

THE TIES THAT BIND



U.S.-CENTRAL EUROPEAN RELATIONS 25 YEARS AFTER THE TRANSITION

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The Ties that Bind:

U.S.-Central European Relations 25 Years After the Transition

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INTRODUCTION

THE STATE OF THE EURO-ATLANTIC ORDER: WHERE ARE WE AND WHERE ARE WE HEADED?

By Robert Kron and A. Wess Mitchell

Next year, the United States and Central Europe will mark a succession of monumental anniversaries. These include 65 years since the signing of the Washington Treaty; 25 years since the 1989 democratic revolutions; 15 years since the first round of the North Atlantic Treaty Organization (NATO) eastern expansion; and 10 years since the “big bang” enlargement of the European Union (EU). Together, these milestones represent the accomplishments of generations of visionary leaders to permanently anchor first Germany and then the historically volatile Central European region in the ideas and institutions of the West. The result of their efforts is a Euro-Atlantic community of prosperous, stable and free nations that stretches from the beaches of California to the coasts of the Black Sea.

As 2014 approaches, it is appropriate to reflect upon the historic accomplishments of the past six decades and take stock of what Americans and Europeans, acting in concert, have achieved for the good of humanity. Yet moments of reflection are not simply about looking into the past; they carry

with them a responsibility to plan for the future. And here the picture is less clear — or positive. Despite the surface success of the post-1989 transition, cracks are appearing in the foundations of the Western-led geopolitical order. Today, the decades old and tested Euro-Atlantic institutions find themselves strained.

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NATO, the premier organization binding the Atlantic allies together, is in the midst of a prolonged crisis caused by two factors — one institutional and one material. First, NATO lacks a clear mission. For decades, the Alliance has been guided by an organizing purpose — during the Cold War, defense of the European continent against Soviet aggression; during the 1990s, preventing instability and spreading Western values beyond the former Iron Curtain; and for the past decade, combating global terrorism.

But as we approach the end of combat operations of the International Assistance Force (ISAF) in Afghanistan, the unifying rationale of the organization is less clear. Some allies, including many in Central Europe, would prefer to return to NATO's original purpose of collective defense. Others, including the United States, want to continue to focus on out-of-area capabilities to prepare for tomorrow's threats. Still others, including many in Western Europe, seem to see the Alliance as having a primarily political rather than military purpose.

Second, even as allies argue about the "what," the "how" is also uncertain. NATO's global mission is slowly being hollowed out by declining military capabilities. The United States, which has long been vexed by Europeans' unwillingness to invest in their own defense, has seen its share of the collective bill for NATO rise from 50 percent during the Cold War to a now staggering 75 percent. Today, few allies meet the two percent threshold for defense spending set by the Alliance. And as European states battered by the recent global economic crisis struggle to manage their finances and return to growth, the trend across the continent — with some notable exceptions like Poland — is toward further cuts over the next decade.

European reluctance to spend on defense has deepened long-standing perceptions in Washington, particularly on Capitol Hill, of allied free-riding and *de facto* U.S. subsidization of European security. Former U.S. Secretary of Defense Robert Gates, during his 2011 outgoing speech in Brussels, warned NATO members of growing domestic concern over the disproportionate price that America pays to protect its allies, stating that "future U.S. political leaders — those for whom the Cold War was not the formative experience it was for me — may not consider the return on America's investment in NATO worth the cost."

NATO'S WOES REFLECT UNCERTAINTY CAUSED BY THE CHANGING ROLE OF THE UNITED STATES IN EUROPE.

But NATO's woes are rooted in something far more fundamental than ledger sheets; they reflect uncertainty caused by the changing role of the United States in Europe. Despite occasional political squabbles, the Alliance has always been able to rely on two constants: American leadership and the presence of U.S. military assets, both

of which are now in question. Strategically, the United States is in the early phases of what will likely be a prolonged period of retrenchment from Europe. The rebalancing of U.S. resources outlined in the Pentagon's 2012 Strategic Guidance (the so-called "pivot") reflects a shift of geostrategic priorities away from the Old Continent. As part of these changes in the U.S. global force structure, two U.S. combat brigades will depart Europe within the next few years, paring the American military footprint in Europe to about a

tenth of its Cold War levels. Faced with budgetary and political challenges at home and new competitors abroad, this trend is only likely to escalate.

To the rest of the world, the United States in the early decades of the 21st Century seems more uncertain of its global role, less capable militarily and less interested politically in engaging the world beyond its borders. For decades, many Europeans have anticipated that the day would come when the United States might scale back its role as a European power to focus on new priorities at home and abroad. Partly for this reason, previous generations of leaders on both sides of the Atlantic sought to create a geopolitical and economic safeguard for deepening political stability by investing in the EU. By fostering European integration, post-war strategists hoped to unite Europe and harness its intentions and capabilities toward common transatlantic ends, and in doing so to create a European entity capable of not only filling the vacuum left by any eventual U.S. retrenchment, but also of being a geopolitical partner for Washington to help bear the burdens of global leadership.

THE EURO-ZONE CRISIS FUNDAMENTALLY ALTERED THE EUROPEAN PROJECT.

It is thus worrying that at the precise moment that NATO is in turmoil, the EU too finds itself in a state of prolonged internal crisis. The Euro-zone crisis fundamentally altered the European project, changing not only what Europe looks like externally, but how its member states perceive it internally. For the EU, the last few years have been

marked by division and crisis-management. Bitter fights have erupted over a succession of attempts at forming EU crisis response mechanisms — from how (and whether) it should bail out spendthrifts like Greece to how it should go about restructuring its economic governance to avoid future crises. So far, the tactic of “muddling through” was in some ways a success, as eleventh-hour agreements managed to put a stopper under the sovereign debt crisis and create a re-tooled institutional framework to head off future political-economic crises in the form of the European Stability Mechanism (ESM), the Fiscal Compact and a proposed Banking Union. Nonetheless, the EU’s structural problems are far from resolved as high unemployment, coupled with meager growth, will likely keep Europe’s economic troubles simmering and its populations discontented.

As Europe remains mired in internal political disputes, for the first time in a half century fundamental doubts have been raised about the once unquestioned “forward march” of European integration, the political-economic security it provides at home and the leverage it affords abroad. The consequence is twofold. First, the credibility of European institutions themselves has been deeply eroded, their inability to address recurrent economic challenges laid bare by the crises. Second, Europe’s internal power distribution has been skewed, with the relative power of large “contributor” states like Germany

amplified, and those of crisis-hit states like France diminished. The result is that many of the dynamics that drove and defined the working of the EU in past decades — the Franco-German engine, the night watch of off-shore Britain, the moral authority of the EU institutions — no longer do so. These developments have also widened the divisions between those forces in Europe traditionally pushing for more integration, and those that have tended to resist it. For the EU as a whole, these dynamics may herald an era of introspection, further stagnation and stalling strategic prowess on the international stage for the foreseeable future. Many now question Europe's ultimate purpose — what will a post-crisis Europe look like institutionally, what is the limit of supranationalism and how far are states willing to go in ceding further sovereignty to the EU?

The Euro-Atlantic community finds itself in flux — its two most significant institutions simultaneously troubled and its members unsure of their collective purpose in the modern era. It is tempting to simply shrug this off as the latest bug, and therefore to devote attention to the failings of the machine itself and to focus on what is seemingly broken. The tendency then becomes to devise pragmatic solutions in order to adjust the margins to better adapt to a time of change and find a new purpose for a new world. But, a deeper look might reveal something more troubling than institutional malaise. The issues confronting NATO and the EU are perhaps symptoms of a wider problem. Arguably it is not the machine itself that has stalled, but rather the fuel that used to power it no longer seems to work. Perhaps the ennui confronting NATO and the EU reflects a deeper crisis of the two organizing paradigms that have joined Europe and the United States strategically, underpinned security in the European and geopolitical space and provided the framework through which to route transatlantic consensus — Atlanticism and Europeanism.

Atlanticism, the spirit of joint values and interests that has animated a gut-level affinity between the two sides of the Atlantic since World War Two, is on the wane. Decades of European integration, shifts in the European generational outlook and the absence of a prominent military or ideological threat have weakened pro-American impulses among even Europe's traditionally stalwart Atlanticists, including those in Central and Eastern Europe. This trend, underway for some time, has been further compounded by a series of high-profile spats — including, for example, the fallout surrounding the Iraq War in 2004, disagreements over global financial management and more recently, hostility toward the revelation of U.S. monitoring of allies through the National Security Agency (NSA). Collectively, one finds less trust and commonality today than in past years, not more. Further, U.S. retrenchment from Europe has called into question the depth of America's commitment and ability to provide for the protection of the region's more vulnerable states.

Europeanism, the spirit of seeking an “ever closer Union” despite occasional differences of national interest, likewise seems to be attenuating. The EU's various crises of

confidence and coin have fueled a slow but undeniable return of nationalism in European politics. Individual member states today increasingly seek to shape intra-EU outcomes along national-interest rather than integrationist lines, and some are taking steps in their domestic policies to claw back powers instead of supporting supranational developments. European policymakers today are not only less Atlanticist, but also

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more nationalized and more technocratic than ever before. Viewed collectively, the picture is not just a crisis of Western institutions, but increasingly of the collective aims and impulses that defined cooperation within the West for the past half century. In this new era, the traditional Euro-Atlantic paradigm, and its flagship organizations of NATO and

the EU, are losing their luster. If this is the case, then concerns over crisis management in the transatlantic institutions pales in comparison to the wider strategic questions over Western unity and power. What role should the EU and NATO play within the Euro-Atlantic community and how can the two organizations work together in a changing world? What happens if the EU project fails at precisely the moment of U.S. disengagement, or alternatively what if it succeeds but no longer feels affinity for the United States?

As in decades past, the answers to these questions may be gleaned from the West's primary "canaries in the coalmine:" the Central Europeans. It is in Central Europe where transatlantic institutions still hold the most significance and transformative potential, but also where the gelatin mold of Western values has had the least time to set. Already we see changes among the region's countries (for better or worse), as they prioritize different strategic options to cope with their changing environment. Some, like Poland, have assumed a stance of seriousness and are investing heavily in traditional national options to ensure self-reliance while working consciously to bolster the resilience of the NATO and especially EU mechanisms. Others, like Slovakia, are emphasizing a combination of integrationist and regional cooperation strategies. A third group, including Hungary, seems inclined toward renationalization and looser enforcement of democratic norms.

The latest installment of CEPA's annual Edited Volume series seeks to further delve into these issues, and explore new ways of envisioning and rationalizing the Euro-Atlantic order in its current state. The first section examines how the erosion of the Atlantist

ideal is changing the strategic calculations of key Central European states. Kristīne Bērziņa, Associate Fellow at the Latvian Institute for International Affairs, posits the growing evolution of Baltic foreign policy away from the United States and toward the heart of Europe. Bartosz Wiśniewski, Research Fellow at the Polish Institute of International Affairs (PISM), sees a similar trend in Polish security and defense policy, as Warsaw uses a moment of “strategic pause” to both autonomize Polish security and invest in regional mechanisms. András Rácz, Senior Research Fellow at the Hungarian Institute of International Affairs (HIIA), concludes with an in-depth look at one such mechanism, the Visegrád Group, and how its members (Czech Republic, Hungary, Poland and Slovakia) have managed to capitalize on their regional commonalities to better coordinate policy on the European and international stages.

THE EURO-ATLANTIC LANDSCAPE IS CHANGING DRAMATICALLY, AND WITH IT THE U.S.-CENTRAL EUROPEAN RELATIONSHIP.

The second section shifts focus to how economic, political and institutional changes in the EU have begun to change Central Europe’s regional profile. Kai-Olaf Lang, Deputy Head of the Research Division on European Integration at the German Institute for International Security

Affairs (SWP), argues that the Euro-zone crisis has both altered and elevated Germany’s profile within Europe — and considers what this change will mean for Berlin’s eastern neighbors. Jan Cienski, Warsaw Correspondent for the *Financial Times*, follows up with an overview of the changing regional economic landscape and its political ramifications. Vladimír Bartovic and David Král of the EUROPEUM Institute for European Policy in Prague grapple with the question of whether Central European democracies are in crisis as several states in the region deal with emerging nationalism in the wake of the Euro-zone crisis.

The concluding section takes a look at possible routes for reanimating transatlantic cooperation. Andrea Figulová of Comenius University in Bratislava explores how the new push for a Transatlantic Trade and Investment Partnership (TTIP) — which could present one of the most geopolitically and economically significant developments in Euro-Atlantic affairs since the foundation of the World Trade Organization (WTO) in 1995 — could serve as a new focal point for transatlantic cooperation. Ambassador Keith Smith, Distinguished CEPA Fellow in Residence, assesses the implications of America’s “energy revolution” for the future of the Atlantic Alliance in general and the Central European region in particular.

Through the chapters of this volume, an overall theme is revealed: the Euro-Atlantic landscape, institutional and emotional, is changing dramatically — and with it the U.S.-

Central European relationship. The contributions provide a wide-reaching analysis of the political and economic state of Euro-Atlantic bonds, and viewed collectively, present a set of recommendations on how to best weather this uncertain period of adjustment in the transatlantic relationship.

The Center for European Policy Analysis

SECTION I: WANING ATLANTICISM? CENTRAL EUROPE'S STRATEGIC DIVERSIFICATION

THE BALTIC STATES: EMBRACING EUROPE AS THE U.S. WITHDRAWS

By Kristīne Bērziņa*

The Baltic States — Estonia, Latvia and Lithuania — arguably represent the transatlantic community's greatest success story of the past 25 years. Once part of the Soviet Union, today these states are among the most economically vibrant and politically stable members of the Western institutional framework. On the security front, the Baltics are some of the most contributory members of the NATO Alliance, they work closely with their Nordic neighbors and actively seek cooperation with Washington. However, these states in many ways have the most to lose from any potential fracturing of the Western order, as they are more dependent upon NATO and the EU for their sovereign integrity than most others. Kristīne Bērziņa examines how America's deprioritization of security ties with Europe, as it increasingly shifts its political attention away from the Old Continent and toward other areas of the globe, has accelerated the Baltic States' drive to become more firmly entrenched within the EU's core in way of compensation.

INTRODUCTION

Latvia, Lithuania and Estonia have traditionally considered themselves natural allies of the United States and have provided support for America's foreign policy endeavors around the world. Over the last two decades, Washington has reciprocated this sentiment by advocating for the Baltic States' North Atlantic Treaty Organization (NATO) and European Union (EU) membership, and by including them in the U.S. Visa Waiver Program. However, with the achievement of these objectives and the pending conclusion of military operations in Iraq and Afghanistan, the future of the U.S.-Baltic relationship is suddenly open-ended.

Thus far, relations between the three Baltic nations and the United States have been defined by security cooperation. With the memory of Russian occupation still fresh in mind, the Baltics joined NATO in 2004 to secure their independence in the post-Soviet world. Demonstrating their commitment to Western ideals, they became enthusiastic and reliable partners for the United States in Iraq and Afghanistan, even ahead of their

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official membership in the Alliance. As of the summer of 2013, the Baltic States still have over 550 troops in Afghanistan.¹

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Yet, the era of joint military initiatives between the Baltic States and the United States is winding down. Ten years after their first contribution to the military operations in Afghanistan, the majority of the Baltic troops are likely to return home by the end of 2014. At the same time, the Baltic States are developing an identity that is less contingent on a partnership with the United States — one that

is more expressly European. In this context, it remains to be seen whether the special relationship between the Baltics and America will persevere past 2014, or whether it will be folded within the broader U.S.-EU relationship.

THE BALTICS IN THE CORE OF EUROPE

The three Baltic EU member states are positioning themselves as core members of Europe. EU funds and economic guidance helped the countries overcome the economic crisis, and the Union provides them with the opportunity to shape political discourse on the continent. As a result, the Baltics are increasingly leveraging the EU to pursue their own foreign and security policy objectives.

Ten years ago, the EU was less meaningful to Baltic citizens than the visible strength of NATO. But Europe's economic crisis has given new meaning to non-military alliances. Latvia's economy contracted by over 21 percent between 2008 and 2010, and Lithuania's shrank by 15 percent.² A European-centered approach, rather than NATO or the United States, saved the Baltic States from collapse. Latvia, for example, survived its crisis by accepting international bailout funds from the International Monetary Fund (IMF) and the EU, and by adopting aggressive austerity measures.

Recently, the economies of these small countries have grown faster than much of Europe. Estonia's economy grew by 7.6 percent in 2011, while Latvia and Lithuania bounced back at a rate of 5.5 percent and 5.9 percent respectively that same year.³

¹ See: "Key Facts and Figures," International Security Assistance Force, ISAF, June 24, 2013. Available here: <http://bit.ly/HySTsM>.

² See: "Gross Domestic Product at Market Prices," Eurostat. Available here: <http://bit.ly/16sl866>.

³ Doug Bandow, "The Triumph of Good Economics: 'Austere' Baltic States Outgrow Their European Neighbors," Cato Institute, April 15, 2013. Available here: <http://bit.ly/1cuHULn>.

The financial crisis effectively synchronized the fiscal policies of the Baltic States with those of the EU “core” led by Germany, and encouraged them to adopt the Euro. The three countries had already pegged their individual currencies to the Euro when the crisis hit, which subjected Lithuanian Litas, Latvian Lats and Estonian Kroons to policies set in Frankfurt without giving their leaders an opportunity to sit at the table at Euro-zone meetings. Having emerged from the crisis, Baltic policymakers rushed to fully integrate their economies into the EU’s Economic and Monetary Union (EMU). Estonia

took the lead switching its Kroons for Euros in 2011, and Latvia is slated to follow its northern neighbor in 2014; Lithuania hopes to join in 2015.

ADOPTING THE EU CURRENCY SERVES THE POLITICAL FUNCTION OF MAKING THE BALTIC STATES UNEQUIVOCALLY EUROPEAN.

Yet economic explanations alone are insufficient to explain the Baltic States’ hurry to adopt an unpopular currency. For Baltic leaders, geopolitics plays an equally

important role in the decision. Adopting the EU currency serves the political function of making the Baltic States unequivocally European. This is especially relevant as the European Commission considers a “two-tier” Europe, one fully integrated within the EMU and another one left outside.⁴ In a July 2013 interview leading up to Latvia’s official invitation to the Euro-zone, Prime Minister Valdis Dombrovskis put it plainly: “It becomes ever more clear that a two-speed Europe is emerging. [...] Do we want to belong to core Europe?”⁵ Ultimately, the Baltic States are determined to adopt the Euro to avoid being left on the periphery.

Furthermore, membership in the EU gives the Baltic States the opportunity to shape policy discussions at the European level through the rotating six-month Presidency of the Council of the EU. Lithuania, as the current holder of the Presidency, is the first of the Baltics to take on this high-profile task. Holding the Presidency is a big responsibility. Lithuania must guide over 70 pieces of legislation through the EU decision-making process in order to finally settle the 2014-2020 budget. Yet the Presidency is also a monumental opportunity for each country to increase its visibility and set the agenda for the entire Union.

Lithuania’s priorities during its Presidency range from domestic EU concerns such as youth unemployment and fiscal issues, to the foreign policy of the Union as a whole.

⁴ See: “Van Rompuy Fleshes out Plans for Two-tier Europe, Euro-zone Budget,” *Euractiv*, December 7, 2012. Available here: <http://bit.ly/Hjppj0>.

⁵ Michael Birnbaum, “Latvia Plans to Join Euro-zone, Saying Currency is Attractive Despite Europe’s Financial Crisis.” *The Washington Post*, July 10, 2013. Available here: <http://wapo.st/1cul05M>.

But Lithuania is also highlighting issues of particular interest to the Baltic States such as the EU's Eastern Partnership Initiative. The Baltic States have traditionally been heavily invested in the political and economic development of the other former Soviet states in their neighborhood. During its EU Presidency, Lithuania is putting the EU's relations with Ukraine, Moldova, Belarus, Armenia, Azerbaijan and Georgia back in focus.⁶

Lithuania is also championing energy security, and the completion of the Union's internal energy market in particular.⁷ After the fall of the Soviet Union, the Baltic States became *de facto* "energy islands," isolated from the European energy networks and dependent on Russia for most of their energy resources. Lithuania, in particular, has in recent years challenged Russia's Gazprom, buying back natural gas pipelines and demanding a change in the company's natural gas pricing practices. In these efforts, Lithuania has relied on the European energy policy and antitrust legislation. The country's formal complaints to the EU over unfair pricing were one of the main triggers for the European Commission's antitrust case against Gazprom.⁸ Similarly, Vilnius is seeking to nationalize gas pipelines owned by Gazprom by utilizing EU laws designed to unbundle energy supply from energy distribution in the Union. It is therefore only natural for Lithuania to continue its work on energy security from the platform of its EU Presidency.

Ultimately, the success of Lithuania's efforts will depend largely on its ability to use its short time at the helm of the Union effectively. While it is unlikely that the country will be able to achieve everything it has planned, Vilnius' trailblazing is helpful for its neighbors and may have cumulative effects beyond 2013. Latvia, which will assume the Presidency in the first half of 2015, is learning from Lithuania's example and may pick up the discussions a year later. Estonia will have the opportunity to return to key Baltic themes during its Presidency in 2018.

THE FUTURE ROLE OF THE UNITED STATES IN THE BALTICS

The end of the NATO mission in Afghanistan is bringing the issue of the role of the United States in the Baltics to the fore. Although some Baltic personnel will remain in Afghanistan after the end of 2014 to support training efforts and civilian renewal programs, policymakers on both sides of the Atlantic will need to determine the extent to which partnerships developed in the context of war can be applied in peacetime, and how the Baltic States can contribute to NATO's shifting priorities.

The three Baltic countries have recently emerged as a transportation hub for supplies.

⁶ Program of the Lithuanian Presidency of the Council of the European Union, July 1 to December 31, 2013. Available here: <http://bit.ly/16sloSI>.

⁷ Ibid.

⁸ Alan Riley, "*Commission v. Gazprom: The Antitrust Clash of the Decade?*" CEPS Policy Brief No. 285, Centre for European Policy Studies, Brussels, October 31, 2012. Available here: <http://bit.ly/18JY93g>.

The Northern Distribution Network has brought over two million tons of non-lethal supplies from the Baltic States to Afghanistan since 2009.⁹ It has been a boon for Baltic ports, with Boeing 747s laden with cargo rolling down the tarmac at the Riga Airport and full ships entering Baltic harbors in Tallinn and Klaipeda.

POLICYMAKERS ACROSS THE ATLANTIC WILL NEED TO DETERMINE THE EXTENT TO WHICH PARTNERSHIPS DEVELOPED IN THE CONTEXT OF WAR CAN BE APPLIED IN PEACETIME.

Though commercial in its nature, the Northern Distribution Network is ultimately a byproduct of military cooperation. Moving forward, the project provides Baltic enterprises with a solid springboard for strengthening trade relations with their Central Asian partners. The extent of U.S. involvement in the future of the transportation pathway, however, remains unclear. The experience of the Northern Distribution Network could potentially serve as a basis for continued commercial cooperation between the Baltic States and the United States. But without an operational or geographic impetus, trade relations might also diminish.

It is possible that the Baltic States could also contribute to NATO's new needs. The emergence of specialized security competences in the Baltic region is another avenue for sustaining the close ties between Washington and the region. Estonia is leading the way in this effort. The NATO Cooperative Cyber Defense Center of Excellence in Tallinn seeks to address an emerging need in global security. A parallel NATO Center of Excellence that focuses on energy security just opened in Vilnius in October 2012. By encouraging these fledgling centers in the region, the United States would both demonstrate its support for the Baltic States and help strengthen its own security.

U.S.-BALDIC TIES AS PART OF A BROADER TRANSATLANTIC RELATIONSHIP

If significant military cooperation initiatives do not continue in the future, the relationship between the Baltic States and the United States might need to rely on broader transatlantic mechanisms and the structures of the EU. Although this shift might initially seem like a regress from the well-established special relationship, the benefits from such a development are notable.

⁹ Michael Weisman, "Northern Distribution Network Marks Movement of 100,000th Container," *U.S. Army Europe Public Affairs*, June 12, 2013. Available here: <http://1.usa.gov/1hzF7V4>.

In the realm of the economy, two broader European mechanisms would help promote closer ties between the Baltics and Washington. As the three Baltic countries adopt the Euro, U.S. companies are likely to become more inclined to invest in the region, because of the familiarity of the currency as well as the reduced transactional costs. Similarly,

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the efforts of the United States and the EU to minimize trade barriers through the Transatlantic Trade and Investment Partnership (TTIP) would also encourage more vibrant commercial activities.

The EU can also help facilitate stronger U.S.-Baltic cooperation in areas of common foreign policy interests. For example, both the United States and the three Baltic countries are concerned with political stability and human rights in the Eastern Partnership countries, and

both sides would benefit from better-coordinated policies toward the East. The same can be said with regard to Central and Eastern Europe's energy security concerns.

Clearly, opportunities for continued cooperation are plentiful. The withdrawal from Afghanistan and the Asia-Pacific pivot in American foreign policy will inevitably change the mechanisms for cooperation between the United States and the Baltic countries in the coming years. But the underlying common values, mutual interests and NATO solidarity should remain intact.

POLAND’S POST-ISAF SECURITY POLICY: MAKING THE MOST OF THE STRATEGIC PAUSE

By Bartosz Wiśniewski*

Poland is emerging as a leader in its own right within Central Europe — it has a strong economy, a strategic-minded leadership, a large and increasingly modernized military and the respect of the big players in the EU. But as the United States continues to retrench from Europe, it is becoming increasingly clear that the EU, though possessing a formal structure for defense operations, cannot and will not be the viable security replacement for U.S. engagement and presence it was once hoped it would be. As Warsaw’s link with Washington weakens while the EU continues to lack the momentum and will for any broad-based strategic defense investments, Bartosz Wiśniewski offers an insight into how this period of a “strategic pause” is leading Poland toward a push for greater strategic diversification through investments into both national military capabilities and regional defense structures.

INTRODUCTION

By all accounts, Poland is still enjoying a “strategic pause.” The immediate security landscape is fairly benign, and the probability of a large-scale military conflict is scant. This is not to say that Central Europe as a whole has entered a post-political Elysium, or that it has arrived at the now proverbial “end of history.” Indeed, it can (and should) be reasonably expected that the current strategic pause will eventually come to an end, or reach some kind of an inflection point — in the most dramatic scenario, in the form of an open war. When and where such a scenario will come to pass is impossible to predict, but it is a matter of skillful statecraft to push it as far back as possible.

A STRATEGIC PAUSE: DEFINING THE STAKES

Two features of a strategic pause merit particular attention. On the one hand, a strategic pause can be marked by increased political and military tension, bordering on (but stopping short of) direct confrontation and inviting murky, ambiguous situations. But the periods of uncertainty could go hand in hand with bouts of harmonious cooperation, signaling collusion of interests and foreign policy goals. On the other hand, such a pause is still one of those “glass half-full” moments, as it offers rather favorable conditions for

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implementing a deep and comprehensive reshuffling of security policies, both in terms of doctrine and military capabilities.

From a practical standpoint, questions that need to be addressed in the course of such a reshuffling include the following: How and according to what criteria to adjust and balance the tasks of the Armed Forces; What priorities should guide the

POLAND'S BIGGEST CHALLENGE LIES IN MAKING THE BEST OF THE OPPORTUNITY OFFERED BY A STRATEGIC PAUSE.

revamping of and additional investment in the Armed Forces; And finally, how to ensure that this ambitious restructuring proceeds without undermining key defense capabilities, so that the contingencies that should be reckoned with during a strategic pause do not catch the

state authorities off-guard. The biggest challenge thus lies in making the best of the opportunity offered by a strategic pause. After all, the time to repair the roof is when the sun is shining, and one can never be too sure which ray of light will turn out to be the last one.

POLAND'S SECURITY POLICY: STEADY AS SHE GOES

The end of Polish military involvement in Afghanistan will certainly be an important milestone for Warsaw's security and defense policy, but it will not mark a revolutionary turn in its trajectory — if only because the strategic pause that set in after the dawn of the Cold War endures. Rather, the pull-out is likely to allow Poland to devote even more attention to the gradual shift in its security policy. This shift has been underway since North Atlantic Treaty Organization (NATO) leaders gathered in Lisbon in late 2010 and set an "aspiration goal" of completing the transition to full Afghan responsibility for the security of their state by the end of 2014, thus effectively sketching a deadline for the cessation of allied combat operations in the country. In line with these plans, the profile of Poland's engagement has emphasized "train and advise" tasks (in effect since the second half of 2012), as part of the plan to completely morph it into a training mission beyond 2014. Interestingly, even as the Polish presence will focus on advising Afghan armed forces and police, and further boosting administrative structures and building up the Afghan human capital, much of these tasks are expected to be undertaken at home, in Poland. One could mock this approach as "engagement at arm's-length," but it offers a pretty good insight into the essence of the shift in Warsaw's security policies in general.

Three assumptions underpin this shift. First, it is widely believed that the time has come for Poland to capitalize on more than a decade of engagement in overseas

military operations and earn its status as a first-tier NATO member — a political “Afghan dividend” of sorts. Second, Poland needs to address both urgent and more long-term military capability shortages in a manner that would adequately respond to the demands of the Polish Armed Forces’ operational tempo for the remainder of the decade. Of note is that it will take considerable time, perhaps as much as four years, to refurbish all military hardware presently deployed in Afghanistan, and to ensure it is fit for active duty.

THE ALLIANCE HAS ENTERED A STRATEGIC PAUSE OF ITS OWN, AND THE TRANSITION CAN YIELD UNEXPECTED RESULTS.

The final assumption has to do with the anticipated effects of the changes in the policies of key players — partners and potential rivals alike. The rebalancing of U.S. strategic attention toward the Asia-Pacific and the impact that this could have on NATO constitutes the first of these major trends. The second one has to do with

the uncertainty surrounding Poland’s Eastern neighborhood, especially with regard to the direction that Russia will choose to take in its foreign and security policy. Granted, these days, it is not only gloom and doom in Warsaw when it comes to the state of affairs in the East, but most experts are careful to note that their optimism is more reserved when looking at the long term. In the short term too, however, pessimism has set in despite the widely acknowledged utility (quite tellingly, the word “success” is rarely present in these debates) of the Polish-Russian rapprochement. Lastly, and without surprise, Poland takes into account the post-ISAF trajectory of NATO, especially the onset of “out-of-area-fatigue.” The guiding principle of this course was laid out by NATO Secretary General, Anders Fogh Rasmussen. After 2014, the Alliance would shift from “operational engagement” to “operational readiness,” it would move away from being a “deployed NATO” to being a “prepared NATO.”¹ Whatever the labels, however, one thing seems certain: the Alliance has entered a strategic pause of its own, and given both the financial austerity that besets its members, and the current political shift — particularly, the U.S. pivot to Asia — the transition can yield unexpected results. Perhaps crucially, as evinced by the Libya case, reaching an allied consensus on participation even in a limited “out-of-area” operation could prove problematic. Thus, it should come as no surprise that NATO would like to avoid similar travails in the future for fear of provoking divisions among allies.

¹ See: “NATO after ISAF — staying successful together,” Remarks by NATO Secretary General Anders Fogh Rasmussen at the Munich Security Conference, February 2, 2013. Available here: <http://bit.ly/1dybP6M>.

THE “KOMOROWSKI DOCTRINE:” BETWEEN POLITICAL RELUCTANCE AND MILITARY READINESS

All these assumptions have been summarized in the so-called Komorowski doctrine, named after the sitting Polish president. The doctrine makes clear that for the remainder of this decade, Poland will be developing policies that introduce greater balance between territorial defense and overseas engagement. That does not rule out the country's participation in future “out-of-area” contingencies. However, any capabilities that Poland develops in the coming years would need to serve “the principal constitutional purpose” of the Polish Armed Forces, i.e. the defense of the homeland. This is arguably the most significant change in Poland's security policy introduced by the doctrine. In the past decade, the two most important processes in the Polish Armed Forces — their modernization and professionalization — were driven by expeditionary engagement. Indeed, from now on, Poland's military security will be assured irrespectively of the operational requirements of would-be crises beyond the Washington treaty area. Still, if the capabilities developed or acquired in the course of this “autonomous” modernization turn out to be both available for and applicable to joint out-of-area contingencies, in principle, nothing would stand in the way of deploying them abroad. Interestingly, when the Polish government argues for holding large-scale NATO maneuvers, part of the rationale is preserving the interoperability gains of the last decade after the combat mission in Afghanistan comes to an end, lest they turn out to be applicable in the future.

POLAND WILL DEVELOP POLICIES THAT INTRODUCE GREATER BALANCE BETWEEN TERRITORIAL DEFENSE AND OVERSEAS ENGAGEMENT.

However, the main priority now is to ensure that Poland will be able to act on its own in case NATO allies fail to reach a consensus about the desirability of reacting to a particular contingency, or when timely allied assistance cannot be relied upon. This is the political dimension of the defense modernization effort, and it has strong historical roots. The Polish political elite still harbors the painful lessons of allied unreliability. Speaking in front of the lower house of the Polish parliament last March, Foreign Affairs Minister Radosław Sikorski made this abundantly clear when he said that “history teaches us that Poland must look to itself to look after its security.” He went on to recall the words of late Jan Nowak-Jeziorański, who warned that “you must not base your security on your allies alone, even the most formidable ones.” Sikorski concluded that this modernization effort of an unprecedented scale — with an acquisition budget of well over \$30 billion for the years 2013-2022, compared with an annual total budget of \$9 billion — will

result in the creation of Polish “deterrence forces” no later than 2025.² Air and missile defense systems, tactical airlift, UAVs, missile-capable submarines, as well as offensive air-to-surface missiles are all on the shopping list. Prime Minister Donald Tusk went as far as dubbing these new capabilities “Polish Fangs” — a colorful description of what amounts to making sure that any potential aggressor would be dissuaded from actually taking hostile steps, or that at the very least, in a case of provocation, Poland would have a stand-alone ability to avoid any *fait accompli*. Welcome to the realities of the strategic pause. From a less dramatic, legal point of view, this approach could be summarized as follows: while recognizing that Article 5 of the Washington treaty (one for all, and all for one) remains the bedrock of Poland’s security policy, more attention will be paid to Article 3, which obliges the allies to “develop their individual and collective capacity to resist armed attack.”

Indeed, the White Book on National Security of the Republic of Poland, unveiled this May, seems to be aligned precisely with such an approach — striking the right balance between “internationalization” and “autonomization” of the security policy, or in other words, remaining aware of the pitfalls of putting too much faith in the continued vigor of multi- and bilateral cooperation, while at the same time shunning complete autarky and disconnect from the Euro-Atlantic community of values and interests. Quite notably, the autarkic scenario has not been ruled out in the White Book, especially if the existing structures of cooperation were to disintegrate, lose their relevance or continuously prove their limited utility.³

FOR THE UNITED STATES, A NARROW WINDOW OF OPPORTUNITY

So where does cooperation with the United States fit in this context? The picture might seem ambiguous. On the one hand, Poland bucks the trend of America’s military “withdrawal” from Europe. The size of the standing U.S. aviation detachment in the central part of the country might be unimpressive, but it offers a potent instrument for enhancing interoperability not just between the Polish and American air forces, but also among units from across the region. Special Forces have become a Polish specialty in NATO, and their importance for U.S. defense policy is bound to grow. Back in May this year, Tomasz Siemoniak, the head of Poland’s Ministry of Defense, declared that U.S.-Polish military-to-military cooperation “has never been better.”

On the other hand, the political climate has turned sour. Warsaw received the news of the U.S. pull-out from the fourth phase of the European Phased Adaptive Approach

² See: “Address by the Minister of Foreign Affairs on the Goals of Polish Foreign Goals in 2013,” March 20, 2013. Available here: <http://bit.ly/16SbgoN>.

³ See: “Biała Księga Bezpieczeństwa Narodowego RP,” Available here: <http://bit.ly/HyUyhZ>. (In Polish.)

(EPAA) calmly. However, Polish authorities are well aware that the project remains politically vulnerable — both at home given that without the fourth phase the direct link between the system and the security of the U.S. homeland has been weakened, making the project an easy target for spending cuts, and internationally, if the third phase was to stand in the way of a future U.S.-Russian arms control agreement. Ultimately, for all the declarations about U.S. commitment to the project, missile defense has become a symbol for America's hesitation about its long-term investment in European security, and indeed, the durability of the Atlanticist instinct in U.S. foreign policy. Doubts were

**MISSILE DEFENSE HAS
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IN EUROPEAN SECURITY.**

also fueled by the decision to scale back the U.S. contribution to the Steadfast Jazz maneuvers, intended to serve as, among others, a serious trial for NATO's Response Force. In the months to come, the Obama Administration would be well advised to come up with gestures to reverse this sentiment. For starters, in order to substantiate its claims about U.S. interest in the future of

EU's Eastern neighborhood, it should send a high-level delegation to Vilnius for the Eastern Partnership Summit this month. Next year, as Secretary Rasmussen readies to leave his post, Washington could score some important points by openly endorsing a Central European candidate for a top NATO post. At minimum, whoever the Obama Administration endorses for this post, his or hers Atlanticist instincts need to be unquestionable. At a time when NATO's long-term relevance for U.S. foreign and security policy is openly debated (and, alas, also questioned), making sure that this organization is led by an influential, charismatic individual will certainly be a meaningful political signal.

In the meantime, the Obama Administration should also pay close attention to Poland's recent activity at the regional level. If anything, it indicates that Warsaw is bent on strengthening practical, military cooperation with its regional partners (including non-NATO countries), thus signaling its commitment to ensuring an autarkic security policy remains as remote a possibility as possible. With regard to Finland and Sweden, the increasingly intensifying political dialogue is buttressed by existing cooperation between the countries' defense industries. Polish companies will continue to run manufacturing lines for a very successful Finnish armored personnel carrier. The Polish Defence Holding and the Swedish branch of BAE Systems have recently forged an industrial and technological alliance aimed at covering deliveries of a wide range of main battle-tank components. The Baltic dimension of Poland's security policy has been strengthened even further, where the Polish and the German navy agreed on a bold agenda of joint

maneuvers, training and operations. Last but not least, the recently concluded Polish Presidency of the Visegrád Group (V4) featured a very prominent security and defense agenda. Led by Poland, the V4 moved beyond political cooperation, and laid the foundation for the creation of a joint EU Battlegroup. Of course, whether the V4 will be able to rise above the obvious limitations to closer cooperation — diverging potential and defense expenditures among its members, as well as an ebbing and flowing level of political ambition — is yet to be seen. However, the general trend toward further regionalization of Poland’s security policy is likely to continue. It is the path that Warsaw has chosen as it navigates the current strategic pause.

**THE TREND TOWARD FURTHER
REGIONALIZATION OF
POLAND’S SECURITY POLICY IS
LIKELY TO CONTINUE.**

VISEGRÁD COOPERATION: EFFICIENT IF USED RIGHT

By **András Rácz***

One positive Central European development in recent years has been the re-emergence of strategic investment in regional mechanisms — in particular, in the Visegrád Group (V4) — as an alternative strategic option to cope with changes in transatlantic and European geopolitics. In the last few years, the V4 has managed to generate momentum and prove the potential value of concerted Central European regional coordination. Already, states such as Germany and France have begun to take the Group more seriously and recognize the importance of Visegrád for their own European and foreign policy priorities. András Rácz illustrates how, as it continues to work toward strategic harmony, the V4 can be of greater value for American and European interests in the areas of defense, global human rights promotion and the democratization effort in the East.

INTRODUCTION

With the 2004 accession of Poland, the Czech Republic, Slovakia and Hungary to the European Union (EU) and the North Atlantic Treaty Association (NATO) the original purpose of Visegrád cooperation — to support the Euro-Atlantic integration of the four Visegrád Group (V4) member states — was fulfilled. However, instead of bringing an end to it, the accession served to transform V4 cooperation. The main question became how the Visegrád countries could represent their joint interests in the most effective way within the EU and NATO frameworks. But in order to understand how Visegrád cooperation operates today, it is necessary to analyze what the V4 is — and what it is not.

**IN ORDER TO UNDERSTAND
HOW VISEGRÁD
COOPERATION OPERATES
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AND WHAT IT IS NOT.**

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AN EXCLUSIVELY MULTILATERAL FORMAT

When one takes a first look at the Central European region and then delves into its complicated history, it is often difficult to imagine that so many countries and ethnicities can even peacefully coexist, let alone cooperate. Of course, as a result of their turbulent past, there are still many problems in the wider Central European region, and within the V4 as well. The most well-known ones pertain to the regular minority-related flare-ups between Hungary and Slovakia, but there are also a number of still unresolved historical questions between Poland and the Czech Republic. History lives with us, and it will continue to do so.

In addition, there are issues with regard to which the Visegrád countries themselves are each other's rivals. Among others, access to EU Structural Funds, where the four countries compete for the same resources, comes to mind. Another example would be the four governments' efforts to attract foreign (Chinese, Russian, Arab etc.) investments: Warsaw, Prague, Bratislava and Budapest often address the same potential investors, occasionally ending up in a zero-sum game.

Yet, the great invention of the founding fathers of the V4 in 1991 was that despite the inherited historical problems and often conflicting interests, cooperation was very much possible between the then three, and later (with the dissolution of Czechoslovakia) four countries. Euro-Atlantic integration was the common objective that kept cooperation moving forward, even though the four states did not always advance with the same speed.

Today, common interest is the key element that helps explain the role and importance of contemporary Visegrád cooperation. The V4 is not intended or designed to solve problems between the four countries, but to get their joint interests represented in the most effective way. Though in the 1990s some intellectuals were hoping that Visegrád cooperation could help solve Slovak-Hungarian bilateral disputes, this discourse is no longer part of the agenda. The V4 has never actually been able to address tensions between its member states due to the nature of the Group's structure: all common decisions have always been taken by consensus. This contributes to the high level of legitimacy of the decisions taken, but at the same time precludes solving internal problems.

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PURSUING COMMON INTERESTS

On issues of common interest, however, the V4 functions surprisingly well. And the growing interest in Visegrád by many foreign partners, such as the United States, Japan, China or Russia, who closely follow developments in the EU serve to confirm the Group's significance.

So what are these common interests? In multilateral policy terms, the most important field is probably the joint support of the EU's Neighborhood Policy in general and of the Eastern Partnership Initiative in particular. Even though the current perspectives of the Eastern Partnership are rather gloomy, the success of the project remains a common V4 concern.

A particularly important common objective is strengthening energy security in the Visegrád region, especially as it pertains to natural gas supplies. The V4 countries are actively engaged in diversifying both gas supplies and transit routes, thus creating a regional gas market that will significantly decrease their heavy dependence on Russia.

Another developing project is the formation of a Visegrád Battlegroup, which could be a valuable contribution to the EU's Common Security and Defense Policy (CSDP). The armed forces of the V4 countries went through similar defense reforms prior to and after their NATO accession. Accordingly, they already have several units that are not only fully interoperable, but also with considerable joint mission experience, particularly in the Balkans, Afghanistan and Iraq. Of course, the rapid reaction capabilities and the interoperability to be further developed within the Visegrád Battlegroup framework could be very useful to NATO in the future as well.

Furthermore, the four Visegrád countries regularly cooperate not only on issues common to the Group, but also on decision making within the EU. Their collective weight needs not be underestimated: in the Council of the EU they have the same number of votes (58) as Germany and France (29 each). EU-related issues of joint interest are thus always on the agenda of the regular prime ministerial and ministerial meetings of the Visegrád countries.

The information exchange between the Visegrád foreign affairs ministers and their respective institutions is not only regular and intensive, but also surprisingly cordial. As a concrete example: eight think-tanks in four Visegrád countries cooperate very closely with each other not only on several academic projects (a regular task of think-tanks), but also in providing specific policy-planning support to the national foreign ministries.

In a broader context, several vectors point to a trend where regionalism plays an increasingly important role within the contemporary EU. This pertains both to the distribution of EU funds, and to the need to jointly address transnational challenges.

Trust is obviously a crucial asset here, and during the last two decades the Visegrád countries have managed to establish a high level of confidence in each other when it comes to the pursuit of joint interests.

The importance of fostering the cultural traditions that connect the region together is also not to be underestimated. The cultural dimension of Visegrád cooperation is crucial in assisting the countries' societies in coming over their historical aversions toward each other, or at least in decreasing their importance. Not surprisingly, the younger generation has a key role to play in this context. Linguistic differences (particularly between the three Slavic nations and the Hungarians) can easily be bridged by relying on English as a *lingua franca*. Every year several dozens of cultural projects — joint theatre festivals, summer schools etc. — prove that the bonds that tie the region together are widely recognized, regardless of existing differences and disagreements.

A NON-INSTITUTIONALIZED STRUCTURE

The main platform for fostering cohesion between the four Visegrád states is the International Visegrad Fund (IVF), established in 2000. This is the only standing, formal institution that the V4 has in place so far. The main task of the IVF is to strengthen the cultural, educational and scientific cooperation between the Visegrád countries by facilitating people-to-people contacts and cross-border cooperation projects, as well as the development of intra-regional tourism ties.

**THERE IS A RECOGNITION THAT
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In 2012, the Fund had a budget of seven million Euros, provided in equal parts by the four V4 governments. The high importance of the IVF for the Visegrád countries is well demonstrated by the fact that despite all economic hardships the region has faced recently, the crisis was never considered a reason serious enough to suspend or decrease the payments to the Fund. There is

a recognition that preserving this well-tested, effective platform of cooperation is in the interest of all V4 countries, regardless of external circumstances.

Since its establishment, the Fund has provided several hundred of Visegrád students and researchers with the opportunity to spend one or two semesters in another V4 country, or alternatively in the Balkans or Eastern Europe. In addition, the IVF has separate grant

and scholarship schemes for students and researchers from outside of the Visegrád region, again focusing on the Western Balkans and the Eastern Partnership countries.

One can in fact argue that through its scholarship and grant schemes the Fund effectively operates as a soft power tool of the four Visegrád countries in helping modernize the regions neighboring Central Europe. The fact that the IVF carefully limits its activities to the field of “low politics,” and avoids addressing sensitive questions ensures it can easily operate in less democratic countries as well.

The Fund has been so successful in using its soft power potential that similarly to the V4 political cooperation, it has started to attract the attention of non-Visegrád partners as well. Among others, the Dutch government decided to pursue its Eastern Partnership-related objectives by supporting the IVF activities in the field with 1.5 million Euros. Germany and Sweden too have shown a growing interest in the Fund’s activities, in particular regarding the Western Balkans and Eastern Europe. Accordingly, not only has the high-level political cooperation of the four Visegrád countries become a well-known brand, but so has the IVF — as a successful actor of “low politics.”

Interestingly enough, despite its successful operation, the V4 does not follow the usual path of institutionalization well-known from the EU. So far, the Bratislava-based IVF and its Secretariat are the only standing institutions of the Group, and this will most likely remain the case. All other activities operate without permanent institutional frameworks. Taking into account the still-existing historical problems between some V4 countries, this low level of institutionalization has the advantage of not providing any room for nationality-based rivalries, struggles for positions or intra-agency competence conflicts. More so, the fact that Visegrád cooperation is so effective in pursuing the Group’s common interests with such a low level of institutionalization demonstrates the strength of the ties that connect the region.

Besides the necessary mutual trust, the socialization of Visegrád foreign policy elites is also of crucial importance in this context. During the last two decades, and particularly since 1998 when Slovakia opted for the pro-European track, the elites of the four countries have been continuously working together on the various issues of common interest. Though its intensity has varied from time to time, fifteen years of cooperation have indeed had a positive effect on the participating decision-makers and officials. Putting it simply, they got used to the need to consult and coordinate with their Visegrád partners, because they came to recognize the value of coordinating and jointly leveraging their efforts.

Of course, efficient multilateral cooperation does not necessarily offer solutions to bilateral problems. However, it surely helps to keep the potential tensions at bay and offers hope of a greater chance of finding solutions to these issues as well, all the while contributing to the overall stability of the region.

WHAT IS THE U.S. INTEREST HERE?

In order to best gauge the U.S. stake in Visegrád cooperation, stability as a principal interest should be considered. If one was ever tempted to underestimate the importance of stability, one should look back some twenty years and remember the conflict potential within the wider Central European region at that time. Czechoslovakia was just falling apart, Ukraine was unstable and sometimes unable to function as a state, while nationalism was on the rise in Slovakia, Hungary, Romania as well as the Balkans. The bitter civil war in Yugoslavia demonstrated the dreadful power of ethnic hatred, and set the dangerous precedent that national borders could actually be changed by force. In those circumstances, the inherited history- and ethnicity-related tensions within the Visegrád region could have forecast a future that is not necessarily bright. Fortunately, history took a different path and two decades after the democratic transitions, the V4 countries have become stable democracies with functioning market economies, fully integrated into the European structures.

However, preserving regional stability is unfortunately not yet an outdated argument for maintaining a constant level of U.S. engagement. By taking a look at the wider Central European region, one may see that extreme nationalist, often openly racist political formations are on the rise: the Hungarian *Jobbik*, the Bulgarian *Ataka* and *Svoboda* in Ukraine are all part of the national parliaments. Worryingly, they have been elected democratically, which reflects the changing priorities of societies in the region. Even if most of these sentiments are only reactions to the financial and political crisis in Europe, they should not be ignored. More so, in some countries anti-Western sentiments and populism are becoming stronger, and principles of rule of law are violated and not only by the parties in opposition.

THE V4 AS A WELL-FUNCTIONING MULTILATERAL COOPERATION PLATFORM IS A NATURAL PARTNER FOR THE UNITED STATES.

Given these circumstances, the V4 as a well-functioning multilateral cooperation platform is a natural partner for the United States. This is particularly so because all four Visegrád governments as well as a decisive majority of the countries' societies share

a firm commitment to the same key values that define Washington's foreign policy — democracy, human rights and fundamental freedoms. In addition, all four Visegrád countries have been conducting a strongly pro-U.S. foreign policy since their NATO accession, despite varying public support, as evinced by among others the *Transatlantic Trends* surveys¹ Though Hungary is not covered by the studies, the new Hungarian

¹ For Poland and Slovakia, see: *Transatlantic Trends 2012*, German Marshall Fund of the United States, Washington,

national security strategy adopted in February 2012 reflects basically the same strong commitment.² All in all, as the four Visegrád countries emphasized in their joint declaration adopted on April 18, 2012, “Keeping the transatlantic partnership strong and stable is in our shared and vital interest.”³

The Visegrád countries are, of course, not only subjects of U.S. foreign policy interests, but in many cases active contributors to it. Washington could count on the military support of the V4 in both Afghanistan and Iraq; Poland is going to host a missile defense site; Hungarian diplomats managed to successfully represent the United States on the ground during the Libya crisis; while Czech NGOs stand firm in promoting respect for human rights in less developed parts of the world. The efforts of the V4 to support the modernization process in the Eastern European and Western Balkan regions are very much in line with U.S. interests there. More importantly, the understanding that the Visegrád countries have about these neighboring regions owing to their shared history, provides the V4 with an important comparative advantage. If recognized, this knowledge, along with the experience and reputation of the IVF, has the potential to become an important asset for U.S. foreign policy.

DC, 2012. For a comprehensive overview of the four Visegrád countries, see: Bebler, Anton (ed.), *NATO at 60: The Post-Cold War Enlargement and the Alliance's Future*. Krajnc, 2010, IOS Press.

² See: A Kormány 1035/2012 (II. 21.) Korm. Határozata Magyarország Nemzeti Biztonsági Stratégiájáról. [Government of Hungary, *Governmental Resolution No. 1035/2012 (II. 21.) on the National Security Strategy of Hungary*]. Magyarország Kormánya, Budapest, 2012. Available here: <http://bit.ly/1cuLm8P>.

³ See: Visegrád Group, *Declaration of the Visegrád Group – Responsibility for a Strong NATO*, April 18, 2012. Available here: <http://bit.ly/1h62hET>.

SECTION II: EUROPE: ABSENTEE LANDLORD? CENTRAL EUROPE'S REGIONAL TRANSFORMATION

GERMANY AND CENTRAL EUROPE IN TIMES OF CRISIS: DRIFTING APART OR HEADING FOR A NEW SYNERGY?

By Kai-Olaf Lang*

Years of economic crisis and political stagnation are changing the EU, the fundamental power relationships that drove its evolution in the past four decades and how member states perceive the role of Europe vis-à-vis their national political priorities. Specifically, the question of Germany's emerging prominence is causing a mixture of relief and concern across Europe — and Central Europe in particular. Kai-Olaf Lang assesses the consequences of a new German-focused power equation at Europe's highest levels has for Central European interests and how the region can be of greater value for Berlin's objectives in addressing Europe's continuing socio-economic crisis.

INTRODUCTION

The financial and economic turbulence in the Euro-zone is Berlin's most important challenge at the European Union (EU) level. Strategies to stabilize crisis-hit member states, to handle the sovereign debt trap some Euro-zone countries find themselves in and to implement reform programs have been the main components of Germany's European policy. Compared to many other European issues, questions related to the ongoing crisis — the stability of the Euro, financial solidarity and adapting budgets and welfare systems — have a higher salience on the domestic political scene in Germany. There is no doubt that the "emergency cases" in the South of the EU, the ongoing coordination with France as the key Euro-zone partner and the discussions within the Euro-area have absorbed a significant portion of Germany's political resources. The non-Euro states from Central and Eastern Europe (CEE) have felt some unease with this development, as they fear it could lead to a de-prioritization of cooperation with their region in Berlin. At the same time, as part of Europe's "new North," Germany and the CEE countries are particularly close in their economic thinking, offering an opportunity for a stronger partnership. The overarching question is therefore, has and will the economic crisis drive Germany and its CEE partners apart or will it bring them closer together?

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GERMANY AND THE CRISIS: OBJECTIVES AND INTERESTS

As the biggest EU and Euro-zone economy, and a country heavily dependent on exports and intensely intertwined with the economies of other members, Germany has a vital interest in a swift and sustainable stabilization of the European Monetary Union (EMU). Moreover, as Germany has traditionally been one of the main proponents of European integration as a political endeavor, a breakdown of the Euro with all its political consequences would be a severe blow to one of the pillars of post-World War Two German identity. That is why Berlin has persistently maintained that its overarching objective is the survival of the Euro-zone and that it will do everything to support the Euro.

A BREAKDOWN OF THE EURO WOULD BE A SEVERE BLOW TO ONE OF THE PILLARS OF POST-WORLD WAR TWO GERMAN IDENTITY.

The dominant German reading of the crisis is that enormous bubbles and imbalances emerged in some Euro-zone states, because they were neither tough enough with their public finances nor did they carry out the necessary reforms to improve competitiveness. In its management of the crisis, Germany's main objective has been to convince its European partners to embark on strict budget consolidation, while improving their competitiveness and innovation capacities. As the biggest net contributor to the Euro-zone aid schemes like the European Financial Stability Fund (EFSF) and the European Stability Mechanism (ESM), Berlin has attempted to shape reforms in the Euro-zone and in other EU member states according to the German model. The basic idea has been to enshrine efficient, quasi-automatic sanctions against countries with substantial budget deficits in exchange for financial support. This "conditioned solidarity" is behind most of the reforms of Euro-zone and EU economic governance initiated or supported by Germany, evident in the reform of the Stability and Growth Pact and the so called Six-Pack, as well as in the Fiscal Compact signed in January 2012 by 25 EU members. At the same time, Germany rejected an active role for the European Central Bank as lender of last resort, since "there is a price we are not willing to pay — the cost of price stability." Berlin has also repeatedly criticized growth by cheap money, as well as any relaxed or Keynesian pro-growth policies.

Despite Germany's considerable contributions to aid schemes and rescue funds for ailing Euro-zone states, from the point of view of France or the Southern European countries, Berlin appeared to hesitate. For them, Germany is the biggest beneficiary of European integration and the Euro-zone, so Berlin should not be reluctant to assist and to generate additional aid for partners in need. Germany, however, has been persistent in its approach. In doing so, Berlin attempted to launch a narrative of a new balance between

solidarity and responsibility; failing to take hold this approach was instead labeled as “austerity.” But what was externally perceived as an adamant German position is deeply rooted in domestic developments. Today, every German government needs to consider three key factors, which were previously not as salient. First, public opinion: the German public was never enthusiastic about the introduction of the Euro and remains sensitive to any signs of possible currency weakness. Second, the Federal Constitutional Court, which in a recent verdict on the Lisbon Treaty drew the German constitution’s red lines for European integration. Third, the parliament, where even members of the political groups of the ruling parties are critical of the growing financial risks stemming from the Euro-zone stabilization measures.

Apart from Euro-zone reform and rescue mechanisms, during the course of the crisis Germany has pursued the following objectives:

- Berlin has consistently highlighted its predilection for greater European integration. Although Germany has supported the strengthening of the political integration of the Euro-zone, a multi-speed Europe is seen as only the second best option. This contrasts with the French approach, which has been more sympathetic to the idea of “a Union within the Union.”
- The German government has also consistently rejected the idea of Euro-bonds, i.e. common sovereign bonds of the Euro-zone member states. At one occasion, Chancellor Merkel is reported to have said that there would be no comprehensive debt sharing “as long as I live.”
- Germany has accepted and actively supported plans to grant the EU more legitimacy. German politicians agree that if the Euro-zone moves toward fiscal centralization, the growing democratic deficit has to be reduced. In late 2011 and early 2012, a consensus seemed to have developed, according to which “more integration” and thus the development of a “political Union” with improved economic and fiscal governance is the way to overcome Europe’s problems. However, the picture is less clear when it comes to the question of how far political reform should go. By the end of 2012, two camps had emerged. The first is arguing that the focus should be on economic governance reform with a view to improving competitiveness in member states. The preference of this camp is to revitalize the Euro-zone economies by a “pact for competitiveness,” based on bilateral agreements between Euro member states and the Commission. For the second camp a comprehensive reconstruction of the EU institutions and mechanisms with a view toward a genuine European democracy is necessary, given the major reforms in the economic sphere and within the EMU.

GERMAN EU POLICY: CENTRAL EUROPE'S VALUE ADDED

Central and Eastern European member states view many of the German policies discussed above as ambivalent or even risky. Hence, one of the key questions for these countries is whether Germany will be too busy with the crisis to engage with the Eastern part of the EU. Although there is no doubt that the crisis is pivoting Germany toward France, the South and the Euro-zone, the CEE countries continue to be relevant partners for Berlin. However, it remains unclear if Germany and the CEE states will be able to take advantage of the crisis to strengthen their relationship, or if they will allow it to drive them apart. Much will depend on the value added that Berlin deems reinforced contacts with its CEE partners will have during the crisis and in developing post-crisis strategies. The following factors in particular might serve as a basis for revitalizing German-CEE relations.

CEE MEMBER STATES ARE NATURAL ALLIES OF GERMANY ON MOST ISSUES OF ECONOMIC GOVERNANCE REFORM.

First, many of the countries in the region — both Euro-zone members and non-members — have a conservative fiscal culture. Accordingly, CEE member states are natural allies of Germany on most issues of economic governance reform, such as structural adaptations to improve competitiveness, budget consolidation and performance-based support for countries in need.

Second, in some of the CEE countries the reform strategies that have been implemented to overcome the crisis are quite close to the German doctrine. Due to drastic wage cuts and reduced public spending, states like Estonia (as a new Euro-country) and Latvia (as a Euro-zone accession country) have experienced robust growth after a period of economic contraction. From a German perspective, these economies have proven that fiscal firmness and economic recovery are not incompatible, and that “growsterty” can work. With all caveats on the generalization of the “Baltic model,” Estonia, Latvia and other countries from the region can serve as an illustration that the “German response” to the crisis works.

Third, the German economic success and especially the country's strong manufacturing and export sectors are dependent on production lines in and cooperation with the CEE economies. These countries are key destinations for German products — the four Visegrád countries alone account for more than nine percent of German exports, almost equal the value of goods going to Berlin's top trading partner France. They are also highly relevant for German companies' competitiveness on a global scale: flagship companies, but also small and medium sized enterprises, have invested throughout the region and for many of them CEE manufacturing is a deeply integrated, indispensable

part of their value chain. For this reason, the countries of the region are relatively open to the German system of vocational training and other elements of job qualification. This can also facilitate the transfer of such schemes to other EU countries — as already done in Italy and Spain.

Finally, Germany needs partners for its preferred leadership model. If a balance between member states and community institutions is to become the new paradigm for running the EU, Germany has to be careful not to provoke the smaller member states, i.e. its traditional partners, who usually prefer the community method. Ultimately, if countries like the Baltic States are supportive of a leadership model based on a stronger role for member states, it is more likely that this approach will be accepted in other small and medium sized EU countries. In order to ensure that the CEE countries back this *modus operandi*, Berlin would have to bolster its bilateral political dialogues and show governments in the region that they can trust a Union more reliant on meetings of heads of states and governments to protect and promote their interests.

THE CEE PERSPECTIVE: NEW PROXIMITY?

For Central and Eastern European EU member states this sort of sustained political attention from Germany is important at a time when Berlin is heavily absorbed in the sovereign debt crisis. However, stronger German-CEE cooperation is not a foregone conclusion. The similarities between Berlin and its pro-reform, pro-market and pro-consolidation friends from the Eastern parts of the EU do not automatically translate into active partnerships. The reason for this is that the new proximity with Central Europe is offset by Germany's preoccupation with the crisis, France and the Euro-zone. From the CEE point of view, this is particularly inconvenient, because their *de facto* political unevenness with Germany is growing. With the UK drifting away from the core of European integration and the continued French *desinteressement* with the region, diversification of partnerships has become more difficult for CEE countries. Even for Poland, which has had some success in this respect, finding additional close partners is tasking. A solidified Visegrád Group (V4), new formats such as the meetings of V4, Nordic and Baltic foreign ministers, bilateral dialogues with Spain and Italy as well as the summits between the Weimar Triangle and the V4 heads of state and government are all indicative of the efficacy of the Polish diplomatic efforts. However, key initiatives on the future of the EU's (and EMU's) institutional design and economic governance are conceived in the Franco-German, not the Weimar framework.

Looking at Berlin from Warsaw, Vilnius or Bratislava, this is more of a challenge than a problem. A strong Germany in the middle of the EU and the absence of viable alternatives to cooperation with Berlin is not something Central and Eastern Europeans worry about — they know that their current arrangement is rooted in interdependency

and a “friendly asymmetry.” Thus, as Germany shifts toward the Euro-zone and its troubles, the key issue for most CEE countries is not German supremacy, but rather German negligence. In other words, the CEE do not want less Germany, but rather more dialogue and collaboration with Berlin.

This CEE objective has to do with the perceived role that their big neighbor can play in the EU.

Justifiably, for many in Central and Eastern Europe, Germany is a guardian of unity and inclusion in the Union, in contrast to France’s penchant for building a “core Europe” around the EMU. Berlin is seen as a capital that you can trust even if its leadership style is

changing, and as a partner who accepts — even though reluctantly sometimes — the need for solidarity within the EU. And above all, for CEE member states Germany has been a close ally in many key policy areas and negotiations. The EU’s Eastern policies and the Eastern Partnership Initiative, as well as the discord surrounding the EU’s financial framework demonstrated that Germany and the CEE states can transform their sometimes differing interests into converging objectives, or at the very least, a compromise.

CENTRAL EUROPE DOES NOT WANT LESS GERMANY, BUT RATHER MORE DIALOGUE AND COLLABORATION WITH BERLIN.

FROM CLOSE PARTNERSHIP TO SYNERGY?

So will Germany and the CEE countries overcome the ambivalence of the crisis and transform their close partnership into a new political synergy? In order to be successful, the effort on both sides to deepen relations will have to take into account the following three realities of Europe’s shifting landscape.

First, some important issue areas that were previously divisive have now become fields of cooperation. Russia is perhaps the most notable case. Berlin’s “special relationship” with Moscow on the one hand and the tense bilateral contacts of some CEE countries with the Kremlin on the other, have often put a strain on German-CEE relations. The “(Chirac-)Schröder-Putin-axis” during the Iraq war and the Nord Stream gas pipeline through the Baltic Sea are just two of the irritants. However, during the last few years, Germany’s privileged friendship with Russia has turned into somber, sometimes even sour, cooperation. At the same time, a more pragmatic mood in some countries in the CEE region — and to some extent Moscow’s apparent temporary interest in improving bilateral relations — has opened up new avenues for collaboration, or at

least communication. Most notably, the interplay of a new German realism toward Russia and the Polish-Russian “reset” has led to a dialogue between Berlin and Warsaw about, and sometimes with, Moscow. In November 2011, the German and Polish foreign ministers wrote a joint letter to the EU’s Foreign Affairs and Security Policy High Representative, calling for closer cooperation with Russia. Moreover, with the vague, but ongoing trilateral German-Polish-Russian format of high level and expert meetings (the “Kaliningrad triangle”), Germany has demonstrated readiness to at least partially include Poland in its talks with Russia. Similarly, security issues and particularly European defense have shifted from a rather contentious issue with a pro-American CEE stance and more Europeanist leanings in Germany, to an area of concerted joint effort. Unfortunately, these converging fields of German-CEE interests have been sidelined by the overarching import of crisis politics.

**EVEN THOUGH FRIENDLY ASYMMETRY
AND POWER DISCREPANCIES HAVE THE
CEE COUNTRIES SEEKING GERMAN
ATTENTION, THEY ARE NOT DOING SO
FROM A POSITION OF INFERIORITY.**

Second, the idiosyncrasies of Berlin’s CEE partners are becoming more visible. Whereas “CEE” has never been a homogenous area, the last few years have brought about an increasing differentiation among the countries of the region: there are Euro-zone and non-Euro

states; there are a number of success stories and exemplars in terms of economy, finance and budget management, and there are those facing economic stagnation or setbacks; there are laggards and backsliders with regard to rule of law and democratic standards, as well as cases with a positive track record in fighting corruption and enhancing administrative transparency; and there is Poland, a “mid-sized heavyweight” with considerable leadership appetite, and the rest with a realistically modest level of ambition and selective policy priorities. For Berlin, this appears to confirm its 1990s approach of building strong bilateral relationships, rather than developing a regional *Mitteleuropastrategie*. Germany’s engagement with sub-regional groupings like the V4 (4+1) or the Baltic states (3+1) will be relatively rare and should be seen as an add-on to the existing network of bilateral relationships.

Finally, in interacting with the CEE states Germany is increasingly facing partners with a growing self-confidence. Even though friendly asymmetry and power discrepancies have the CEE countries seeking German attention, they are not doing so from a position of inferiority. The reasons behind this are wide-ranging. In some cases they might be ideological. In the countries with a well-performing economy and proactive European policies, they are rooted in a changing self-perception. Countries like Poland, Estonia,

Latvia or Slovakia, which passed the test of the crisis, now have a seal of quality to their economies and public finances. As a result of their own efforts and the EU's energy policy, the Visegrád countries and the Baltic States, and to some degree also Romania and Bulgaria, are improving their energy security. Poland, Slovakia and the Czech Republic can reduce their energy vulnerability to an extent that would put them on the "safe side" by the middle of the current decade. Today, it is clear that CEE countries, especially those with well-to-do and pro-European governments, will increasingly pursue their own interests, even if they are at odds with Berlin's.

**GERMANY SHOULD
NOT TAKE CENTRAL
EUROPEAN COUNTRIES
FOR GRANTED.**

If Germany and the CEE states want to take advantage of their potential, both sides will need to accept two key facts. The CEE countries have to understand that Germany's behavior in the EU is motivated by the desire to ensure that the German economy and the EU are "ready for the world." That is the driver behind Berlin's efforts to reform Europe's economic governance and the associated political

scaffolding. Accordingly, Germany will be both inward-looking (toward the Euro-zone) and outward-looking (toward emerging markets and global competitors, rather than Europe's Eastern neighborhood). Germany in its turn has to recognize that in the years to come, bilateral relations with its CEE partners will have to be buttressed by substantial and sustained cooperation on European affairs. Even though there is a natural affinity between Germany and its neighbors in Central and Eastern Europe, Berlin has to both deepen and widen its engagement with them. The current close partnership notwithstanding, Germany should not take the CEE countries for granted.

CENTRAL EUROPE’S NORTH-SOUTH ECONOMIC DIVIDE: NO LONGER CUT AND DRY

By Jan Cienski*

Traditionally, when viewed through a political-economic lens, Central Europe has been divided into two distinct camps: a strong North anchored by states with responsible fiscal policies, manageable debt, economic growth fueled by exports and politically responsible leadership operating within trustworthy democratic institutions; and a South that has followed its troubled neighbors’ “Mediterranean” economic model. Yet, as the Euro-zone crisis continues to unfold and the economic vitality of Central Europe’s northern tier tapers off, Jan Cienski argues that this simple north vs. south formula is becoming increasingly inadequate.

INTRODUCTION

When investors look at Central Europe (CE), the region is split into a credible and stable northern half of Poland, Slovakia and the Czech Republic, and a politically fractured and corruption-ridden southern tier of Hungary, Romania and Bulgaria. That perception was reinforced by the first wave of the economic crisis — especially when Poland remained the only European Union (EU) economy to avoid recession in 2009, Slovakia quickly returned to growth after a sharp slowdown and the three Baltic countries undertook some of the most radical reforms in the world to restore competitiveness. All this while investors were fleeing Southeastern Europe and Hungary was dealing with the collapse of Ferenc Gyurcsány’s left-wing government.

But that handy split of the CE into a “good” North and a “bad” South is looking increasingly tattered with Poland’s unexpectedly sharp economic slowdown and the rebound in Hungary and Romania. “It’s difficult to talk of a two-speed Central Europe when Poland, the economic bellwether of the region, has slowed dramatically,” says Nicholas Spiro of Spiro Sovereign Strategy, an economic analysis firm.

THE HANDY SPLIT OF
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What division still exists is most apparent in investor perceptions, particularly in areas like private equity and real estate, where the northern tier of the region is seen as significantly safer and more liquid than the South. “When we talk CE, we are really talking Poland, the Czech Republic and Slovakia,” says Stefan Aumann, managing partner at Peakside Capital, a real estate investment firm. “Hungary is quite a different game from the other three. Bulgaria and Romania are still more different — the additional risk of being there is just not justified.”

The perception of an economically successful northern tier and a more troubled southern half of the CE is largely based on how effectively each country in the region adopted a range of critical economic reforms during the last 25 years. These included establishing the institutions of a well-functioning market economy: a sensibly regulated financial market, an independent central bank, public finances that do not spin out of control, secure banking systems and a robust private sector.

THE NORTHERN STAR PERFORMERS

Poland got a head start on the rest of the region in 1990 under the economic reform program introduced by Leszek Balcerowicz and the first non-Communist government of Tadeusz Mazowiecki. Balcerowicz slashed away at the socialist state and created the conditions for a liberal market economy. It is not a coincidence that Poland has become Europe's best growth story — the only European economy that has not suffered a true recession in more than two decades. Despite an aversion to radical reforms on the part of governments in Warsaw over the last ten years, that initial impetus has given Poland a long-term growth rate of four percent over two decades — among the best in Europe.

Poland has also created the region's most muscular capital market, the Warsaw Stock Exchange. Its banking sector, two-thirds of which is foreign owned, is well capitalized and has survived the long-running crisis relatively unscathed. And despite Finance Minister Jacek Rostowski's griping over the central bank's monetary policy, the National Bank of Poland has long been insulated from overt political pressure. In addition, as the region's largest and most liquid market, investors in everything from bonds to shopping centers feel safe buying into Poland, knowing that they can get out if they have to.

Poland has also benefited from a remarkable period of political stability following Civic Platform's 2007 election victory. Prime Minister Donald Tusk is in fact the first democratic politician in Polish history to win a second term in office.

The other northern-tier countries have similar records.

The dramatic economic reforms introduced by the center-right government of Mikuláš Dzurinda in Slovakia starting in 1998, brought the country back from the pariah status

it held under the authoritarian governments of Vladimír Meiar and into the European mainstream. The investor-friendly policies of the center-right turned Slovakia into the continent's most attractive destination for the automotive industry, and gave it one of the fastest growth rates in the EU. It also propelled Bratislava into adopting the Euro in 2009, making it only the second ex-Communist country after Slovenia to join the Euro-zone.

The Czech Republic's longstanding tradition of fiscal conservatism and central bank credibility have allowed the country to keep interest rates below those of the Euro-zone, while its open economy is attractive to large foreign investors interested in using it as a manufacturing base for exports to Western Europe.

The three Baltic countries in turn had to build states, regulations and bureaucracies from the ground up after breaking free from the collapsing Soviet Union, which allowed them to establish open economies that pulled in large-scale investment from neighboring Scandinavia. Consequently, the three countries gorged on easy credit that ultimately led to catastrophic results when the economic crisis hit. But they also undertook deep structural reforms to restore competitiveness, and did so early on. All three slashed spending, cut the size of the state and efforts were made to liberalize the economy. Those moves were possible because their pre-crisis prosperity had been recent and short-lived, so a retreat did not create the same shock it had in nations like Greece and Spain. In addition, continued worry over retaining political and economic independence from Russia gives Baltic politicians a leeway to undertake reforms that would make their Western European colleagues blanch.

THE SLOW-PACED SOUTH

The picture in the southern CE tier tends to be much worse, where a combination of political ineptitude, lack of reforms and deep-seated corruption has slowed growth and made investors question the wisdom of putting money into those countries.

A good example is Slovenia. It was the first ex-Yugoslav republic to join the EU, and adopted the Euro in 2007. But its performance has been disappointing as Ljubljana never undertook the much-needed deep economic reforms, leaving in place a generous pension system, a very rigid labor market and a lackluster corporate environment. That in turn has translated into a sharp slowdown of Gross Domestic Product (GDP) growth, as the country had a difficult time remaining competitive. The economy grew by 6.8 percent in 2007, but that was down to 3.6 percent in 2008 and the crisis year of 2009 saw a contraction of 8 percent. The country has since sunk into recession again.

Hungary's fall has been even starker. It went into the post-Communist transition process with the most market-friendly economy in the region, a legacy of the "goulash capitalism" that had sought to marry the two systems. Budapest was one of the most

attractive cities in Central Europe and rivaled Prague as a potential regional corporate hub — a role long since taken on by Warsaw. But that relative comfort allowed politicians to duck the need to undertake the difficult work of reform, saddling Hungary with an expensive welfare state and a government unable to bring spending under control. The country's political stability has also become an increasingly problematic issue since the 2010 election victory of Viktor Orbán's right-wing Fidesz party. Prime Minister Orbán's controversial steps toward centralization of power in the hands of Fidesz supporters, his questionable attachment to the spirit, if not the letter, of democratic governance and his unorthodox economic policies have caused a wave of concern within EU institutions and have shaken investor confidence in the country.

Bulgaria and Romania's ongoing problems with high levels of corruption, punctuated by frequent political crises and deep recession have also spurred investor worry.

FAMILIAR DIVISION LINES FADING

But the North-South division of Central Europe is now fading, as the former problem cases show an unexpected return to health and the strong performers find themselves swamped by political and economic troubles.

The starkest change has taken place in Poland, which has seen its economic growth slow down to a crawl. The World Bank now projects that GDP will grow by one percent this year and two percent in 2014. The gloomy economy has also drained support for Mr. Tusk. His Civic Platform party is trailing the opposition and there is growing uncertainty over the likely outcome of the 2015 elections. "Growth and political stability have been Poland's premier commodities, but the first has disappeared and the second is

THE STARKEST CHANGE HAS TAKEN PLACE IN POLAND, WHERE ECONOMIC GROWTH HAS SLOWN DOWN TO A CRAWL.

threatened," says Spiro. "The fact that Poland's economy has for all intents and purposes ground to a shuddering halt makes the distinction between the two parts of CE not a particularly apt one."

In Slovakia, the current left-wing government of Prime Minister Robert Fico has scrapped some liberal provisions like the flat tax, but the small export-oriented country continues to avoid recession — it is likely to eke out a 0.7 percent expansion

this year and 2.8 percent in 2014. "We had a conservative government in Slovakia from 2010 to 2012," Fico said recently. "They had a flat tax, they had a neo-liberal labor code, and the unemployment rate increased and economic growth decreased. There is no link

of how people are protected by the labor code, and there is no link between economic growth and unemployment and the level of taxes — that is our experience.” In the Czech Republic, still mired in recession, the government of Petr Necas was upended in a sex and spying scandal, creating a political crisis where newly elected President Miloš Zeman is trying to grab a greater share of power for himself. In addition, both the Czech Republic and Slovakia figure near the bottom of a recent Ernst & Young corruption perception survey, with 84 percent of Slovak business leaders saying that bribery and corrupt practices are widespread and 73 percent of Czechs agreeing.

Although Hungary is still under fire from EU institutions, it has had a very good economic run lately. The country hosts a new \$1.2 billion Audi car plant, output data is doing better than expected, it recently exited the EU’s excessive deficit procedure and it is no longer in recession. Even the central bank, which had been staffed with Orbán loyalists, is now seen as doing a credible job of cutting rates to revive growth while not allowing inflation to spin out of control.

Romania has also exited its excessive deficit procedure after Bucharest brought in a series of tough measures, including cutting public sector wages and changing its pension system to rebalance public finances. The country is now expected to grow by 1.7 percent this year and by 2.2 percent in 2014, among the best projections for the region. More so, a destructive battle between Romania’s president and prime minister has abated, restoring political stability as well.

Bulgaria has among the tightest public finances in Central Europe, running a deficit of only 0.5 percent in 2012, and although that may grow to 2 percent this year the figure is still better than in almost any other EU member state. But the Balkan country has been rocked by months of political protests. Prime Minister Boyko Borisov was forced out earlier this year over outrage following anti-austerity demonstrations, and protesters are still in the streets despite May’s snap elections. A new left-wing government is in power, but that has not stopped political turmoil. In July, police had to free more than 100 politicians trapped in parliament during violent protests over high levels of corruption.

CONCLUSION

The problem for the whole region is that the export-led model of growth, which relied on sales to the Euro-zone and particularly to Germany, has run into trouble due to the ongoing slump in Western Europe. The first bout of the crisis in 2009 left public finances across the region strained, and governments do not have the flexibility to increase spending to boost growth as they did a few years ago. In particular, Poland, with the largest domestic market in Central Europe, was insulated for years by free-spending

consumers. But domestic demand has shriveled as Poles cut back on borrowing and rising unemployment forces people to save rather than spend.

From the Baltics to the Balkans, the CE is now showing more similarities than was the case just a few years ago. Accordingly, investors are likely to follow the changing patterns in political and economic stability, giving a boost to Romania and Hungary while perhaps questioning their recent faith in the virtues of Poland and the Czech Republic.

The split between a “good” north and a “bad” south is eroding, for better and for worse. On the economic front, almost all the CE countries are showing signs of revival and posting better than expected growth numbers as the region’s factories pump out cars, televisions and machine parts destined for Germany and Western Europe. Politics, however, is trending in the other direction. Street protests are still common in Romania, the Czechs are in turmoil as they prepare for early elections and Poland’s ruling party is scrambling to regain its footing as the opposition makes gains thanks to growing disenchantment with Tusk and his government.

THE EXPORT-LED CE MODEL OF GROWTH HAS RUN INTO TROUBLE DUE TO THE ONGOING SLUMP IN WESTERN EUROPE.

DEMOCRACY IN CENTRAL AND EASTERN EUROPE: NOW AT A RISK?

By Vladimír Bartovic and David Král*

Many believed that the accession of the states of Central Europe into NATO and the EU would serve as these young democracies' permanent anchor to the liberal Western democratic order. However, as the effects of Europe's prolonged economic downturn set in, we can observe a measurable weakening in the performance of the democratic institutions in several countries in the region. In some cases, nationalist parties and politicians are gaining popularity. But is this a problem unique to Europe's newest democracies, or a trend that is confronting the EU at large? Examining this question, David Král and Vladimír Bartovic argue that while there is some reason for concern at the moment, as long as the integrity and solidarity of the Euro-Atlantic institutions remain intact then the region's democratic trajectory will not be threatened in the long term.

INTRODUCTION

The accession of the Central and Eastern European countries to the European Union (EU) in 2004 and 2007 was considered the culmination of their democratic transition, and the EU served as their stable anchor within the Western liberal democratic order. However, in recent years, the standards of democratic governance appear to have declined across the region.

In Hungary, the 2010 landslide victory of Viktor Orbán's Fidesz party guaranteed him a constitutional majority and he has since tightened his grasp on power and limited the influence of actors that could potentially challenge his actions, such as the national bank, the constitutional court and the media. In Romania, Prime Minister Victor Ponta attempted to oust President Traian Băsescu last year by calling for a referendum on his impeachment, a move which many considered a constitutional *coup d'état*. The recently elected Czech President Miloš Zeman took steps politicians as well as analysts saw as going against the spirit, or even the letter, of the Czech constitution, by appointing a government without viable support in the parliament and composed of people very close to him personally or to his political party. Are these developments indicative of an enduring pattern and is the region really becoming more autocratic? Should we be truly worried about the state of democracy in Central Europe? And what does this imply in terms of the allegedly undisputed Western liberal orientation of the Central European countries and societies?

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IS CENTRAL EUROPE'S BACKSLIDE ON DEMOCRACY UNIQUE?

This article argues that the situation in Central Europe on the whole, although seemingly worrying, is neither worse nor particularly distinct from that in other European countries with more longstanding and better established democratic traditions. Since 2008, the entire EU has been continuously consumed by first, the financial and then, the sovereign debt crisis. Europe as a whole, apart from a short recovery in 2010, has witnessed economic decline, a rise in unemployment and a deterioration of living standards, whose effects were even worsened with the austerity measures adopted in most European countries. That in turn has translated into a growing influence of populist political movements throughout the Union — at times of crisis, people are generally more susceptible to easy but radical solutions. In Greece, both right-wing (the Golden Dawn party) and left-wing populism (the Syriza party) garnered an unprecedented level of support in the last general election, while in Spain the crisis has prompted calls for independence in some regions, particularly in Catalonia. But populism is not exclusive to the debtor countries. The True Finns and the Party for Freedom in the Netherlands have also won a significant portion of the vote by attacking the single European currency, European solidarity, intra-European financial transfers or the free movement of citizens within the Union.

DISTINCT FEATURES OF CENTRAL EUROPEAN POPULISM

Arguably, populism in Central Europe displays different patterns, and unlike in Western Europe often responds to other challenges. This divergence is due to the different impact the crisis has had on Western and Central European member states. The

POPULISM IN CENTRAL EUROPE DISPLAYS DIFFERENT PATTERNS, AND UNLIKE IN WESTERN EUROPE RESPONDS TO OTHER CHALLENGES.

Western European populist political movements have directly profited from the consequences of the economic developments in the Euro-zone. In their own rhetoric, they have focused on ways of responding to the economic crisis, such as limiting immigration, introducing protectionist measures or enhancing national economic sovereignty. The Central European populism is different. The

region was not hit as severely by the economic crisis. Compared to Western Europe, most of the countries maintain a relatively healthy (although declining) economic growth rate. Most of them are also not in the Euro-zone and do not directly bear the burden of participating in rescue mechanisms that stretch public funds, and thus do not need to engage in the blame game.

It is somewhat challenging to identify the overarching reasons for the rise of populism in Central Europe, because the region does not represent a compact bloc of countries and circumstances vary greatly throughout it. Yet some common features can be identified: in particular, overall dissatisfaction with the functioning of the political elites, as well as with the widespread nepotism and corruption in public life. This is a direct consequence of the democratic transition of the region. Although by the time of their EU accession these countries were recognized as fully-fledged democracies, in reality the unfinished business of the transformation process is still evident. The democratic institutions across the region remain vulnerable compared to those in established European democracies, and the politicians are often testing the limits of what they can get away with. President Zeman and Prime Minister Ponta have not tried to overhaul the system as such in the Czech Republic or Romania respectively, but they are testing the strength of the other political institutions – the Parliament in the case of the Czech Republic and the President in the case of Romania. The recent developments in Prague are effectively a fight of individual blocs of power within the system. While the raid of the prosecutors on the Office of Government was described by many as a move toward a “dictatorship of the judiciary,” the subsequent steps of President Zeman were seen as an attempt to dismantle the parliamentary character of Czech democracy and establish a presidential system of the executive. In the end, politics often prevails over policy in the region: the important thing is not so much what the politicians want to achieve, but rather how skillful they are in discrediting their opponents or in using the loopholes within a governance system that is to some extent still in the making.

**THE DEMOCRATIC INSTITUTIONS
ACROSS CENTRAL EUROPE
REMAIN VULNERABLE COMPARED
TO THOSE IN ESTABLISHED
EUROPEAN DEMOCRACIES.**

In addition, the public administration in Central European countries is often under considerable political pressure, which prevents it from executing its tasks independently. Arguably, an even more important challenge is ensuring that the judiciary and law enforcement operate independently. Although the system might seem adequate on the paper, the countries’ publics do not have sufficient trust in its independence and in the ability of the courts and the other law enforcement agencies to protect their rights efficiently.

So far, however, it seems that despite the existing fragility of the system, Central Europe’s populism is relatively well contained. While in Western Europe the populist movements are held back by the strengths of the democratic establishment, in Central Europe, despite the weakness of the institutions, the openly populist parties are not so favored by the voters. They were ousted in some countries (Slovakia and Poland) — at

least for the time being, while in others they do not play a decisive political role. And while populist rhetoric can arguably also be found among mainstream political parties more often than in Western Europe, they have so far failed to turn words into deeds.

ORBÁN'S HUNGARY: HUNGRY FOR POWER?

There is, however, one case with some grounds for concern, which needs to be decoupled from the overall picture of the region: Hungary under the Fidesz government. Hungary is distinct from the others for a number of reasons. First, the rhetoric. Hungarian Prime Minister and leader of Fidesz Viktor Orbán explicitly speaks of a revolution or systemic change of Hungary's political system. Although it is difficult to discern what exactly this "revolution" might entail, Mr. Orbán is the only one of the acting leaders in the region to claim that some kind of deviation from the current

CENTRAL EUROPE'S POPULISM IS RELATIVELY WELL CONTAINED DESPITE THE EXISTING FRAGILITY OF THE SYSTEM.

liberal democratic order might be necessary. Moreover, his rhetoric is underpinned by specific actions. Mr. Orbán has been systematically trying to eliminate all opposition that could possibly challenge his position, often by retroactive or *ad hoc* measures. These moves lead to what is effectively a serious disturbance of

the system of checks and balances in the country — among others, an intentional curtail of the constitutional court's competence to rule on certain issues and the limitation of the central bank's independence. The disruption of the system of checks and balances is further coupled with an attack on media freedom, both public and private. According to the 2013 Freedom House report, on this indicator Hungary falls far behind its neighbors and is considered only a "partly free nation," putting it alongside the Balkan rather than the Central European countries. All these measures have been facilitated by the fact that Mr. Orbán is the only leader in the region who holds a constitutional majority in parliament. It seems that Mr. Orbán himself interprets this exceptionally strong electoral mandate as legitimizing any and all steps he might decide to undertake.

Whether the ultimate aim of Viktor Orbán is to achieve a systemic change (and what this would eventually lead to) or whether he merely seeks to consolidate his current position remains unclear. It is equally difficult to say what would prove to be the turning point that would put Hungary's democracy at serious risk. What is clear, however, is that the trend is negative: Mr. Orbán has been successfully using a piecemeal approach to curtailing the fundamental elements of the Hungarian democratic system. What is also evident is the fact that other countries, in particular within the EU but the United States

as well, have been voicing concerns about the deterioration of Hungary's democracy more openly than in the *faux pas* cases of other Central European nations' leaders.

THE EU – POWER OF THE POWERLESS?

The Hungarian case illustrates that the assumption that EU accession would prevent any backsliding on the democratic transition trajectory has been proven wrong. It is certainly true that the EU commands more effective tools to prevent democratic backlashes before a country becomes a member state. The prospect of EU membership itself is the strongest driving factor in the transition of the applicant countries. But the cases of Hungary and Romania have shown that the EU has leverage even in relation to the members of the club. In fact, the range of tools at its disposal is quite wide: from pure peer pressure and naming-and-shaming to more punitive approaches, such as the possibility of taking the member state to the EU Court of Justice or even a potential suspension of its voting rights in the Council of the EU.

In the case of Hungary, pressure from the EU did indeed bear fruit. It led to the amendment of the most controversial pieces of legislation passed by the Orbán government and prevented the adoption of further non-democratic measures. In the instances

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where the Hungarian government refused to withdraw the legislation deemed unacceptable (for example on the arbitrary lowering of the retirement age for judges) the European Commission has taken the issue to the EU Court of Justice. In the case of Romania, pressure from EU leaders forced Prime Minister Ponta to accept the results of the referendum and the decision of the Romanian constitutional court on the matter of the President's impeachment.

Ultimately, the European and Euro-Atlantic anchor is more stable in Central Europe than one could have expected. At the moment, it is unthinkable that any of the leaders in the region would risk a major confrontation with other EU leaders or institutions, let alone their country's membership in the Western structures. Although Central European politicians are often critical toward the EU and occasionally use nationalist rhetoric when addressing their domestic audiences, they use a very different tone when speaking to Brussels or Washington policymakers. Even Mr. Orbán who is convinced of the decline of Europe's (and the West's) influence and seems to believe in the need for a world order

reshuffling, realizes that Hungary cannot forge another strategic alliance of the kind it currently enjoys as an EU and NATO member. A move away from the EU or NATO would bear enormous political and strategic costs that none of the leaders in Central Europe is ready to make — even for the sake of strengthening his/her power domestically. The integration of the Central European countries within the EU has reached a level that makes it almost impossible to find a strategic alternative. In this sense, the challenge of maintaining a democratic trajectory throughout the region lies as much with the Central European politicians and societies, as with the cohesion of the EU and the West at large. The economic crisis has certainly posed enormous challenges to the tradition of European solidarity. But as long as the Western liberal democracies can uphold their alliance even at the most difficult of times, Central and Eastern Europe's anchor is likely to endure.

SECTION III: NEW SOLUTIONS FOR THE TRANSATLANTIC RELATIONSHIP?

THE TTIP: A U.S.–EU AGENDA FOR THE 21ST CENTURY?

By Andrea Figulová*

As U.S.-European political and military relations appear to be waning, much attention has been paid to the announcement of a renewed push for a transatlantic free trade area. The Transatlantic Trade and Investment Partnership (TTIP) has managed to capture the imagination of both sides of the Atlantic, and for good reason — encompassing nearly half of the world’s economic output and a third of all global trade, it would be the most ambitious global trade project since the establishment of the World Trade Organization (WTO) in 1995. But while boosting economic growth and transatlantic economic prestige at a time it is being challenged by rising actors, Andrea Figulová argues that TTIP could also hold a far deeper geopolitical significance — providing an avenue for arresting the Euro-Atlantic drift and possibly serving to reenergize transatlantic relations in other areas.

INTRODUCTION

The United States and the European Union (EU) comprise the world’s two largest economies and together they contribute to about one third of the world’s trade flows. These superpowers have always engaged in close cooperation and have enjoyed a successful economic relationship. However, their relationship is currently facing new challenges, mostly in the political realm.

While the United States is shifting its foreign policy priorities, seeking to adjust to the new multi-polar international order, Europeans remain worried that the Obama Administration’s infamous “pivot” toward Asia will leave them abandoned at a time of severe internal economic and political turbulence. It is also questionable whether the “reset” in the U.S. relationship with Russia will ultimately be successful at a time of colliding and conflicting interests. Meanwhile, Europe is confronting a wave of populism and growing internal Euro-skepticism, and may well need transatlantic cooperation more than the United States does as a means to regain its confidence and clout.

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It is precisely within this context that the prospect of a Transatlantic Free Trade Area (TAFTA) becomes important, as economic relations could form a bedrock from which to revive and strengthen political relations, forming a new foundation that will link the Atlantic shores in the years to come. In 2000, the two economies accounted for about 50 percent of the world Gross Domestic Product (GDP), but in 2012 that figure had decreased to 41 percent. Thus, even though some areas are already well integrated, it is evident that there is still tremendous potential for further strengthening economic cooperation. Significantly expanding trade and investment could also generate new business and employment opportunities — badly needed on both sides of the Atlantic given the ongoing economic crisis.

TRANSATLANTIC FREE TRADE AS A GLOBAL TREND?

The TTIP is not a new concept. The idea of establishing a transatlantic free trade area has been debated since the 1990s. In 1995, there was serious advocacy on both sides of the Atlantic on a Transatlantic Free Trade Agreement (TAFTA). For some, TAFTA was an example of how multilateral liberalization could work, for others it was an example of how the transatlantic bond could operate politically after the Cold War. It never took off, mainly on account of political hurdles, such as the birth of the WTO and its rules, the focus of US trade policy on the Pacific and questions over subsidies and tariffs barriers. The talks were, however, reopened in 2007, when the Transatlantic Economic Council was established by then U.S. President George W. Bush, then president of the European Council Angela Merkel and President of the EU Commission Manuel Barroso, as a new economic partnership tailored to address the onset of economic hardship.

The TTIP became a realistic prospect at the November 2011 EU-U.S. Summit, where the EU-U.S. High Level Working Group on Jobs and Growth (HLWG) was established in order to strengthen the economic side of the transatlantic partnership. The main goal of the Group was to meet the stakeholders involved and prepare the negotiation process. Then in September 2012, the European Commission and the Obama Administration consulted with the business community on the areas that the TTIP should target. The HLWG published its final report in February 2013, recommending that the negotiation process is launched. Subsequently, the European Commission endorsed a mandate for the negotiations and then during his State of the Union address, U.S. President Barack Obama provided the necessary political support from the U.S. side by announcing the upcoming negotiations.

TTIP BY THE NUMBERS

By establishing a transatlantic free trade zone and further liberalizing trade and investment, the TTIP would help both the EU and the United States to overcome their current economic difficulties. The TTIP would be the most complex trade deal ever concluded between partners this large. It would increase the EU's economic production by 0.5 percent (i.e. €86 billion Euros/\$115 billion) and U.S. production by 0.4 percent (i.e. €65 billion/\$87 billion) by 2027.

The negotiation process officially started in July 2013, following the approval of the European Commission's mandate and the endorsement from the Obama Administration. Even though some experts have warned that the ambition and scope of the TTIP is too large and the process might take several years, the goal is to reach an agreement within 18 months and conclude the negotiations during the second term of the Obama Administration.

At its base, the agreement would be built on three main pillars. The first one, market access (i.e. tariffs), appears to be a fairly trouble-free sector. The approved EU mandate includes trade issues such as export and import duties, rules of origin (RoO) and safeguards. It also aims to achieve the highest degree of liberalization of investment flows, as well as to simplify and equalize access to other markets (like REPs, Latin America or the BRICs). It is evident that agriculture will be the largest issue of contention in this area, even if its share of total GDP is only two percent. This is the sector with the most notable obstacles to free trade, where customs are considerably higher than the average (18.6 percent in the EU and 9.7 percent in the United States). Similarly, on both sides of the Atlantic, this is a heavily subsidized sector that enjoys a significant level of protection from cheaper foreign production.

**THE TTIP WOULD HELP
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The "*terra incognita*" of the negotiations is the second focus area — regulatory compatibility. It appears to be the most complicated portion of the TTIP, but also wherefrom the greatest boost to economic growth would come. The first step will be to remove the regulatory duplications between the two partners. Next up is the question of whether long-term cooperation could ultimately lead to uniform standards, which would then help create a stronger market position for the United States and the EU *vis-à-vis* emerging global powers, as well as issues with regard to trade in services that are related to public procurement standards. In this context, the status of regulatory agencies in the United States can become problematic as their regulating competencies are higher relative to those in the EU.

The third area that the TTIP will address is the rules of global trade. This could be a vehicle for shaping a new trade system, both in terms of rules and commitments. The process would entail developing new international trade policies, but if agreed upon, these would be applicable to 50 percent of the world's GDP and include 800 millions of consumers. For the United States the focus in this context is on state owned enterprises, matters of supply chain issues and cross border data, while the EU mandate covers questions of sustainable development, customs and trade facilitation and the institutional framework for dispute resolutions.

The three areas the TTIP targets will be addressed in parallel as part of the so-called "single undertaking" in order to ensure there is a balance between the elimination of custom tariffs and the removal of restrictive regulatory non-tariff barriers.

So which sectors in particular will the TTIP concentrate on? The emphasis will be mainly on the automotive industry, the engineering sector, the pharmaceutical and chemical industries, as well as the service and agricultural sectors. The chemical and automotive industries have some of the largest regulation differences, which account for about 50 percent of production costs on both the EU and the U.S. side. That is why one of the highest priorities of the negotiations in the automotive industry will be the harmonization of technical norms across the Atlantic. Multiple analyses have already shown that removing non-tariff barriers in these two sectors could significantly improve market access for cars, chemical products and processed food, increasing GDP in the EU by about 0.48 percent and in the United States by about 0.39 percent.

Non-tariff barriers in the automotive industry are estimated to comprise 26-27 percent of the trade and investment cost. If regulations are harmonized, these could be reduced by up to 14 percent. European car producers — mainly German such — see the potential U.S. competitors without any notable concern, while American consumers will benefit from the German-made quality vehicles. U.S. producers would likely focus on small to medium-sized cars, even though that market section is currently dominated by the Asian producers, while the European automotive industry would become more open and Western-oriented.

THE EU — ALL FOR ONE, ONE FOR ALL?

The extensive benefits notwithstanding, challenges to concluding a successful agreement remain — the TTIP is not by any stretch a *fait accompli*. During the transatlantic trade deal discussions at the Council of the EU, member states identified some particularly sensitive areas. Among these are audiovisual services, investment protection (i.e. a settlement dispute mechanism in investor vs. state cases, known as ISDS), consumer protection in relation to genetically modified organisms (GMOs)

and rules of commodity origin. The question is whether it was a good thing that such potentially divisive areas were already brought forward this early on, as neither the European Commission nor the more liberal EU member states would want to exclude key sectors from the TTIP's scope before the formal negotiations have started.

Audiovisual services and protection of cultural diversity are issues particularly problematic for France, which explicitly asked for an exclusion before consenting to the EU mandate. What is really at stake in this sector is the digital revolution of the media environment. There is no EU legislation on digital media, and only this past June the European Commission invited interested parties to comment on a Green Paper on the matter. The EU Trade Commissioner Karel De Gucht stated: "This is not a carve-out. Audiovisual services are presently not in the mandate, but we can come back with additional negotiating directives after discussions with our U.S. counterparts." The Commission has drawn three clear red lines for the negotiations in this sector: ensuring the inviolability of the existing policies, encouraging the creation of domestic content and retaining an option to adopt policies promoting cultural diversity.

Investment protection is a problem area mainly for Germany, France, Italy, Hungary and Slovakia. The other member states are more open to ISDS being a part of the negotiation mandate. The issue here is that on the one hand, there is the protection of a state's right to regulate and safeguard the fundamental interests of the public policy and, on the other hand, the protection of the interests and rights of foreign investors in a country.

Last but not least, there is the issue of GMOs, which is problematic mainly from a consumer protection point of view. Before the final EU mandate was agreed upon, several member states insisted on strengthening the EU position in this area so that negotiations with the United States would not result in changes of the *acquis communautaire* of the Union. Therefore, the final mandate for the negotiations does not impact basic European laws that protect human life and health, animal health and welfare or environment and consumer interests.

Up until now, the Central European countries do not seem to have had a strong say in the negotiation process, though some of them did voice their concerns during the Council mandate discussions. In particular, Slovakia was active with regard to the adoption of international standards in the automotive sector, which is key for the Slovak export industry. While Bratislava's written comments were accepted during the Irish EU Presidency along with the German text concerning the adoption of international standards in this industry, the final version will likely be heavily influenced by the bigger players (such as Germany).

In addition, as the third biggest EU agricultural country, Poland voiced its opposition to many of the agricultural sector rules and regulations during the negotiations of the EU

mandate. Among others, Warsaw is concerned about opening the EU market to U.S. agricultural commodities such as wheat, soy or potatoes, and Polish farmers do not believe that the deal will result in a “two-way street” with benefits.

GLOBAL IMPLICATIONS OF THE TTIP

The TTIP would have ramifications that reach beyond the transatlantic community — its scope would be large, and thus significant on a truly global scale. Several countries outside of the transatlantic space — China, Mexico and Japan in particular — have already expressed an interest in the TTIP and are closely watching the negotiation progress. China is considering how the TTIP might affect its approach to its own free trade agreements with Japan or South Korea, as well as what impact it will have on global multilateral trade politics. Mexico, which as a member of the NAFTA remains among the top three trade partners of the United States and is a larger market than all the BRIC economies combined, signed a FTA with the EU and does not want to be left on the sidelines.

Japan expects the TTIP to be particularly useful in setting regulatory rules, mainly with regard to non-tariff barriers in the car, food and pharmaceutical industries.

THE TTIP WOULD SERVE TO REASSERT THE TRANSATLANTIC BOND AND STRENGTHEN THE WEST’S POSITION.

The TTIP would also serve to reassert the transatlantic bond and thus strengthen the West’s position more broadly. That would in turn help increase the appeal of the West relative to China, whose sovereign capitalism model has in recent years become more attractive to emerging economies in Asia, Africa and Latin America. Moreover, both the United States and the EU have already negotiated other free trade treaties that may *de facto* create a geographically enormous free trade area — on all accounts helping to boost global economic resilience. A great example in this context is the Transpacific Partnership (TTP) — the United States re-opened negotiations in 2008 and several countries (most recently Japan) have joined the process since.

For Central Europe as well, the TTIP goes well beyond economics — there is a geopolitical dimension that is particularly relevant for the region. By strengthening the transatlantic relationship, a comprehensive trade agreement would serve to improve the position of the EU *vis-à-vis* other powers, such as Russia. And that in turn would reinforce the geopolitical anchor of the Central European members of the EU. How? Just by branding the TTIP as an “economic NATO.”

The TTIP will have significant ramifications for the European defense industry. The entry of the robust U.S. defense complex into the European market will arguably have a massive impact, as European producers will face difficulties in competing with the price and quality of the products being developed by well established U.S. producers. As a result, British and French producers in particular voiced their concerns, and even Berlin welcomed a change of the mandate text explicitly referencing a procurement exclusion with regard to this sector.

**IF THE TTIP DELIVERS ON ITS
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DEVELOPMENT.**

Energy security policy represents another area of significant interest for the Central European countries. Russia’s misuse of energy policy as a political tool remains a concern. Slovakia, Poland and Hungary (even as transit energy countries) are still highly dependent on energy supplies from the East. As such, the economic development and diversification of energy

resources remains of tantamount importance for the Central European region. In this area, Poland is a good example. In cooperation with American companies, Warsaw is looking to decrease its energy dependency through the development of its indigenous shale gas resources. Other countries in the region that are potentially sitting on large reserves of shale gas, as well as the EU more broadly, are closely watching this development. In addition to facilitating cooperation between the U.S. shale gas industry and its nascent counterpart in Europe, the TTIP could provide another avenue for enhancing the region’s energy security through exports of American liquefied natural gas (LNG). As the United States becomes a net energy exporter — fueled in part by its domestic shale gas revolution — LNG exports to Europe may come to have a larger impact on the Old Continent’s energy market than expected. In fact, given the high regulatory burdens of exporting U.S. LNG to countries that do not have an FTA with the United States, cooperation through the TTIP in this field could become one of the negotiations’ most critical strategic and security objectives.

TTIP AS THE NEW TRANSATLANTIC BOND

The TTIP is tied to big political interests on both sides of the Atlantic. As discussed, it represents the “cheapest stimulus package imaginable” for the Western economies. But more importantly, the TTIP could become a means for strengthening political cohesion

across the Atlantic. On the one hand, it would strengthen U.S. involvement in Europe and on the other, it would increase the importance of Europe for the United States, ultimately re-energizing the transatlantic bond. The TTIP, as a backbone of the world economy, could also become a peaceful strategy to promote the liberal values that the two partners share. In light of the economic crisis in the West and the relative success of alternative economic models (particularly in China), if the TTIP delivers on its potential, it could once again uphold the Western democratic order and market economy as a viable model of growth and development.

Ultimately, one of the key advantages of the TTIP is its timing. During a period of friction over the NSA's activities in Europe and Washington's broader geostrategic shift toward Asia, the trade deal has the potential to revitalize the transatlantic relationship and focus policymakers on the concrete economic benefits it could bring to businesses and citizens on both sides of the Atlantic. Hopefully, careful and long-sighted diplomacy will succeed in heading off a transatlantic crisis at the precise moment of sweeping new changes in the Western community. And if nothing else, the TTIP would address another more basic need in both Europe and the United States — it would offer a working, sensible and much needed “overseas bailout.” The opportunity is simply “too big to (let) fail.”

AMERICA'S ENERGY "REVOLUTION:" IMPLICATIONS FOR THE STRENGTH OF THE ATLANTIC ALLIANCE

By Ambassador Keith C. Smith (Ret'd)*

In the last few years, Central Europe has taken great strides toward enhancing its energy security. Yet, despite this, the region remains among the most vulnerable in Europe. Two recent trends — America's unconventional gas revolution and discoveries of potentially large reserves of shale gas in Poland and elsewhere in the region — have the potential to redraw the geopolitical map and free Central Europe from the longstanding iron grip of its dependency on energy imports from the East. However, Ambassador Keith Smith argues that the continued opposition to hydraulic fracturing in the EU risks undermining this process and leading to an American competitive advantage over Europe that could further damage the transatlantic alliance, to the detriment of both U.S. and Central European strategic interests.

INTRODUCTION

Central Europe is at the heart of the larger European debate over unconventional energy exploration and production. As hydraulic fracturing, or fracking, has vastly increased oil and gas production in the United States in recent years, America has become the world's leading natural gas producer. The implications for the global energy market are particularly contentious for the European Union (EU) and Central Europe. As the EU prolongs the debate over the environmental safety of hydraulic fracturing, it continues to pay much higher prices for natural gas — and as a result continues to lose the global competitiveness of its already weaker industries, particularly in the chemicals and steel sectors. The promise of vast reserves of shale gas in Central Europe could change that. While domestic sources of natural gas could free Europe's most energy dependent region from the Kremlin's grip, countries like Poland, Lithuania, Romania and Ukraine also have the opportunity to become leaders in Europe's effort to diversify its energy supplies through unconventional resources. Western energy companies with experience and technological know-how already have a considerable foothold in some areas of Central Europe, but the region still faces a split EU strategy over the future of shale gas, in addition to internal political and social uncertainty regarding the impact of fracking on the environment and public health.

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THE U.S. SHALE REVOLUTION AND THE GLOBAL ENERGY SCENE

There have been striking changes in the global natural gas landscape during the last five years. These developments have dramatically shifted the geopolitics of energy and are altering the relative economic power of the United States, Russia, the EU and the Persian Gulf states. The most significant shifts in the world energy markets are a result of the "unconventional gas revolution" in the United States. The technology of fracturing gas-bearing rock is not new, but the ability of energy companies to marry this process with more sophisticated seismic analysis and horizontal drilling has allowed them to bring large quantities of low-cost natural gas to today's energy markets. The United States has now replaced Russia as the world's largest producer of natural gas. Not only has this made America independent of liquefied natural gas (LNG) imports, but in the next three years it will allow the United States to become an exporter of natural gas to European and Asian markets. The same fracking technologies are being applied to exploit new oil deposits, and to gas and oil fields originally considered depleted. By 2030, the United States will likely be independent of non-North American supplies of energy, including oil from politically unstable regions in the Middle East and West Africa.

CHANGES IN THE GLOBAL NATURAL GAS LANDSCAPE HAVE DRAMATICALLY SHIFTED THE GEOPOLITICS OF ENERGY.

During the same period, substantial quantities of LNG have become available from new gas liquefaction plants in the Persian Gulf, Nigeria and Russia. These facilities were built with the expectation that much of the output would enter the U.S. market from the recently constructed LNG gasification units along the Gulf and Atlantic coasts. With the drying up of the U.S. gas import demand, exporting countries have had to revise their assessment of the international markets. Considerable quantities of gas are now being sold at a discount on a growing international spot market. Some of the new LNG production will fill new demand in China, Germany and Japan, where the latter two are closing down their nuclear power plants in the wake of the Fukushima disaster and thus need alternative energy sources to replace the gap in supply. Even with some demand growth in Europe and Asia, however, the loss of the U.S. market to LNG producers in the Persian Gulf and West Africa has resulted in a price softening in the international markets and a further move to decouple gas prices from oil prices. Western Europe in particular is already benefiting significantly from the U.S. gas glut. Russia, Central Asia and the Gulf states are forced to provide significant discounts to European importers, thereby saving Europe billions of Euros annually.

It is ironic that the United States, which has taken considerable criticism (much of it justified) from Europe over its climate change policies, has actually reduced its CO₂

emissions over the last 18 months by switching many coal-fired power plants over to natural gas. The decrease in U.S. CO2 and mercury emissions is primarily due to the dramatic increase in U.S. unconventional gas production, although the economic recession, EPA limits on power plant emissions and higher vehicle fuel economy standards have also played a role. Gas-fired plants do not emit the health-damaging mercury that is spewed out by coal plants. The U.S. competitive advantage will likely persist throughout the next decade. Meanwhile, some European states, such as Germany, have increased their CO2 output in recent years as they started to import more coal (much of it from the United States). And as the Euro-zone economies recover, CO2 emissions will likely increase in many other members of the Atlantic Alliance as well.

A EUROPE DIVIDED

Europe could reap some of the same advantages from the advances in drilling technology the United States enjoys. Unfortunately, political opposition to hydraulic fracturing has prevented the Old Continent from benefiting from the lower gas prices and the competitive advantage that could stem from increased domestic production. A widespread “fear of fracking,” has developed in Europe, in part generated by certain business and environmental groups. Lobbying by competing gas import industries, domestic coal producers and Russian-financed consultancies in Brussels, Berlin, Paris, Rome and other cities are believed to have prevented the use of unconventional gas technology to exploit geological formations similar to those in U.S. gas producing regions.

POLITICAL OPPOSITION TO HYDRAULIC FRACTURING HAS PREVENTED EUROPE FROM TAKING ADVANTAGE OF LOWER GAS PRICES.

Within the last two years, unconventional gas exploration bans have been instituted by governments in France, Germany, Italy, Austria, the Czech Republic and Bulgaria. If, as expected, large parts of Europe have geological formations

similar to those in the United States, fracking bans and moratoriums will delay the replacement of much of the high-priced Russian and North African gas with cheaper domestic production by at least a decade. There have been only sporadic efforts by Europe’s political leaders to push back against interest groups ignoring the best science on hydraulic fracturing. Fear of fracking in Europe could prolong the present economic stagnation and curtail efforts to remain economically and militarily competitive with the United States.

In the wake of the Fukushima nuclear disaster, the government of Angela Merkel decided to close all of Germany's 17 existing nuclear power plants by 2022. In France, the new François Hollande government announced that it will slowly begin to reduce the country's electricity dependency on nuclear power from the current 70 percent down to 50 percent. Along with these developments, there is domestic pressure by environmentalists in several other European countries to stop or delay the construction of new nuclear, and in some cases, even new gas-fired power plants. Again, these steps threaten to sustain Europe's dependency on higher priced imports, primarily from Russia, as well as its reliance on coal. Despite some softening of Russian prices, the cost of natural gas in Central and Eastern Europe remains at a level approximately five times that in the United States.

Too many European politicians appear unconcerned that their countries pay three to four times as much for natural gas, and \$20 a barrel more for oil, than do consumers in the United States. Europe's industries face a growing competitive disadvantage relative to America's energy intensive industries. Cheaper gas impacts production of steel, metals, plastics and fertilizers, and other processes that require substantial electricity or natural gas feed stocks. Europe's green parties and other interest groups, possibly financed by Russian interests, have massively disseminated disinformation regarding the risks of hydraulic fracturing. Many in Europe have accepted at face value false claims about alleged water pollution, methane emissions and widespread earthquakes caused by fracking. Among some European "greens" there is also a naïve belief that wind, solar and bio mass energy is capable of rapidly replacing fossil fuels. The next decade will likely see significant progress in bringing down the price of solar and other renewables, but it will take considerably longer and will require more government subsidies than the optimistic time and cost projections put forward by the opponents of hydraulic fracturing.

Geography also plays a role in Europe's division over fracking. West Europeans have more alternative routes for importing gas in the event of a disruption from the Russian and Central Asian sources. LNG-receiving facilities are already in operation and are able to raise imports from West Africa, the Persian Gulf and increasingly, even from the United States. They also receive a larger percentage of Norway's gas production than do their Central European neighbors. The EU is now funding the construction of more electric and gas pipeline interconnectors and LNG-receiving plants in Central and Eastern Europe. These will help in times of crisis. Yet, Central European members of the EU, as well as non-EU Ukraine, are still largely dependent on Soviet-era pipeline systems. They are located farther away from the LNG shipping routes, continue to have fewer gas and electricity interconnectors and are in a weaker financial position to subsidize renewables. In addition, Russian influence in many of these countries remains strong as a result of the close personal ties between Kremlin officials and Soviet-era business and political leaders in the region.

Although the EU's "Third Energy Package," which mandates separating supply from distribution, will eventually succeed in creating more competitive electricity and natural gas markets, there is still considerable resistance to its full implementation on the part of European energy firms that are heavily invested in Russian imports. Unfortunately, such opposition in Western Europe, combined with obstruction to hydraulic fracturing indirectly keeps the more vulnerable economies of Central and Eastern Europe dependent on Gazprom imports and exposed to political influence by Kremlin leaders.

**RESISTANCE TO THE FULL
IMPLEMENTATION OF THE THIRD
ENERGY PACKAGE KEEPS THE
VULNERABLE CEE ECONOMIES
DEPENDENT ON GAZPROM
IMPORTS.**

In addition, the environmental obligations undertaken by the newest EU member states under the *acquis communautaire* will be difficult to achieve. In some cases, such as Lithuania, the agreement to the *acquis* effectively increased their dependency on imported Russian gas. The EU estimates that member states will increase their need for imported gas from 48 percent in 2010 to 74-80 percent by 2030. The projected decline in North Sea production will also increase the pressure to import gas from Russia and Central Asia, or LNG from the Gulf States. Of course, should there be a loosening of the restrictions on hydraulic fracturing throughout Europe, gas imports could potentially decline significantly over the next decade. Fortunately, political pressure on the EU's Environmental Commission to ban all fracking by member states has up to now been unsuccessful and some governments (the Netherlands and Germany specifically) are considering lifting their ban on fracking.

Regardless of the EU-wide divisions, Poland, Lithuania, Ukraine and Romania, as well as the UK, are likely to continue to pursue the development of their geological structures believed to contain substantial natural gas and oil reserves. The UK's Cuadrilla Company discovered a potentially rich and thick play near Liverpool that could make the country, like the United States, self-sufficient in natural gas. In addition, given that it faces a relatively swift decline of its gas and oil fields in the North Sea, Britain is also moving more rapidly to evaluate the prospects for off-shore fracking production.

CONCLUSION

The opposition to hydraulic fracturing in much of Europe may well result in a significant competitive advantage for the American energy-intensive industries as well as its

agriculture sector, which remains dependent on fertilizers and pest controls. This would, however, not be in the U.S. national interest. U.S. security interests require a strong European partner, including a well-equipped and economically healthy North Atlantic Treaty Organization (NATO). Europe is by far America's largest and most important trading partner. U.S. and European financial institutions are heavily interlinked, and both sides depend on common values to guide their cooperation in the rest of the world.

European environmental groups, through their determined opposition to genetically modified crops, have helped preserve the EU as one of the world's most expensive food producing areas. Now, many of those same groups, with the help of domestic energy interests and Russian-financed lobbyists, can ensure that Europe will remain dependent on unstable and politically-motivated energy suppliers. In five year's time, Europe could find it difficult to compete with the U.S. and Asian suppliers of steel, plastics, fertilizers and any commodity requiring substantial energy inputs. The EU and major European governments need to act swiftly to take advantage of the latest hydraulic fracturing technologies. Natural gas, whether developed from conventional or nonconventional sources, is the "greenest" of the hydrocarbons, emits half as much CO₂ and particulates as coal and requires less water than coal production.

European governments, industries and consumer groups need to start paying closer attention to the forces opposing shale gas development. The lack of

transparency in NGO financing, the operations of foreign-financed consultancies and the work of former EU and government officials in the service of non-transparent energy companies pose a danger to Europe's future competitiveness. This is also a threat to the political integrity of governments, which have little understanding of the hidden forces that may influence their domestic energy policies.

Even under the best of circumstances, Europe would not experience the quick unconventional gas development that took place in the United States. Nevertheless, the longer major European states stall in allowing seismic and other exploration work, the less likely it is that their political leaders will know if they have the resource base to break free from their dependence on a Russia that uses energy exports for political coercion and a Middle East that is embroiled in major turmoil.

**EUROPEAN GOVERNMENTS,
INDUSTRIES AND CONSUMER
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Europeans can already take advantage of the best practices in fracking developed in the United States. Considerable improvements have been made in reducing water usage, in recycling water, in limiting the land used for drilling and in increasing transparency in the use of the small amounts of chemicals.

The price of renewables will eventually decline to the point where they will not require subsidies to compete with gas, but this will likely not occur for another ten to twenty years. It should be noted that hydrocarbons do receive an indirect subsidy when their cost fails to cover the public health burden from air pollution. Without a carbon tax or a formula to cover the real costs of burning hydrocarbons, some degree of subsidizing may be justified for renewables in order to create a level playing field. In the long run, however, renewables will only be sustainable if they can compete with hydrocarbons, including unconventional gas, in an open and competitive market. It is also notable that American research and development on renewables has not stalled as unconventional gas has taken on a larger role in power production in the United States. The cost of producing solar power has in fact decreased markedly over the last few years, and investment in solar projects has increased dramatically.

The countries of Central Europe pay the highest natural gas prices in Europe, and are locked into long-term contracts with non-transparent Russian companies. Exploration and development of natural gas, and possibly of oil, through hydraulic fracturing offers them a real opportunity to strengthen their energy

security. If carried out properly, it can help decrease the influence of corrupt outside business and political interests, while offering substantial financial savings for consumers in a region that is determined to catch up economically with the rest of Europe.

Ultimately, greater energy security in Europe, and in Central Europe in particular, is in the U.S. strategic interest. A short-term competitive advantage over Europe gained by cheaper energy in the United States could damage the health of the transatlantic alliance, thereby weakening the power and influence of the world's great democracies. In today's shifting global landscape, with serious challenges in many regions, a strong alliance between a dynamic Europe and an equally robust United States is as essential as ever. Central Europe particularly deserves the attention and support of the EU and the United States as it works to free itself from the longstanding iron grip of its dependency on energy imports from the East.

**A SHORT-TERM COMPETITIVE
ADVANTAGE OVER EUROPE GAINED
BY CHEAPER ENERGY IN THE
UNITED STATES COULD DAMAGE
THE HEALTH OF THE TRANSATLANTIC
ALLIANCE.**

CONCLUSION

BEYOND THE WASHINGTON OPTION: CENTRAL EUROPE'S STRATEGIC DIVERSIFICATION

By Robert Kron and A. Wess Mitchell

In the 2012 report “Navigating Uncertainty: U.S.-Central European Relations 2012,” CEPA explored the ongoing evolutions in Central European foreign policies driven by simultaneous global, peripheral and European changes. The report identified three new trends that are increasingly dominating the U.S.-Central European relationship: 1) turbulence created by new political and economic constraints; 2) the fallout of tentative U.S. retrenchment linked to the “Asia pivot;” and 3) the continued importance of the East as both a focal point and a binding agent for U.S. strategic engagement with and through Central Europe. The report posed the question of whether the existing transatlantic structures will continue to be sufficient to tackle the challenges of a rapidly changing world — citing for example geopolitical developments ranging from the relative rise in importance of players such as China and Turkey to uncertainty over the instability in the Middle East, as well as questions about the stalling of Euro-Atlantic prominence in the Eastern reaches of Europe and how it might play out in practice.

THE 2013 CENTRAL EUROPE IS VERY DIFFERENT FROM THAT ENVISIONED BY THE FOUNDING FATHERS OF THE POST-1989 TRANSATLANTIC BARGAIN.

This year, in the lead-up to three very important milestones — the 25th anniversary of the 1989 democratic revolutions, and the 15th and 10th anniversaries of the region's accession to the North Atlantic Treaty Organization (NATO) and the European Union (EU) respectively — CEPA's annual Edited Volume has taken a more introspective approach.

While the broad changes underway in the geopolitical order have been extensively debated, little attention has been paid to how the lingering, potentially terminal, ill-health of Euro-Atlantic institutions mired in seemingly endless malaise and the expiration of the “big ideals” that animated past generations of Western policymakers are changing the character of U.S.-Central European relations.

The collected essays of this Edited Volume reveal a 2013 Central Europe very different from that envisioned by the founding fathers of the post-1989 transatlantic bargain —

one that has weaker ties to and affinity for the United States, less clarity over the future permanence of its moorings in the EU, and is less socio-economically buttressed against the specters of regional nationalism than might have been hoped. Viewed together, the authors present a panoramic view of the changes underway within the transatlantic geopolitical space. Their analyses show that the traditional paradigms and institutions which have served as pillars of transatlantic cooperation have devolved in the face of a global landscape that presents very different challenges from those of years past.

The eight essays fundamentally agree on one thing: the transatlantic community has entered a period of profound “strategic uncertainty.” It is neither overtly threatened from without nor entirely degraded from within, holding on to the dreams of the past while attempting to face the challenges of the present. As has been the case throughout much of history the countries of Central Europe — exemplars and greatest beneficiaries of the post-1989 global reordering — find themselves squarely in the middle of this unfolding dynamic. Across the chapters, two main themes recur.

**THE TRANSATLANTIC
COMMUNITY HAS ENTERED
A PERIOD OF PROFOUND
“STRATEGIC UNCERTAINTY.”**

First, uncertainties over the health of NATO, and the future of U.S. involvement in the region more broadly, have accelerated a process of strategic diversification and shifted emphasis away from relations with the United States and toward a varied list of alternative geopolitical options — a mixture of Europeanization, self-reliance and regionalization. This is perhaps most keenly seen among Central Europe’s most geopolitically exposed, security conscious states in the North and the East — Estonia, Latvia and Lithuania (the Baltic Three) and the regional heavyweight Poland.

Though referring specifically to the U.S. relationship with the Baltic States, Kristīne Bērziņa offers an insight that in some ways encapsulates the sentiments of the entire Central European region: “with the achievement of these objectives [EU and NATO accession] and the conclusion of military operations in Iraq and Afghanistan, the future of the U.S.-Baltic relationship is suddenly open-ended.”

For the past two and half decades, the U.S. relationship with its allies in Central Europe has been animated by concrete strategic heading — for example the drive toward the region’s accession to NATO and the EU, and close military cooperation in Iraq and Afghanistan. As Bērziņa notes, the immediate post-Communist transition period was marked by a reciprocal zeal for integration of Europe’s former hinterlands into the core Western structures of stability and ideals of enlightened governance. In an immediate repayment to Washington’s investment, these states were among the most reliable U.S.

allies in military ventures in Iraq and Afghanistan throughout the 2000s, heralding a period of heightened joint military cooperation that in many ways kept Central Europe's relevance artificially elevated and provided a steady focal point for the relationship.

Today, with the imminent conclusion of large scale military operations in Afghanistan under NATO's ISAF mission, neither an emotional corollary to "Europe whole, free and at peace" nor a project to replicate the close, continuous ties necessitated by joint military operations in Afghanistan has been found, much less articulated. The truth is that unlike the distinct strategic rationale for close U.S.-Central European ties of decades past, today's landscape is far more ambiguous. As Bērziņa asserts in another statement with wider regional relevance, "it remains to be seen whether the special relationship between the Baltics and America will persevere past 2014, or whether it will be folded within the wider U.S.-EU relationship."

This point reflects a region-wide impetus: to be part of the EU "core," which has taken on heightened importance as the long-term political, economic and strategic back-up to the transatlantic link. This process is not new, but it has assumed an air of greater urgency with the relative decline of NATO. As suggested above, the anticipated development of a United States slowly looking to supplant its close bilateral relationships with individual EU member states with a broader liaison routed through Brussels is now well underway. Particularly for the small to mid-sized states of Central Europe, then, the need to be able to influence Europe's design-making structures becomes tantamount. For the Baltic States, this is reflected in the drive to join the Euro-zone (Estonia joined in 2013, with Latvia and Lithuania set to follow in 2014 and 2015 respectively), despite the political unpopularity and economic uncertainty of the currency union, in order to secure their place at the table in the fast-emerging "core" of European decision-making. But even with the self-admitted push away from the transatlantic link and toward a more EU-centric mindset, Bērziņa ends

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RATIONALE FOR CLOSE U.S.-
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DECADES PAST, TODAY'S LANDSCAPE
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on a note of optimism, arguing that though "the withdrawal from Afghanistan and the Asia-Pacific pivot in American foreign policy will inevitably change the mechanisms for cooperation between the United States and the Baltic countries in the coming years [...] the underlying common values, mutual interests and NATO solidarity should remain intact."

Writing from a Polish security perspective, Bartosz Wiśniewski is more guarded in his assessment of the state of both the health of the transatlantic bond and the scope of changes underway in Central Europe's geopolitical landscape. On the one hand,

Wiśniewski points out that Poland (and the region) are widely considered to be enjoying a “strategic pause” in which the general security landscape is relatively benign. On the other hand, Poland, arguably the most strategically self-aware state in Central Europe, well understands that this “pause” is tantamount to “the calm before the storm.” As Wiśniewski underscores, the time to repair the roof is while the sun is shining, though one can never be entirely certain which ray of sunshine will be the last.

Poland is using its “break from history” to undertake a massive reevaluation and modernization of its military, both materially through a targeted upgrading of capabilities and doctrinally through a tightened focus on territorial defense. This is one of the oldest and most natural strategic options a state can embark upon during times of plenty: the drive to ensure an optimum level of capabilities and strategic self-reliance. In Poland’s

POLAND IS USING ITS “BREAK FROM HISTORY” TO UNDERTAKE A MASSIVE MATERIAL AND DOCTRINAL MODERNIZATION OF ITS MILITARY.

case, the operational lessons learned from a decade of combat operations in the Iraq-Afghanistan theatres and the windfall from a strong economic performance during the Euro-zone crisis provide both the politico-strategic rationale and the fiscal means for adopting such a course.

However, the very need for this avenue also reveals a more morose motivation: lack of trust in the willingness and/or ability of NATO to protect its allies when the period of the “strategic pause” comes to an end. As Wiśniewski states “the main priority now is to ensure that Poland will be able to act on its own in case NATO allies fail to reach a consensus about the desirability of reacting to a particular contingency, or when timely allied assistance cannot be relied upon.” While one cannot disconnect Poland’s historical experience (riddled with examples of allied unreliability in times of crisis) from the current drive toward a greater autonomization of Polish security capabilities, it is illustrative that the trust deficit within the transatlantic relationship has reached a historic high and Polish optimism with regard to NATO — a historic low.

Nonetheless, Wiśniewski makes a point to demonstrate that despite their desire for some level of self-reliance, Polish leaders do not have any ambitions for an autarkic security policy. In fact, a corollary development in Polish foreign policy has been a relatively high level of investment into regional partnerships, formal and informal. While the EU and NATO may continue to struggle with deadlock, interest-based regional cooperation presents one avenue for diversifying Poland’s policy tools and continuing to move forward on core strategic interests when a macro-level approach would be

impractical or impossible. It should come as no surprise then that several such pre-existing regional groupings — like the Nordic-Baltic Eight (NB8) and the Visegrád Group (V4) — have both experienced a surge in their activity level and risen in prominence on the European and international stages in recent years.

The V4 in particular has emerged as one of Central Europe's most promising wild cards. As András Rácz demonstrates, the Group can be quite effective when used efficiently. Though not necessarily an institution — it lacks a formal structure and a dedicated bureaucracy, and relies on a rotating chairmanship for guidance instead — the V4 is still a very effective regional cooperative mechanism. The litany of recent accomplishments is substantial. The Group's successes include, as Rácz points out, steps toward greater energy security through the diversification of transit routes and sources (for example through Central European interconnectors), effective coordination within the European Council, strides toward a more coherent and effective EU Eastern neighborhood policy and even early forays into deeper defense cooperation. Under the recent Polish Presidency of the Group, plans for a joint Visegrád Battlegroup were formally announced — at a time when the EU's overall Common Security and Defense Policy (CSDP) remains largely amorphous.

Rácz argues that the V4 is partially successful precisely because it is everything the EU (and to some extent, NATO) is not: flexible, unencumbered by a large number of members, politically neutral and focused on the art of the possible through tangible, interest-based cooperation. Used effectively, it can theoretically provide an answer to several of the issues mentioned above:

in Europe it becomes a force multiplier (collectively V4 members hold a voting power in the EU Council equal to France and Germany combined) ensuring that when acting in a coherent manner the Group cannot be easily marginalized; for a distracted United States seeking efficiencies in its politico-diplomatic ties it allows for a more enticing partner on issues of international concern; and in a regional sense, it provides a practical bypass valve in the face of institutional inertia at the NATO and EU levels, while simultaneously allowing the region to do more to steer these institutions in the right direction.

But, as is often the case, theory can be difficult to translate into practice. For all its potential, the V4 has fatal flaws. Chiefly, its lack of institutionalization can be problematic. While escaping the burdens of an often self-serving bureaucracy, there are some benefits to institutionalization that the V4 cannot take advantage of, such having an administrative body that sustains focus and momentum. Thus, the V4 relies almost

**THE V4 HAS EMERGED
AS ONE OF CENTRAL
EUROPE'S MOST
PROMISING WILD CARDS.**

entirely on full member buy-in. Yet, with a strong leader at the helm, it can achieve great leaps forward. Without unanimous commitment, though, the Group is also liable to moving at a trot, if at all — something seen starkly in the period after the members' accession to the EU and NATO, when the lack of an overriding and compelling rationale led the Group into a half-decade long coma.

**DESPITE THEIR INTRA-EUROPEAN
WEIGHT, THE VISEGRÁD
COUNTRIES WILL ACCOMPLISH
LITTLE IN THE ABSENCE OF A
UNIFIED VISION.**

Today, despite its accomplishments, questions remain as to whether the V4 can be anything more than a loose regional grouping. Its members continue to search for a unifying purpose that transcends national differences in areas of core strategic interest, and several challenges

remain before cooperation can be taken to the next level. One of these is the growing dissonance between the members' outlooks on the EU itself. As it stands, the Group's members remain divided in their positions on Europe's longer term development — with Poland and Slovakia broadly positive on greater integration, and the Czech Republic and Hungary more wary. Despite their intra-European weight, little will be accomplished in the absence of a unified vision. Another challenge for the Group is to be able to transcend the drive for bilateral gains and create multilateral partnerships with other important players on the global stage — including the United States, but perhaps most notably Germany.

This latter point is particularly poignant in light of the EU's unrelenting troubles, and leads us to the second trend the Edited Volume reveals. The European project itself is fundamentally changed as a result of the Euro-zone crisis. As Carnegie Europe's Director Jan Techau framed it, "the postwar integrationist zeal and sense of togetherness is gone." The result is arguably a return of nationalism within the European discourse, as individual member states now increasingly attempt to shape continental politics along the lines of national interest priorities rather than with communal outcomes in mind; in a sense the European political discourse has re-normalized. This can partially be attributed to the eroded credibility and legitimacy of the European institutions, which have been unable to swiftly address the severe strategic and economic challenges facing the EU. As post-national constructs, these institutions will continue to suffer within the new map of Europe. But the crisis has not only eroded confidence in the EU's institutional resilience, both within the Union and abroad, it has also fundamentally reshaped Europe's power distribution. In particular, as the leading economic contributor and longstanding *de facto* leader of the Euro-zone, Germany's importance has been

disproportionately amplified, endowing Berlin with the political power to begin to reshape the institutional framework governing Europe's core.

While Germany has long been Europe's most important nation, only recently has it re-emerged as Europe's "indispensible" nation, for two key reasons. First, Germany's economic potential has been unleashed through the expansion of Europe, initially through German unification and later through the EU accession of the Central European states. Second, Germany has become the model for economic management at a time of deep crisis in the Euro-zone due to its low unemployment, thriving middle class, strong small business sector and tame, consensus-oriented unions. Lacking the indigenous manpower and infrastructure to meet global demand for its exports, Germany is unique among the world's economic powers in that it is surrounded by — and institutionally bound to — a ring of low-cost labor and manufacturing-rich states in Central Europe, which offer a corrective corollary to its production capacity shortage. Partially as a result of this, Germany has been able to weather the global economic crisis intact, and today alone accounts for 20 percent of the EU's Gross Domestic Product (GDP).

In structural terms, this economic predominance has not yet translated into concerted political leverage within Europe. In fact, for most of the EU's history Berlin has been able to enjoy the economic benefits of its European membership without being expected to demonstrate concurrent political leadership — and has thus actively avoided pushing a strong foreign policy portfolio. The European crisis has changed this dynamic and Germany has returned to its traditionally dominant role on the continent. As countries on Europe's western and southern periphery (including large powers like Italy, Spain and France) struggle with unwieldy debt and fiscal deficits, Germany is increasingly seen as Europe's new lodestar. Calls for German leadership of Europe — though in some cases a masked call for Berlin to transfer funds to ailing economies — have been heard in Washington, Paris, and even Warsaw.

THE CRISIS HAS FUNDAMENTALLY RESHAPED EUROPE'S POWER DISTRIBUTION.

For this reason, as Kai-Olaf Lang emphasizes, "the financial and economic turbulence in the Euro-zone is Berlin's most important challenge at the EU level." For the Central Europeans, this is both good and bad news. Politically,

Germany's importance to Central European member states is paramount at a time when the EU project at large is failing to perform. In fact, Berlin has in many ways replaced the traditional reliance on European institutions as Central European capitals' premier focal point for achieving their desired foreign policy aims. First, Germany remains essential for several high-profile Central European interests including, but not limited to, engagement with Europe's neighborhood through the Eastern Partnership, navigating reforms of the

EU's financial framework and patronage for a balanced policy toward an increasingly worrisome Russia.

Second, as Europe increasingly moves (inadvertently or otherwise) toward a two-tiered model of cooperation, a strong relationship with Germany can provide a bridge to the inner core of EU's new decision-making structures for those states not in the Euro-zone (with the exception of Estonia and Slovakia, this includes the entire Central European region) and a powerful partner for those already at the decision-making table. As Lang argues, "for many in Central and Eastern Europe, Germany is a guardian of unity and inclusion in the Union, in contrast to France's penchant for building a "core Europe" around the Monetary Union [...] Berlin is seen as a capital that you can trust even if its leadership style is changing, and as a partner that accepts — even though reluctantly sometimes — the need for solidarity within the EU."

MOVING TOWARD A MORE EUROPEAN-ORIENTED FOREIGN POLICY HAS MADE THE CENTRAL EUROPEANS INCREASINGLY IMPORTANT PARTNERS FOR BERLIN.

Likewise, as the region has slowly moved away from its staunch Americanism toward a more European-oriented foreign policy trajectory, the Central Europeans have become

increasingly important partners for Berlin. Recognizing that it needs friends to institute its preferential leadership model without raising alarm bells, Lang argues that Berlin is careful not to provoke smaller member states who usually prefer the community method. For this reason, it is in Germany's interest to bolster bilateral and multilateral ties (Berlin has already ramped up engagement with the V4, the Baltic Three and with Poland through a revamp of the Weimar Triangle), in order to "show governments in the region that they can trust a Union more reliant on meetings of heads of states and governments to protect and promote their [Central Europe's] interests." in addition, as Berlin pursues a path to stabilize Europe's monetary structures, it benefits from partnerships with regional players who share the reform minded, fiscally conservative culture that has allowed Germany to thrive at a time of deep economic crisis, and even to foot the majority of the bill for keeping the Euro-zone afloat.

Economically, the extent of the region's interdependence with Germany cannot be overstated. The Central European countries have long been intricately tied to the strength of the German economy and depend on these ties to sustain their own economic models. If for no other reason, this provides a powerful incentive for the Central Europeans to work closely with Berlin to promote stability in the Euro-zone and pave the way for economic growth.

Jan Cienski echoes this central point: “the problem for the whole region is that the export-led model of growth, which relied on sales to the Euro-zone and particularly Germany, has run into trouble because of the ongoing slump in Western Europe. [...] The first bout of crisis in 2009 left public finances across the region strained, and governments do not have the flexibility to increase spending to boost growth as they did a few years ago.” Until recently, many Central European states (chiefly Poland, which was the only European country not to go into recession owing to a large domestic market and free spending customers) were able to weather the Euro-zone crisis broadly intact.

But the economic troubles of Europe are finally catching up even to the region’s star performers, and prospects are no longer cut and dry. As Cienski points out, “when investors look at Central Europe, the region is split into a credible and stable northern half of Poland, Slovakia and the Czech Republic and a politically fractured and corruption-ridden southern tier of Hungary, Romania and Bulgaria.” The division broadly correlates to how successfully countries in the region have been able to implement economic reforms in the past 25 years, including setting up sensibly regulated financial markets, independent central banks, controlled public finances, secure banking systems and robust private sectors. Recently, however, Cienski adds, “that handy split of Central Europe into a “good” North and a “bad” South is looking increasingly tattered [...] as the former problem cases show an unexpected return to health and the strong performers find themselves swamped by political and economic troubles.”

The biggest blow comes in Poland, which has seen its solid economic performance slow down to a crawl, with an expected growth of one percent this year and only two percent in 2014. Slovakia, likewise, will only see a 2.8 percent growth,

with the Czech Republic in a similar position. By contrast Hungary, which under the Viktor Orbán government responded to a sharply contracting economy and spiraling public finances by embarking on a large scale program of economic nationalism and enacting sweeping constitutional reforms that have alarmed the EU and the United States, can expect a relative bounce-back. Similarly, Romania and Bulgaria, both troubled recently by political crises, will grow at 2.2 and two percent respectively, a much stronger performance than most EU member states.

These increasingly varied economic patterns will likely muddle an already complex regional picture in the areas of governance and democratic performance. Since the Euro-zone crisis hit, several Central European states (primarily Hungary and Romania) have witnessed a return of nationalist rhetoric into the political arena. As David Král and Vladimír Bartovic point out, “the accession of the Central European countries to

THE ECONOMIC TROUBLES OF EUROPE ARE CATCHING UP EVEN TO THE REGION’S STAR PERFORMERS.

the EU in 2004 and 2007 was considered the culmination of their democratic transition, and the EU served as their stable anchor within the Western liberal democratic order [...] however, in recent years, the standards of democratic governance appear to have declined across the region.”

While Král and Bartovic argue that this trend is not necessarily specific to Central Europe, as many Western European member states (such as France, the Netherlands and Finland) have experienced a resurgence of populism and nationalism in the wake of the Euro-zone crisis as well, they do admit that the relative weakness of Central European democratic institutions is troubling, and that in many cases nationalist parties and politicians seem to be on the rise across the region.

Much of this debate has centered on Hungary following the landslide electoral victory of Orbán’s Fidesz party. Using a supermajority in parliament, Král and Bartovic assert, Orbán has been “systematically trying to eliminate all opposition that could possibly challenge his position [...] these moves have led to what is effectively a serious disturbance of the system of checks and balances in the country — among others, an intentional curtail of the central bank’s independence and an attack on media freedom.” In 2013, Freedom House downgraded Hungary to a “partially free nation.” But Hungary is not alone in this plight. In Romania, the current Prime Minister Victor Ponta was only narrowly stopped by the country’s judiciary from deposing the sitting President Traian Băsescu for seemingly no other reason than political revenge. In the Czech Republic, newly elected President Miloš Zeman has ignored precedent and convention in stretching his executive authority in a highly public spat with the Czech Parliament. In all three cases, there has been an attempt by one ruling government branch to extend its power at the expense of other political institutions. And in Poland, the right-wing Law and Justice (PiS) party has been gaining ground on the ruling Civic Platform (PO) using nationalist rhetoric to condemn the government of Prime Minister Donald Tusk. Collectively, these alarm bells may point to a slow unraveling of the democratic transformation of the Central European societies in the wake of the 1989 revolutions.

As Král and Bartovic argue, this “illustrates that the assumption that EU accession would prevent any backsliding on the democratic transition trajectory proved to be wrong [...] the economic crisis has certainly posed enormous challenges to the tradition of European solidarity.” But if the economic trends discussed above hold any water, the upsurge in Central European nationalist populism cannot be attributed to economic troubles alone. The region is more closely tied to the waxing and waning of the Euro-Atlantic order than its Western counterpart, where the natural passage of time has allowed the institutions of governance and the values of the West to set, and cultures of political compromise to develop. Unlike in the West, the gravitational pull of the EU and the United States is stronger in Central Europe. Ultimately optimistic, Král and Bartovic conclude that, “as long as the Western liberal democracies can uphold their alliance

even at the most difficult times, Central and Eastern Europe’s anchor is likely to endure.” But what if they fail? That is in some way precisely what makes the simultaneous crises of the Western institutions so dangerous for the region.

Collectively, the net result of these and other dynamics points to the emergence of a new European framework — one that is less pro-American, more inward-looking and less able to project power externally, bonded by increasingly weaker supranational institutions and confronting a growing leadership vacuum. Meanwhile, a weak NATO and a U.S. withdrawal are depleting the Atlanticist impulses, which could leave America lonelier than before, and the economic and political leverage of the EU is failing to keep economies and political systems healthy — all in all, a rather bleak picture.

**IT IS UNCERTAIN WHAT THE
TRANSATLANTIC RELATIONSHIP
SHOULD BE IN AN ERA OF STRATEGIC
REBALANCING AND TECTONIC
GEOPOLITICAL POWER SHIFTS.**

In light of these trends, the future of transatlantic cooperation seems relatively uninspired. It is uncertain what the transatlantic relationship should be in an era of strategic rebalancing and tectonic geopolitical power shifts, or what avenues will exist for Euro-Atlantic

cooperation in a post “1989 consensus” world. Even less certain is what will come in its place, how this could shape U.S. global interests and how Europe, and in particular its Eastern members, should react to best prepare for dealing with a potentially unfamiliar future.

But even if the era of big institutional moorings and even bigger ideas is now on ice, the current trajectories can still be reversed. Already, two developments in particular present an opportunity to find a new foundation on which to rebuilt transatlantic trust and, over time, re-energize the institutions that have shaped global developments for the past half century.

One is the ongoing negotiations to establish a transatlantic free trade area, by concluding the Transatlantic Trade and Investment Partnership (TTIP). The idea is not a new one — a similar, though ultimately failed, attempt was made by former President Bill Clinton in 1998 — but it has certainly managed to capture the imagination of both sides of the Atlantic. And for good reason: the TTIP would be one of the most ambitious global trade projects since the establishment of the World Trade Organization (WTO) in 1995, encompassing nearly half of the world’s economic output and a third of all global trade. U.S.-EU trade relations are already robust, equaling roughly \$700/€540 billion in goods and \$4/€3.07 trillion in cross-investment per year, and most importantly,

supporting around seven million jobs.

The economic potential of such an agreement is substantial. While the United States and Europe continue to struggle with low economic growth, spiraling debts, political tension between advocates of stimulus and austerity, depressed demand and high unemployment, a successful TTIP could act, Figulová argues, as the “cheapest stimulus package imaginable,” increasing the economic production in the EU by 0.5 percent and in the United States by 0.4 percent (equaling \$115 and \$87 billion respectively) by 2027, all without requiring that a single tax dollar be spent. This could go a long way toward jumpstarting the EU’s economic growth, and restoring the stability and credibility of the Union.

**EVEN IF THE ERA OF BIG
INSTITUTIONAL MOORINGS AND
EVEN BIGGER IDEAS IS NOW ON
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But as Figulová also rightly points out, TTIP has ramifications that go far beyond economics. First, it could be an equally important “stimulus package” for U.S.-EU political relations. Amid worries about American disinterest in the Old Continent, TTIP in some ways bucks the trend by demonstrating that from Washington’s

perspective, not only is there a European agenda on the table, but it has a concretely outlined character, where economic engagement will be the cornerstone of U.S.-European relations for the next four years. Within this parameter, then, TTIP could be an opportunity to revisit and restore the transatlantic relationship and create a new long-term foundation for engagement, as free trade and its economic benefits are considered by many a more effective connector between countries than bi- or multilateral political negotiations. The new, positive dynamic that will stem from the need for sustained close cooperation and discussions at multiple levels will go a long way toward dispelling the feelings of benign neglect that have characterized the transatlantic relationship over the last five years. The hope is that this cooperative momentum could with time spill over into other areas, such as defense.

Second, TTIP, as a form of an “economic NATO” could have wide-reaching geopolitical ramifications. The power of the West and its clout around the world are predicated on the economic strength and the attractiveness of Western norms and values to other global actors. In recent years, this power and influence have been challenged by rising states such as China and the emergence of sovereign capitalism as an alternative model to Western liberal economic values. According to the U.S. National Intelligence Council’s recent report “Global Trends 2030: Alternative Worlds,” Asia will surpass the Euro-Atlantic states in global power if current trends — a higher GDP, larger

population, greater military spending, and more research and development investment — continue. Successfully completing TTIP would go a long way to protect America’s and Europe’s status as the leading economic powers, and with that could help restore their geopolitical clout that has been slowly eroded by the global and Euro-zone fiscal crises. In short, TTIP would allow Washington and Brussels to reassert leadership within a global economic framework they jointly built — and with that, to reinforce the primacy of political and economic liberalism over state-led protectionism and market distortion, or sovereign capitalism.

For Central Europe too, Figulová argues, TTIP has a geopolitical dimension that goes well beyond economics. For one, the restored geo-economic clout of the EU provided by a comprehensive TTIP will help improve EU’s leverage *vis-à-vis* an increasingly assertive Russia. While this will bring

benefits in several areas, preventing “the misuse of energy policy” as a political tool to influence the region — home to Europe’s most heavily dependent on Russian energy exports countries — is of particular significance. Central Europe has long strived to decrease its dependency on single-source energy supplies through diversification. The TTIP could assuage this effort by bringing exports of American liquefied natural gas (LNG) to European markets, all the while more progress is made with regard to the regional development of alternate energy sources, such as Polish shale gas. Conveniently, this also presents an area where robust engagement with the United States could go a long way to revive the U.S.-Central European relationship.

Keith C. Smith presents a compelling argument for why this is the case, arguing that “Central Europe is at the heart of the larger debate over unconventional gas exploration and production [and] domestic sources of natural gas could free Europe’s most energy dependent region from the Kremlin’s grip.” The revolution in American unconventional gas production means, according to Smith, that the United States is likely to be independent of non-North American energy resources by 2030, eliminating America’s need to be involved in volatile global regions to ensure reasonably priced and readily available energy supplies. Several Central European states, prominently Poland, Lithuania and Romania are sitting on expectedly vast natural gas reserves. With U.S. commercial investment and expertise, these resources can be extracted and leveraged to bring about a similar “energy revolution” to Europe’s most vulnerable states.

However, opposition to hydraulic fracking in Europe is widespread, and the road ahead will not be easy. Externally, business and environmental groups have long lobbied

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against the practice, leading many European states to institute bans on the technology (including France, Germany, Italy, Austria, the Czech Republic and Bulgaria). This opposition, Smith points out, could create a competitive imbalance between energy intensives industries in the United States and Europe, which conversely would have a negative impact on U.S. national interests, as it could serve to both stymie European economic growth, and to widen already existing divisions and create acrimony between the two sides of the Atlantic. Smith argues that “U.S. security interests require a strong European partner, including a well-equipped and economically healthy NATO,” and goes on to conclude that, “ultimately, greater energy security in Europe, and in Central Europe in particular, is in the U.S. strategic interest. A short-term competitive advantage over Europe gained by cheaper energy in the United States could damage the health of the transatlantic alliance, thereby weakening the power and influence of the world’s greatest democracies. In today’s shifting global landscape, with serious challenges in many regions, a strong alliance between a dynamic Europe and an equally robust United States is as essential as ever.”

TODAY’S TRANSATLANTIC BONDS ARE BECOMING LESS EMOTIONAL AND MORE PRAGMATIC, LESS TREND-SETTING AND MORE REACTIVE, AND LESS EXCITING BUT MORE CONCRETE.

This dynamic underscores an important point. In the current environment, commercial ties with strategic undertones may well be an adequate stop-gap to the slow trivialization of the transatlantic ideals put forward by the American and European visionaries of the post-1989 era. The chapters of this Volume reveal that the Euro-Atlantic landscape is changing dramatically — and with it the U.S.-Central European relationship. Today’s transatlantic bonds are becoming less emotional and more pragmatic, less trend-setting and more reactive, and less exciting but in some ways more concrete.

Indeed, the authors have pointed the way to some of the potential fundamentals of a new and more serviceable transatlantic order for the near term, finding bridging mechanisms — commercial or otherwise — that allow for continued cooperation during this period of a broader “strategic pause.”

So while the transatlantic community finds itself at an inflection point, it is not sufficient to lament the wilting of the Euro-Atlantic community we had — it is necessary to focus on rebuilding the one that everyone needs. We have an opportunity to look forward, and consider how the next 25 years could match the significance of the last. We must continue to reflect on what precisely will sustain the aspirations of the Euro-Atlantic project in the 21st Century; to make sure that current American and European leaders are

doing enough today to prepare for tomorrow's collective security challenges; to keep in sight those dimensions of the democratic reform process that are yet to be completed; and to make certain that the transatlantic community's current economic policies unleash the West's potential rather than hold it back.

While big ideas may no longer animate the West the way they used to, and despite an air of general gloom and uncertainty, the collected chapters of this Edited Volume make clear that there is yet a purpose for the ideals of the 1989 moment in the 21st Century. Unquestionably, the values and institutions of the West are still the world's greatest beacon of hope — with relevance not just for regional, but for global stability as well — and we would do well to remember that.

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