia's sustained rise at risk, with the adverse geopolitical trends carrying significant ramifications for global markets. With Asia's political integration badly lagging behind its economic integration, one fault line is represented by the widening gap between politics and economics. Asia is the only continent other than Africa where political integration has failed to take off.

The other fault line is represented by the so-called history problem — or how the past threatens to imperil Asia's present and future. Historical distortions and a failure to come to terms with the past have spurred competing and mutually reinforcing nationalisms.

Asian disputes over territories, war memorials, fishing rights, natural resource reserves, and textbooks are linked with history. Yet historical narratives are never free of bias or embellishment. Objective history, after all, is an oxymoron, with historical narratives often embodying cherished

national myths. Historians who dare to probe such myths through fact-based interrogation can face backlash or even persecution, especially in autocratic states.

Respect for boundaries is a prerequisite to peace and stability on any continent. Europe has built its peace on that principle, with a number of European states learning to live with boundaries that they don't like. But in Asia, renewed attempts to disturb the territorial status quo are stirring geopolitical tensions and fueling rivalries.

In particular, an increasingly muscular China harps on historical grievances — real or imaginary — to justify its claims to territories and fishing areas long held by others. Whether it is strategic islands in the South and East China Seas or the resource-rich Himalayan Indian state of Arunachal Pradesh, China is dangling the threat of force to assert its claims.

The transatlantic relationship, through diplomatic outreach, can help underscore the imperative for Asia to get rid of its baggage of history in order to chart a more stable and prosperous future. After all, the slowing of Asian economic growth only increases the risks from the new fault lines. The risks are also heightened by Asia's lack of a security framework, with even its regional consultation mechanisms remaining weak.

Unlike Europe's bloody wars of the first half of the twentieth century, which have made war there unthinkable today, the wars in Asia in the second half of the twentieth century only sharpened rivalries, fostering a bitter legacy. Several interstate wars have been fought in Asia since 1950 — when the Korean War and the annexation of Tibet started — without resolving the underlying disputes.

As we commemorate the hundredth anniversary of the beginning of World War I, it is important to remember that Europe was at the time even more integrated by trade and investment than Asia is today, with its royal families interrelated by marriage. Yet Europe's disparate economic and political paths led to World War I. Asia thus must realize that economic interdependence, amid rising political tensions between its major countries, cannot guarantee peace by itself.

Several Asian sub-regions currently are in flux. Although the U.S. and European role in Asia is viewed by a majority of Asian states as a stabilizing influence, the U.S. remains primarily focused on the Islamic world. President

Barack Obama, in his State of the Union address in January, did not even mention Asia.

Obama's supposed policy shift toward Asia — once known as a pivot but now rebranded as a rebalance — has always seemed more rhetorical than real. To make the promise of his “pivot” real, Obama has still to convince Congress at home — and America's Asian allies and partners — that he means to devote more military, diplomatic and economic attention to Asia as well as stand up to China's territorial creep.

China's rift with fellow communist state North Korea — increasingly an estranged and embittered ally — opens diplomatic space for the U.S. and Europe to help transform Northeast Asia's fraught geopolitics. After all, Beijing today risks “losing” North Korea, the way its once-tight hold on Myanmar has slipped dramatically. China's increasing territorial assertiveness has also strained its relations with several other neighbors, stretching from Japan to the Philippines and Vietnam to India.

A growing chasm between China's assertive, nationalistic president, Xi Jinping, and North Korea's defiant young dictator, Kim Jong-Un, has thrown the bilateral relationship into a tailspin. The 31-year-old Kim, the world's youngest head of state, has presented himself as a tough leader who will not allow China to treat North Korea as a vassal state.

Unlike the U.S. opening with Myanmar, which led to Obama's historic visit to that country in 2012, any American engagement with North Korea would have to center on a deal to denuclearize it. But such a deal will remain elusive as long as Washington depends on Beijing to “soften” Pyongyang. Washington's reliance on Beijing as a diplomatic intermediary indeed is a sore point with Pyongyang, which has sought direct engagement with the United States to counteract China's leverage over it.

More broadly, the resurgent territorial, maritime and history disputes in Asia highlight that securing Asian peace and stability hinges fundamentally on respect for existing borders. Unless that happens, it is far from certain that Asia will be able to spearhead global growth or shape a new world order. America's neutrality on sovereignty disputes between China and its neighbors, however, could weaken its bilateral security alliances.



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