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Article 1.

Foreign Policy

[Can Bibi and Barack Get Their Story Straight on Iran?](#)

David Makovsky

February 22, 2012 -- Next month, U.S. President Barack Obama and Israeli Prime Minister Benjamin Netanyahu will hold a key meeting over the Iranian nuclear challenge that will test their sometimes rocky relationship. After a weekend visit by National Security Advisor Tom Donilon to Israel, the White House [announced](#) this week that Obama will host Netanyahu in Washington on March 5. This will be an opportunity for the two leaders to synchronize their positions on Iran. Whether they can reach some common ground -- now or in the near future -- could be a decisive factor in Israel's decision-making on whether to strike Iran sometime this year.

International pressure on the Islamic Republic has never been higher. In addition to the new, crippling U.S. sanctions enacted on [Dec. 31](#) and [Feb. 6](#), the European Union recently [pledged](#) to halt the importation of Iranian oil by July 1. Iran's economy is reeling.

For their part, Iranian leaders have struck an increasingly aggressive note. They have [threatened](#) a preemptive strike against their foes, and warned that [they could close](#) the Strait of Hormuz, through which roughly 20 percent of the world's traded oil flows daily. In another recent act of defiance, Iranian President Mahmoud Ahmadinejad [announced](#) on Feb. 15 that a "new generation" of Iranian centrifuges had just been activated at the Natanz nuclear site. And this week, IAEA inspectors charged with monitoring Iran's nuclear program were [denied access](#) to a military facility, returning to Vienna after what they termed "disappointing" talks with their Iranian interlocutors.

Despite its saber-rattling, Iran is feeling the heat of international sanctions. Over the past month, the Iranian rial has [been devalued](#) by 50 percent. Iran has [also indicated](#) that it may even be willing to resume diplomacy, which it has scorned since the last round of negotiations in 2009 and 2010.

With the media rife with [speculation](#) about a possible Israeli military strike against Iran's nuclear facilities by this summer, tensions between the two countries have risen to an all-time high. Iran is [blaming](#) Israel for the recent assassinations of its nuclear scientists, and Israel is [accusing](#) Iran of masterminding the Feb. 13 terror attack against Israeli diplomats in New Delhi, as well as attempted attacks in Tbilisi and Bangkok.

It is no secret that Netanyahu and Obama have never been close, but now is the time for the two leaders to find common ground over the Iranian nuclear issue.

There has already been some progress in getting top U.S. and Israeli officials to speak about Iran in similar terms. Last week in the Knesset, Netanyahu [said](#) it is critical that the world -- not just Israel -- identify "red lines" when dealing with the Iranian nuclear program. In a CBS appearance last month, Defense Secretary Leon Panetta [declared](#) that Iran's development of a nuclear weapon, as well as closure of the Strait of Hormuz, are "red lines" for the United States.

However, the United States and Israel clearly differ in where their red lines lie. The United States has put the focus on Iran actually gaining a nuclear weapon, while Israel -- more vulnerable to Iranian missiles due to its geographic proximity -- views the threshold as the Iranian regime's acquisition of enough low-enriched uranium to build a bomb, pending a political decision to convert it to weapons-grade fuel.

The other set of differences between the United States and Israel has to do with how long they are willing to wait before judging the international sanctions of Iran to be a success or failure. On the one hand, this is the first time that the United States and the EU have imposed the type of "crippling" sanctions that Israel has long called for. But on the other, [recent statements](#) by Israeli Defense Minister Ehud Barak signal that Israel believes its window for military action is rapidly closing. As a result, Israeli officials fear they might not have the time to wait and see whether the sanctions halt Iran's nuclear program peacefully.

Israeli military capabilities to strike Iran's proliferating nuclear sites -- especially those bunkered deep within a mountain outside the city of Qom -- are more limited than those of the United States. The prospect of a new round of Iranian-U.S. diplomacy is another critical component of this equation, as it could further postpone U.S. military action in the event that sanctions fail. Taken together, these circumstances could force an Israeli decision on a preemptive strike under suboptimal conditions.

All this puts Israel on the horns of a dilemma. It can hope that sanctions will ultimately deter Iran's nuclear program, but this may mean foregoing decisive action against what it sees as an existential threat in the hope that the United States will act further down the road. Barak and Netanyahu are commonly identified as favoring a strike, but based on my recent trip to the region, it is clear that others within the Israeli cabinet and defense establishment still have doubts. As such, the prospect of a strike is not

inevitable. If Israel believed that the United States were absolutely committed to handling this issue, it would certainly shift the Israeli debate about whether to strike.

But without absolute certainty, holding off on a strike is a tough decision for Israeli officials to make. Many Israeli military leaders are children of Holocaust survivors who joined the Israeli army to ensure Israeli self-reliance in fighting against enemies who regularly pledge to eradicate it. A poignant reminder is the [iconic photo](#) of Israeli jets flying over Auschwitz in 2003, which hangs on the walls of many of their offices.

Nonetheless, it is a fundamental misreading of Israel to view this as an ideological issue. Israeli considerations of a strike are rooted not in their ethos of self-reliance, but in the fear that the United States will ultimately fail to strike, even if sanctions fail. Israeli officials' fears are compounded by their knowledge that the American people are fatigued by conflict, and by the suspicions of some that the United States has not entirely ruled out a strategy of containment, U.S. [protestations](#) to the contrary.

The Obama administration's official policy opposes containment, holding that the Iranian nuclear program is too destabilizing for the Middle East. As the president [told NBC](#) on Feb. 5, "We are going to do everything we can to keep Iran from getting a nuclear weapon, and creating an arms race -- a nuclear arms race -- in a volatile region." Concerns about Iran handing dirty bomb technology to non-state actors, such as the Lebanese militia Hezbollah, along with fears that Iran would seek to dominate the Persian Gulf, are also all too real.

In light of these threats, some analysts could argue that Obama -- who is known for his preference for Predator drone strikes in Pakistan and such surgical operations as the one that killed Osama bin Laden -- would indeed resort to military action if sanctions failed. And despite tensions between Obama and Netanyahu over the Middle East peace process, sources close to Obama argued to me that these policy differences in no way infringe upon the president's commitment to Israel's security.

At the same time, U.S. officials have also raised fears of an Israeli strike in the short term -- as evidenced by Chairman of the Joint Chiefs of Staff Gen. Martin Dempsey's [comments](#) on Feb. 19 that an Israeli attack would be "destabilizing." Their fears center on the belief that an attack by Israel

could unravel international sanctions, and that Iran would be able to reconstitute its program in fairly short order.

How can Obama and Netanyahu win each other's trust? The two sides should come to a more precise understanding of U.S. thresholds for the Iranian nuclear program and American responses should they be breached, as well as an agreement on a timetable for giving up on sanctions so their Iran clocks are synchronized. In other words, the two sides need to agree on red lines that might trigger action. Israel will probably seek some guarantees from the United States before agreeing to forgo a pre-emptive strike that might not succeed.

It may turn out that such guarantees are impossible, given the mistrust between the two parties and the ever-changing regional circumstances. Whatever the mechanism, there is no doubt that the U.S.-Israel relationship could benefit greatly from a common approach toward the Iran nuclear program at this tumultuous time. Their upcoming meeting and the months ahead promise to test the Obama-Netanyahu relationship like never before.

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Article 2.

The Washington Post

Getting Iran to back down on its nuclear program

David Ignatius

February 23 -- “We are of the opinion that the Iranian regime is a rational actor,” said [Gen. Martin Dempsey](#), chairman of the Joint Chiefs of Staff, on CNN on Sunday. That sounds right to me, but his comment raises a tricky

question: [How much pressure](#) will it take to get this “rational” country to curb its nuclear program?

The answer here isn’t comforting: Recent history shows that the Iranian regime will change behavior only if confronted with overwhelming force and the prospect of an unwinnable war. Short of that, the Iranians seem ready to cruise along on the brink, expecting that the other side will steer away.

I count two clear instances when Iran has backed down, and two more “maybes.” These examples remind us that the Iranian leaders aren’t irrational madmen — and also that they drive a hard bargain. Here are the two documented retreats:

- In July 1988 Ayatollah Ruhollah Khomeini “drank the cup of poison,” as he put it, and agreed to end the Iraq-Iran war. He accepted a ██████-sponsored truce but only after eight years of brutal fighting, Iraqi rocket attacks on Iranian cities and the use of poison gas against Iranian troops. Khomeini’s decision followed the shooting down of an Iranian civilian airliner on July 3 by the USS Vincennes — unintended but a demonstration of overwhelming American firepower in the Persian Gulf.
- In the fall of 2003 Ayatollah Ali Khamenei’s regime halted its nuclear weapons program because of “international pressure,” according to a 2007 U.S. National Intelligence Estimate. The decision came after the March 2003 U.S. invasion of Iraq, which the Iranians apparently feared was the prelude to an attack on their soil. The Iranians also agreed in 2003 to start talks with European nations on limiting their enrichment of uranium — beginning the haggling that continues to this day.

Two other examples are less obvious, but they illustrate the same theme of rational Iranian response to pressure. In both cases the trigger was a strong back-channel message from the United States:

- In March 2008, Iran restrained its Shiite allies in Iraq after a U.S. warning about shelling the Green Zone. The Mahdi Army had been firing heavy rockets and mortars into the enclave, causing rising U.S. casualties. Gen. David Petraeus, then U.S. commander in Baghdad, sent a message — “Stop shooting at the Green Zone” — to [Gen. Qassem Suleimani](#), head of the Quds Force. The intermediary was Iraqi President Jalal Talabani, who had close relations with both generals. The shelling tapered off.

● Last month, Iran toned down its threats to close the [Strait of Hormuz](#) after a U.S. back-channel warning that any such action would trigger a punishing U.S. response. The private message paralleled a public U.S. statement: “The United States and the international community have a strong interest in the free flow of commerce and freedom of navigation in all international waterways.” Iranian Foreign Minister Ali Akbar Salehi subsequently offered reassurance: “Iran has never in its history tried to prevent, to put any obstacles in the way of this important maritime route.” The Iranians’ behavior in negotiations, too, has seemed to wax and wane based on their perception of the West’s seriousness. When Russia and China supported ██████ sanctions in 2010, the Iranians got nervous. When India and China reduced oil purchases recently, Tehran took notice. Clear messaging to Iran — and to Israel, too — is important as the tension mounts over a possible Israeli attack on Iranian nuclear targets. The most direct public message yet came from Dempsey in his appearance on Fareed Zakaria’s show, “GPS.” It’s worth looking carefully at just what the nation’s top military officer said.

“The Iranian regime has not decided that they will embark on the effort to weaponize their nuclear capability,” Dempsey said, thereby offering Tehran a chance to save face in any deal. He argued that because Iran isn’t yet building a weapon, it would be “premature” and “not prudent” for Israel to attack. “A strike at this time would be destabilizing and wouldn’t achieve their long-term objectives,” he cautioned. But he conceded that the U.S. hasn’t yet persuaded Israel to hold off.

The [signal to Israel](#) is very clear: Don’t attack!

But what about the message to Iran? History shows that the clerics in Tehran won’t accept a deal unless they conclude that there’s no alternative but a punishing war. Somehow, the United States must convince Iran that this confrontation is deadly serious — and then work to find the rational pathway toward agreement.

Article 3.

Project Syndicate

Hamas Comes in from the Cold

[Michael Bröning](#)

2012-02-22 -- GAZA CITY – In the wake of revolutionary change in the Middle East, the forces of political Islam have scored one electoral victory after another. As the West grapples with the rapid rise of moderate Islamists in Tunisia, Morocco, and Egypt, the issue of Hamas’s role in the Palestinian territories looms large. The signing of a new unity deal between Hamas and Palestinian President Mahmoud Abbas’s secular Fatah party earlier this month has heightened an unprecedented struggle within Hamas over its future course as an Islamist movement. How the West responds could very well influence the outcome.

As events in recent weeks have proven, Hamas’s days of near-total isolation in the Middle East are over. While most Western governments continue to consider it a terrorist organization, in Arab capitals, political embargos have given way to engagement. In December, Ismail Haniyeh, Prime Minister of the Hamas-led Palestinian Authority in Gaza, embarked on a tour of the Mediterranean that included stops in Tunis, Cairo, and Istanbul. In mid-February, he was warmly received in Qatar, Bahrain, and Iran.

This political outreach, however, has not emanated solely from Gaza. In January, Khaled Mashal, the leader of Hamas’s Damascus-based political bureau, embarked on a diplomatic initiative of his own, and was hosted by King Abdullah of Jordan – the first such visit in more than a decade. In February, Mashal crowned these efforts in Qatar with the signing of the new unity agreement with Fatah, which commits both Palestinian movements to a transitional government under Abbas’s leadership. Ever since, disagreements within Hamas have been escalating, pitting the movement’s Diaspora leadership against the Hamas-led Gaza administration, which has openly rejected the unity deal. While personal ambitions certainly play a role in the tensions, what lies at the core is a fundamental conflict over Hamas’s character.

Haniyeh, who represents the conservative wing of Gaza’s Hamas leadership, has sought to cash in on regional changes. His long-boycotted government was thrown a lifeline by regime change in Egypt and the opening of the border with Gaza. Notably, Haniyeh’s recent diplomatic tour garnered not only symbolic recognition for Hamas, but also support for his uncompromising stance vis-à-vis Israel. He missed no opportunity to criticize “futile” peace negotiations, and, in Tehran, he pledged that

Hamas's "resistance" would continue "until all Palestinian land has been liberated."

What that means needs little clarification. In a further telling move, Haniyeh also recently suggested merging Hamas with the Islamic Jihad movement, which continues to target Israeli civilians with rockets fired from Gaza.

Mashal, by contrast, has come to represent a force of change. Last May, he signed an initial reconciliation agreement with Fatah in Cairo, which committed Hamas to a Palestinian unity government, called for a cessation of violence, and accepted the notion of a Palestinian state on the 1967 borders. Mashal also offered Abbas a one-year mandate for negotiations with Israel, and, unlike Haniyeh, supported recent Israeli-Palestinian "exploratory talks" in Jordan.

One reason for Mashal's change of heart can be found in the ongoing popular revolt in Syria against President Bashar al-Assad. The leader of the Sunni Hamas can no longer support his Syrian host, who has cracked down on the Sunni-dominated opposition. Thus, Mashal has attempted to close ranks with Fatah, and is seeking to move Hamas's Diaspora headquarters from Damascus – a powerful symbol of his efforts at re-invention.

But Mashal's refusal to support Assad has not only forced him to re-locate. It has also unleashed the wrath of Syria's ally, Iran, which has responded by scaling down its financial support for Hamas – thus denying Mashal a key source of influence within the movement. Indeed, Mashal's decision has effectively ended his ties to his two most important allies, thereby not only weakening his position, but also increasing his readiness to embrace political moderation.

Tensions increased dramatically when Mashal signed the unity agreement with Fatah, after stating his intention to resign as head of the political bureau. While that announcement may have been political blackmail aimed at forcing Gaza into line, it underscored Mashal's confidence in his popularity, which has since been vindicated by expressions of support from both within and outside of the political bureau for him to remain in charge. Mashal has more than one option. He may reemerge as the head of a newly established Palestinian branch of the Muslim Brotherhood, or as a leader of a new Islamist political party under the umbrella of the Palestine Liberation Organization. Such a merging of Hamas with the established Palestinian

political organizations would signify Hamas's formal acceptance of a two-state solution, and would mark an important step in transforming the movement.

For the West, using the opportunity to influence Hamas's future course requires modifying the failed policy of all-encompassing rejection. As in Egypt, Morocco, and Tunisia, Islamist moderates in the Palestinian territories need to be engaged as a legitimate political force. Leaders such as Mashal, who has expressed a readiness to forsake alliances with Syria and Iran and to accept a two-state solution with Israel, should be bolstered rather than boycotted. That means supporting the ongoing effort to form an interim Palestinian government of technocrats, as stipulated in the Qatar agreement.

At times, such an approach will be challenging; Hamas will undoubtedly prove to be a difficult counterpart. But the United States, European governments, and Israel should take this opportunity to engage Hamas's moderates and test their flexibility. In the new Middle East, the West's current approach will only strengthen the hardliners in Gaza and elsewhere.

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Article 4.

Foreign Affairs

Egypt Stands to Lose More Than Aid

Stephen McInerney

February 22, 2012 -- This weekend, the fracas over foreigners in Cairo is set to escalate when hearings begin against 43 workers (including 16 U.S. citizens) charged with operating without a license, receiving unauthorized foreign funds, and engaging in political activity. The drama is seven months in the making. Last July, Egypt's Ministry of Justice opened an investigation into the activities and funding of numerous (possibly as many as 400) nongovernmental organizations (NGOs). The move came at the behest of Fayza Abul Naga, minister of planning and international

cooperation. In the months that followed, her department refused to officially state or confirm any details of the wide-ranging probe. Then, in late December, Egyptian security forces raided the offices of several of the NGOs under investigation. And what began as an effort by one Egyptian minister to assert her control has turned into a game of international brinkmanship that has the potential to upend the security calculus of the Middle East.

After tensions escalated in December, numerous members of Congress made clear that the actions of the Egyptian government could jeopardize the annual \$1.55 billion aid package to Egypt -- the United States' second largest, after the \$3.1 billion it gives Israel annually. Senator John Kerry (D-Mass.) introduced a resolution calling for an immediate end to the harassment and prosecution of NGO staff. Senator Rand Paul (R-Ky.) went much further when he introduced legislation that would suspend all U.S. aid to Egypt until the matter is resolved. On Monday, a group of U.S. senators including John McCain (R-Ariz.) and Lindsay Graham (R-S.C.) visited Cairo to meet with Field Marshal Mohamed Hussein Tantawi and other Egyptian leaders, trying to relieve some of the tension. They returned home with optimistic messages, suggesting that the Egyptian brass offered strong assurances of a swift resolution to the impasse.

How much faith Washington can put in those assurances, however, remains to be seen. Fueling the United States' impatience have been Cairo's confusing, and often conflicting, messages. Unlike the Mubarak era, when there were relatively clear lines of command, the past year in Egypt has been marked by the rapid emergence of multiple centers of power competing for political control. Egypt's actual foreign policy has been almost indecipherable. For example, after security forces raided the NGO offices, top Egyptian officials, including Tantawi, Prime Minister Kamal Ganzouri, and Foreign Minister Mohamed Amr, were quick to assure the United States that the maltreatment of U.S. citizens would cease, that all seized materials would be immediately returned, and that the offices would be able to reopen. Six weeks later, those have proved to be empty promises.

Conversations in Washington reveal that U.S. officials, by and large, do not believe that their counterparts in Cairo are being intentionally deceptive -- they assume that the Egyptians have simply promised more than they can

deliver. For years, Abul Naga, who is one of the few top officials remaining from the days of Mubarak, has been opposed to any foreign funding that bypassed her ministry. And now she seems to be targeting U.S. influence specifically. Last week, the Egyptian press quoted Abul Naga as having portrayed the U.S. as trying to hijack Egypt's revolution. "The United States decided to use all its resources and instruments to contain [the January 25 revolution]," the government's official news agency, MENA, quoted her as saying, "and push it in a direction that promotes American and also Israeli interests."

But her charges against the NGOs ring hollow. For instance, the National Democratic Institute and the International Republican Institute have made more than reasonable efforts to comply with Egyptian law. Both groups applied for registration with the Ministry of Foreign Affairs in 2005 and have communicated regularly with the authorities about their activities and programs ever since. Both groups were told repeatedly that their registration would be granted, but it never was and no explanation was given. This experience is characteristic of that of many other organizations that have focused on politically sensitive issues, while groups with more innocuous goals have had their registration granted promptly. It is disingenuous for the Egyptian government to refuse to grant U.S. NGOs registration on political grounds and then claim that the investigation against them is an apolitical matter for the judiciary. Moreover, that many other international organizations operate in Egypt today without official registration underscores the selective, political nature of these attacks. Members of Egypt's ruling military council have generally avoided the issue in public, perhaps in order to give them plausible deniability with Washington. Privately, they consistently argue to U.S. officials that they cannot intervene in independent judicial processes. But even if the generals are not the driving force behind the crackdown, it is quite unlikely that the investigation could have moved forward without their support. The military has held executive authority and ultimate decision-making power for the past year -- all cabinet ministers were appointed by the generals and report to them.

Assuming that Abul Naga had to get the military on board before pushing forward with the NGO persecution, her case to them was simple and compelling. Egyptian democracy and human rights organizations are vocal

critics of the military. As large protests have continued, it makes sense for the ruling cadre to cut off such organizations at the knees while also reinforcing the public narrative that the protests are the work of foreign agents seeking to sow chaos in Egypt.

Yet it appears that some ranking members of the Egyptian military may have severely underestimated the backlash from Washington. In both private conversations and public statements, Pentagon and State Department officials who have recently visited Egypt and discussed the crisis describe the generals as initially incredulous that such a minor issue (in their view) could actually threaten the aid package. U.S. officials attest that they have been successful since in conveying how potentially explosive the issue could be, but it is unclear how much that has changed anyone's thinking in Cairo.

As for a resolution, one possible scenario is that Egypt's Ministry of Foreign Affairs could grant registration to some of the targeted NGOs in the days ahead. This would clear the way for the courts to dismiss the charges against the NGOs or, perhaps more likely, for them to find those charged innocent. Such an approach could ease tensions while allowing Egypt's generals to officially maintain distance from the case. Yet Abul Naga could easily derail such a plan; throughout this debacle she and her allies have repeatedly employed carefully timed public remarks and leaks to reignite tensions.

There is one more important faction in Cairo to consider: the Muslim Brotherhood and its Freedom and Justice Party, which now boasts a plurality of seats in the Egyptian Parliament. The People's Assembly has only been in session since January 23 and has yet to pass any legislation pertaining to the NGO crisis. Eventually, however, it will be up to the parliament to decide whether to pass a more permissive NGO law in line with international standards.

So far, the signals from the Brotherhood have been contradictory. On one hand, it is in the group's interest to support a freer environment for NGOs, considering the large number of Islamist associations aligned with the movement. This was reflected in a recent op-ed by Brotherhood General Guide Mohammad Badie, who wrote, "All political, intellectual, social, cultural and economic trends and forces in the country -- along with civil society -- must be allowed to operate and express their views." On the

other hand, some Brotherhood leaders are taking a hard stand against foreign funding, unsurprising given that the movement is funded almost entirely by its Egyptian members and supporters.

As lawmakers, however, Brotherhood members have also made comments about what a change in the U.S.-Cairo aid relationship could mean. On February 12, Essam el Erian, vice chair of the Freedom and Justice Party and chair of the Foreign Relations Committee in the new parliament, made news when he pronounced that an interruption of U.S. aid would be a violation of the 1979 Egypt-Israel peace treaty and would open the door for Egypt to change other terms of the treaty. That is no small claim. For more than three decades, that agreement -- including the billions in aid every year from the United States -- has served as a foundation for security arrangements throughout the Middle East.

Many observers have argued that the U.S. must maintain its assistance in order to preserve its leverage with the Egyptian military. But this crisis is exactly the moment to use this leverage. The fate of civil society in Egypt and beyond is very much at stake. If the second largest recipient of U.S. military aid can attack pro-democracy organizations with no real consequences, authoritarian governments worldwide will be emboldened to follow suit. As such, the administration should take a tougher line, making clear that military aid will certainly be interrupted unless the attacks on NGOs are halted and all charges are dropped. The White House deserves credit for having made support for civil society an important pillar of its approach to strengthening democracy worldwide. Now is the time to demonstrate the strength of that commitment.

Stephen Mcinerney is executive director of the Project on Middle East Democracy.

Article 5.

The National Interest

The Continent's Nightmare Continues

[Doug Bandow](#)

February 22, 2012 -- Two years ago, the Lisbon Treaty created a stronger, more powerful European Union with a president and foreign minister. The continent seemed to have answered Henry Kissinger's derisive question: What is the phone number for Europe? But it still isn't clear who will answer. Europe is the world's most important economic aggregation. The Continent hosts several of the world's most venerable democracies. Europe's historical and cultural ties circle the globe. However, the EU has failed to live up to the lofty ambitions of the Eurocrats, the business, political, bureaucratic and academic elites who dominate continental politics and policy. Europe remains a geographic conglomeration, not a political unit.

While the common economic market is huge, the continent isn't functioning very well as an economic collaboration. Moreover, there is no common foreign policy, let alone a unified military. Most European politicians advocate further political consolidation in Brussels but disagree on the specific form. The European public seems increasingly skeptical of what the European project has become.

Euro on the Brink

The EU's immediate challenge is preserving what unity it has achieved, most notably the euro zone. As Greece inched toward another bailout, violent protests against the unity government's further cutbacks engulfed Athens. Private creditors continue to resist baptizing Greece's de facto default, while official creditors continue to resist accepting any losses. Earlier this week, after withholding approval of aid to Greece while seeking greater budget cutbacks and political assurances by Athens, European Union officials approved a \$170 billion second bailout. Nevertheless, European Union negotiators withheld final approval of aid to Greece while seeking greater budget cutbacks and political assurances by Athens. Many continental analysts and political leaders believe that an official Greek default is inevitable. The only question is whether Athens could then retain the euro; increasingly Greece's neighbors aren't interested in the answer. Worse, efforts to contain the crisis so far have failed. Moody's recently downgraded Portugal, which may be heading toward a Greek-style crash. The agency reduced ratings for Spain and Italy

as well and cut the outlook for France and Great Britain. Refinancing existing debt will be more difficult as global investors back away from European securities, creating “a pretty terrible spiral,” observed Peter R. Fisher of asset manager BlackRock. And every new EU bailout further burdens already heavily indebted states. Help is not likely to come from overseas. The Europeans hoped their bailout fund would attract private investors and foreign nations, including China, but no one wants to toss their good money after Europe’s bad investments. The International Monetary Fund (IMF) played a smaller role than expected, and the Europeans will pay much of that bill. No money will come from Washington, at least directly; Republicans already are targeting America’s pending contribution to the IMF lest it be used to bail out the improvident Europeans.

The Eurocrats’ Nightmare

Some Eurocrats fear the impact on the EU as well. If the euro zone shrinks—or, worse, collapses—expansion of the union and its authority will halt. The idea of a European nation-state will be moribund, if not formally buried. Tying Germany to its neighbors took on greater urgency after World War II. European cooperation proceeded through the common market, but political unification trailed far behind. So the Eurocrats launched an indirect approach. The euro zone’s architects recognized the challenge of adopting a common monetary policy without a common budget policy, but they assumed economic policy and political institutions would follow. Thus was launched the Euro, adopted by seventeen of the EU’s twenty-seven members. Now, explained German Chancellor Angela Merkel, Europe “must overcome the architectural flaws that worked their way into the economic and monetary union during its formation.” The Lisbon Treaty began as a continental constitution which would expand Brussels’ authority and reduce national independence. But in 2005, the Dutch and French both voted no. The Eurocrats then relaunched the constitution as a treaty, which allowed parliamentary approval in every member nation other than Ireland, whose constitution required a popular vote. But the Irish voted no, again halting the bandwagon. Under EU pressure, the Irish government held another poll and won the desired result. European officialdom celebrated the new EU but chose two indistinguishable and undistinguished politicians for the new positions of

president and foreign minister. Then, the euro-zone crisis exploded. The common currency yoked together relatively efficient northern European countries with congenitally improvident Mediterranean states. The latter attempted to counteract lost competitiveness with increased borrowing. The bill finally came due.

Greece led the crisis parade, followed by Ireland and Portugal. But true disaster threatened with far-larger Spain and Italy—perhaps too big to fail, probably too big to save. The Eurocratic response was always the same: if new problems threatened, explained European Council president Herman Van Rompuy, “we’ll do more.”

“Doing more” meant borrowing more. The London-based organization Open Europe termed the EU “a de facto debt union.” However, the increased debt was used to turn the EU into a de facto transfer union as well. Daniel Hannan, a British Member of the European Parliament, responded: “It doesn’t strike [EU leaders] as eccentric to address a debt crisis with more debt.”

Berlin vs. Paris

Most important, “doing more” meant Germany “doing more.” With the continent’s largest and most productive economy, Berlin had the most to give. And it was expected to do so.

Chancellor Merkel supported every new cash infusion. But she continued to resist proposals to issue Eurobonds, which would turn Germany’s financial rating over to its least responsible neighbors. She also rejected proposals to transform the European Central Bank into a government lender of last resort, violating its legal charter to purchase whatever bonds Berlin’s neighbors chose to issue.

For this, Berlin was assailed for myopic penury. Critics assailed Germany’s “new selfishness” and “loss of solidarity.” Germany was “losing sight of the European common good,” exhibiting a “narrow and self-defeating definition of national interests” and “impeding all avenues for a solution.” All because Berlin refused to turn control of its finances over to Brussels. Germany remains willing to pay to save the euro zone, but it wants control over any national budgets it underwrites. The Lisbon Treaty expanded continental authority at the price of national sovereignty, allowing Brussels to claim greater authority over members’ financial decisions. But Lisbon provided no controls over members’ budget decisions. Chancellor Merkel

and French president Nicolas Sarkozy are pushing for more fundamental change. “We have a common currency,” said Merkel, “but no common political and economic union. And this is exactly what we must change. To achieve this—therein lies the opportunity of the crisis.” But Merkel and Sarkozy disagreed on the exact institutional remedy. She favored an EU-wide treaty; he preferred to center enforcement within the euro zone. Angela Merkel appears to have won the debate, though the exact terms are still being debated. But Great Britain and other countries may not join. And whatever is cooked up in Brussels may be too late to save Greece. Default is a reality, whether officially recognized or tactfully disguised. Athens has yet to implement past promises; the new government to be elected by an angry electorate in April will face pressure to renegotiate. European leaders are demanding assurances which they cannot enforce.

When the Music Stops

Some Eurocrats are willing to risk the euro zone. Former Dutch EU Commissioner Frits Bolkestein argued that separation is “unavoidable” since “we constructed something that does not work in the long term.” Departure from the euro would allow the Greeks to become competitive through devaluation—painful, to be sure, but not obviously worse than years of austerity and stagnation to pay off even a reduced debt. Greece could be joined by other struggling states in leaving. Or Germany, France and other more prosperous states might give their weaker counterparts a shove. A euro-zone breakup of any sort would be chaotic and painful. But what the Eurocrats fear most is a collapse of the EU. The European project always has moved upward and outward. It has never retreated. Contended Chancellor Merkel: “If the Euro fails it’s not just the currency that fails, but Europe and the idea of European unification.”

However, the latter dream—some might say fantasy—has died. The premature entry of Bulgaria and Romania and prospective membership of Turkey diminished enthusiasm for an ever-expanding EU. Polls indicated that majorities in half of the EU members would have rejected the Lisbon Treaty if allowed a vote. Now, bailouts of the spendthrift by the thrifty have inflamed euroskepticism. Charles Kupchan of the Council on Foreign Relations argued: “Instead of delivering affluence, the EU now delivers austerity and pain.”

The Eurocrats have built a continental government, not a continental nation state. Europe has a capital, a president and a flag, but it has no citizens. No European feels allegiance to Brussels, Herman Van Rompuy or the EU symbol. No European would die for the EU, even if there were an EU military. Czech president Vaclav Klaus, among others, has spoken of the EU's "democratic deficit." Implementation of the Lisbon Treaty required preventing most Europeans from voting on the measure. Even the nominally elected branch, the European parliament, is chosen largely in reaction to domestic politics, not continental issues. But a united Europe is becoming less likely. The Eurocrats are attempting to take advantage of the euro crisis to create new European institutions, but as Mark Leonard of the European Council on Foreign Relations argued, "economically, culturally and politically, it is driving Europe apart." European peoples do not share the desire of European leaders for European solidarity.

Americans should remember their debt burden before feeling schadenfreude over Europe's plight. And the United States has its Greece and Portugal: Illinois and California. America's advantage is that it is a real nation-state which won't fracture over finances. The EU remains a fragile nation-state wannabe.

Europe will survive, whatever the fate of the euro zone. But the objective of Europe acting alongside the the United States and China to dominate the globe is dead. Europe will remain a collection of normal countries, despite the pretensions of the Continent's Eurocratic elite.

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Article 6.

European Council on Foreign Relations

The Ominous Rise of Geo-Economics

[Nika Prislán & Jose Ignacio Torreblanca](#)

February 22, 2012 -- In the world which followed the fall of the Berlin Wall, democracy and free-markets were mutually reinforcing. Open

markets were to lead to more and better democracies and, in turn, democracies promoted more open trade. This we called 'globalization' or even 'the end of history'. Firms and individuals were the main actors in a multilateral world governed by common economic rules. States were important to keep the system running, but they were not the dominant actors. But things have changed, and globalization has been hijacked by state actors and national security concerns. Fueled by responses to the economic crisis that is gripping Europe, we now live in an age of geo-economics.

The world now looks increasingly multipolar, rather than multilateral. States are back (at least some of them) and rather than promoting the market, they use market tools to increase their relative power vis-à-vis the others. Paraphrasing Bismarck, actors tend now to see economics as the continuation of great power politics by other means. The logic of national security and state competition has now captured the stage, and the open logic of globalization has been replaced by neo-mercantilism.

This rise of geo-economics (or rather the 'the admixture of the logic of conflict and the methods of commerce' as described by Luttwak in 1990) is now a prevailing trend in the foreign policies of various EU member states. This trend has clearly been on the rise and increasingly dominates decision making. As our colleague Hans Kundnani argues, Germany has become the clearest example of geo-economics dominating a country's foreign policy. In 2011, Germany abstained, along with the BRICs, instead of voting with its European partners in the UNSC to support military intervention in Libya. This act was considered by many as a clear demonstration that Germany considered its economic interests above its political interests and commitments within Europe.

This is not the only example. Other key EU member states such as France, the UK and Spain have also been seen flaunting their new geo-economic policies in 2011. Cameron's first foreign visit after entering office in 2010 was to India, where a €840 million deal for Hawk trainer aircraft was agreed upon. Continuing this trend in 2011, the UK's preference for non-EU commercial partners such as China was seen ever more clearly throughout various visits and generous deals made with Chinese officials. Spain was also very busy during 2011 in courting China to buy its debt (China along with France are the biggest owners of Spain's debt at around

25%) and sign commercial deals, with China's investment in Repsol Brasil at the beginning of 2011 resulting in a whopping \$7.1 billion agreement. Spain's debt problems and China's increased presence in Spanish economic affairs led Madrid to keep quiet on a number of politically sensitive issues in EU-China relations. Examples include Spain's silence on demanding the release of Liu Xiaobo after he won the Nobel Peace Prize (contrary to the position that the rest of the EU took), and its loud support for lifting the EU arms embargo on China, to the dismay of the U.S. and other European governments.

France's foreign policy was also heavily affected by geo-economics. President Sarkozy's courting of China in 2011 and France's spat with other EU member states over EIB loans for the construction of a high speed train in Morocco (a contract which France had obtained due to its close ties with Morocco) clearly demonstrated the negative side effects that geo-economics is having on EU solidarity.

The reason for the greater prevalence of geo-economic policies can largely be attributed to the economic crisis. Not only has the crisis deepened and become more destructive, but solutions have generally not come from a pan-European level. Because of this, politicians in member states have found comfort in national geo-economic policies that have provided short term solutions such as strategic investments and the purchasing of debt by foreign governments. In other words, a European economic crisis has led EU member states to resort to national geo-economic policies to offset the negative consequences of the lack of a defined European response to the crisis.

This trend towards the greater use of geo-economics in EU member states' foreign policies should be cause for concern, as it has also led to the renationalisation of foreign policies. This in turn leads to competition between member states, instead of determining and backing a common European stance, damaging the longer term prospect for a strong EU foreign policy in the future. This is the high cost of the age of geo-economics.

A longer version of this article appeared in a recent FRIDE report: [Challenges for European Foreign Policy in 2012: What kind of geo-economic Europe?](#)

