

# **COMPLEX INTERDEPENDENCE IN INTERNATIONAL RELATIONS**

**Dissertation submitted to Jawaharlal Nehru University  
in partial fulfillment of the requirements of the  
Degree of Master of Philosophy**

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1999



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July 1999

## CERTIFICATE

Certified that the dissertation entitled **COMPLEX INTERDEPENDENCE IN INTERNATIONAL RELATIONS**, submitted by **SUNIL KUMAR MOHANTY** in fulfillment of nine credits out of total requirement of twenty four credits for the award of the Degree of **MASTER OF PHILOSOPHY (M.Phil)** of this University, is his own work and may be placed before the examiners for evaluation. This dissertation has not been submitted for the award of any other degree of this University or of any other University to the best of my knowledge.

  
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*Dedicated to the  
Loving Memory of my  
Grand Mother*

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## **ACKNOWLEDGEMENTS**

I would like to thank following persons:

### **PROFESSOR SURJIT MANSINGH**

my guide and adviser without whom this dissertation would not have been possible.

### **MY PARENTS**

perennial source of inspiration and support.

### **KUNA**

my younger brother, though younger to me, a friend of mine with whom I can share my thoughts.

### **RAMA BHAINA**

a senior and a friend.

### **RAVI**

my room mate for his cooperation.

### **BISWAJIT, MADHU AND PRAVAT**

old friends, for always being there.

### **DILLIP, PARTHA, AMITAVA & KANNAN**

for friendship, fun and cheer.

### **KRISHNA BHAI, BISHNU BHAI, BIJU BHAI AND LANDU BHAI**

my cousins who gave me plenty of love and affection.

### **MR. RAJA GOPAL**

for his actual and indispensable help.

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## **LIST OF ABBREVIATIONS**

<b>ANSI</b>	-	<b>American National Standards Institute</b>
<b>BST</b>	-	<b>Bovine Hormone Somatotropin</b>
<b>CAP</b>	-	<b>Common Agricultural Policy</b>
<b>CEECs</b>	-	<b>Central and East European Countries</b>
<b>CEN</b>	-	<b>Comit European de Normalisation</b>
<b>CENELEC</b>	-	<b>Comit European de Normalisation Electronique</b>
<b>CET</b>	-	<b>Common External Tariff</b>
<b>CFE</b>	-	<b>Conventional Forces in Europe</b>
<b>CFSP</b>	-	<b>Common Foreign and Security Policy</b>
<b>CJTF</b>	-	<b>Combined Joint Task Force</b>
<b>CMEA</b>	-	<b>Council for Mutual Economic Assistance</b>
<b>CoCoM</b>	-	<b>Coordinating Committee</b>
<b>CSBM</b>	-	<b>Confidence and Security Building Measures</b>
<b>CSCE</b>	-	<b>Conference on Security and Cooperation in Europe</b>
<b>EAPC</b>	-	<b>Euro-Atlantic Partnership Council</b>
<b>EBRD</b>	-	<b>European Bank for Reconstruction and Development</b>
<b>EC</b>	-	<b>European Community, European Commission</b>
<b>ECSC</b>	-	<b>European Coal and Steel Community</b>
<b>ECU</b>	-	<b>European Currency Unit</b>
<b>EEC</b>	-	<b>European Economic Community</b>
<b>EFTA</b>	-	<b>European Free Trade Area</b>
<b>EMU</b>	-	<b>European Monetary Union</b>
<b>EPC</b>	-	<b>European Political Cooperation</b>
<b>ERP</b>	-	<b>European Recovery Programme</b>
<b>ESDI</b>	-	<b>European Security and Defence Identity</b>
<b>ETSI</b>	-	<b>European Telecommunications Standards Institute</b>
<b>EU</b>	-	<b>European Union</b>
<b>GATS</b>	-	<b>General Agreement on Trade in Services</b>
<b>GATT</b>	-	<b>General Agreement on Tariffs and Trade</b>
<b>IBRD</b>	-	<b>International Bank for Reconstruction and Development</b>

IEC	-	Institute for Electronic Certification
IFOR	-	Implementation Force
ILO	-	International Labour Organisation
IMC	-	Integrated Military Command
IMF	-	International Monetary Fund
ISO	-	International Organisation for Standardization
MBFR	-	Mutually Balanced Force Reduction
MTN	-	Multilateral Trade Negotiations
NACC	-	North Atlantic Cooperation Council
NAFTA	-	North Atlantic Free Trade Area
NATO	-	North Atlantic Treaty Organisation
NICs	-	Newly industrialized countries
NTBS	-	Non Tariff Barriers
OECD	-	Organization for Economic Cooperation and Development
OEEC	-	Organisation for European Economic Cooperation
OPEC	-	Oil and Petroleum Exporting Countries
OSCE	-	Organization for Security and Cooperation in Europe
PfP	-	Partnership for Peace
QMV	-	Qualified Majority Voting
SACEUR	-	Supreme Allied Command for Europe
SEA	-	Single European Act
STANAVFORMED	-	Standing Naval Force Mediterranean
TAFTA	-	Transatlantic Free Trade Area
TRIMS	-	Trade Related Investment Measures
TRIPS	-	Trade Related Intellectual Property Rights
UNCTAD	-	United Nations Conference on Trade and Development
UNPRFOR	-	United Nations Protection Force
USTR	-	United States Trade Representative
WEU	-	Western European Union
WTO	-	World Trade Organisation, Warsaw Treaty Organisation

# Chapter - 1

## INTRODUCTION

"In international political economy, interdependence means reciprocal and dynamic interactions for the pursuit of wealth and power" - Robert Gilpin.\*

In earlier times, national security policy was synonymous with high politics or political military affairs. Low politics or economic affairs were of secondary concern. But as national economies became increasingly sensitive to the influence of external political and economic occurrences, low politics was thrust into a policy arena once occupied only by military defence issues. The rise of non-military security concerns has taken on special meaning for the advanced industrialized countries, where sensitivity to interdependence has been particularly acute because of the success of a liberal economic order. While the least developed countries (LDCs) remain relatively unaffected by the increasing economic integration in post-cold war era, the present study on Euroatlantic relations carries important implications for the international political economy.<sup>1</sup>

"The very notion (realist) of international relations seems obsolete in the face of an apparent trend in which more and more of the interactions that sustain world politics unfold without the direct involvement of nations or states".<sup>2</sup> The peace of *Westphalia* of 1648 marks the birth of the modern view that global politics is a contest for power among sovereign states in an anarchic environment. But this is not sufficient to explain

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\* Robert Gilpin, US power and the multinational corporation (New York: Basic, 1975), p. 43.

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<sup>1</sup> The Least Developed Countries(LDCs) are at the primitive stage of economic development in which they supply only low value added products in comparison to the Advanced Industrialised Countries(ADCs) in international trade. So they have negligible levels of positive influence in international political economy.

<sup>2</sup> James, N. Rosenau, Turbulence in world politics: A theory of change and continuity (Princeton: Princeton University Press, 1990), p. 11.

the changes that have occurred in the post world war II period because of the increase in economic and trade interdependence among nations, as a result of which the previously existing state centric paradigm is now challenged by interdependence theorists like James N. Rosenau, international political economists like Susan Strange, Robert Gilpin, Paul Kennedy and Robert O. Keohane. "In case of structural parameters, the transformation is marked by a bifurcation in which the state centric system now co-exists with an equally powerful though more decentralized, multi-centric system".<sup>3</sup>

"The argument put forward is that the impersonal forces of world markets, integrated over the post-war period more by private enterprises in finance, industry and trade than by the cooperative decisions of governments are now more powerful than states to whom ultimate political authority over society and economy is supposed to belong".<sup>4</sup>

The central problem of the realist approach to the study of international cooperation is that it assumes that international actors are engaged in only one activity at a time, when the reality is quite opposite. More accurately, actors simultaneously participate in a series of bargaining situations at both domestic and international levels and are motivated by changeable goals.

A growing body of literature is beginning to question the continued usefulness of the realists' state-centric outlook. The assumptions of political realists, whose

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<sup>3</sup> Structure in international relations means a system within which international actors play their role according to their organisational capacity. In international relations actors can be arranged hierarchically as international actors - which includes Nations or States, International Organisations both monetary and security, Regional Organisations, Multinational Corporations and Non-State actors as well. These organisations function according to their own capacity to influence international politics. So to take States as the only actors in international relations would be inadequate.

<sup>4</sup> Susan Strange, The retreat of the state: The diffusion of power in the world economy (Cambridge University Press, 1996), p. 5.

theories dominated the postwar period, are often an inadequate basis for analysing the politics of interdependence. The literature suggests that a globalist or transnationalist paradigm would provide a more accurate picture of the structure, dynamics and operation of the contemporary international system. The realists for their part dismiss these arguments. They assert that the state remains the decisive actor in world politics and warn that the international system may not be moving in the direction most globalists seem to think. Pluralists (Keohane and Nye, 1972; Mansbach, 1976) accept the importance of the state, but argue that it increasingly has to operate in a world in which other types of actors are important. These non-state actors, such as revolutionary groups and most notably, multinational corporations, reduce the autonomy of states and increase the costs for states to get their own way. An array of subnational, transnational and supranational actors challenge the dominance of state across a wide range of issues. This results in a very different view of the world from that of the realists. The interdependence and transnational literature highlights the importance of change in the decision making structure of foreign policy. The new changes which have occurred during the last four decades can be described as a 'transgovernmental policy network' or a 'multibureaucratic decision making' or a 'complex interdependence' in which the importance of national interest as a guideline for national policy makers diminished because of the existence of transgovernmental policy networks.<sup>5</sup>

While taking interdependence and integration of national economies among the European countries. Morgenthau (1973) viewed the establishment of the European Community as an attempt by the member states to compensate through united effort for

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<sup>5</sup> Robert O. Keohane and Joseph S. Nye. Transnational Relations and World Politics (Cambridge: M.A. Harvard University Press. 1972), pp. 70-76.

the loss of power of the individual European nations, as well as an endeavour by France and other European states to solve the natural superiority of Germany among the nations of Europe. After the failure to counter balance the superior power of Germany by a system of alliances, which resulted in two world wars, France and the other nations of Western Europe are trying to draw Germany to their arms in order to disarm it and to make the superior strength of Germany harmless.<sup>6</sup>

Kenneth Waltz (1979) argued that progress towards the unity of Western Europe cannot be understood without considering the effect that followed from the changed structure of international politics. He emphasized that changes in the behaviour of states have to be explained in terms of the structure of the international system. The creation of the European Economic Community (EEC) was made possible after world war II because the international system changed from a multipolar into a bipolar one. So long as European states were the world's great powers unity among them could only be dreamt of. The emergence of the Russian and American super powers created a situation in which Britain, France, Germany and Italy realised that war among themselves would be fruitless.<sup>7</sup>

Hedley Bull (1977); a major contributor to realism, rejected the notion that the state system is in decline because of the tendency of some states to seek to integrate themselves in large units. Discussing the phenomenon of European integration, Bull makes the observation that although the member states of the European Union have gone some distance in a process of integration which might lead to the loss of their

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<sup>6</sup> Hans J. Morgenthau, Politics Among Nations: The struggle for power and peace (New York: Alfred A. Knof, 1973), p. 509.

<sup>7</sup> Kenneth N. Waltz, Theory of International Politics (Reading: M.A. Addisonwesley, 1979), pp. 70-71.

national sovereignty, such a process would result simply in the creation of a new European super state.<sup>8</sup>

Countering these arguments cited by realists, M. Sullivan (1990) argued that international politics has moved far away from the realist assumption that military security is the sole goal for all states and that military statecraft is the dominant foreign policy instrument in international relations. Adherence to interdependence framework is felt because with the increased interdependence among states and the growth in international organisations, new issues such as the environment, health and trade were added to foreign policy instruments. As a result of this, interdependence among nations grew to an extent that contributed to the erosion of boundaries previously existing between foreign and domestic policies and the artificial distinction between high and low politics.<sup>9</sup>

But neo-realists like Kenneth Waltz have dismissed the notion of interdependence by arguing that interdependence among nations has not increased, but it is on the decrease. The word 'interdependence', according to Kenneth Waltz, "subtly obscures the inequalities of national capability, pleasingly points to a reciprocal dependence and strongly suggests that all states are playing the same game".<sup>10</sup>

While realists believe in the separation between domestic and foreign policy, they use different criteria to judge the soundness of each. They accept the need to integrate moral concerns into domestic politics, because the moral law is a utilitarian

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<sup>8</sup> Hedley Bull, The Anarchical Society: A Study of order in world politics (London: Macmillan, 1977), pp. 264-266.

<sup>9</sup> M.P. Sullivan, Power in Contemporary International Politics (Columbia SC.: University of South Carolina Press, 1990), pp. 9-11.

<sup>10</sup> Quoted from Ray Maghooori and Bennett Ramberg, Globalism versus Realism: International Relations' Third debate (Westview Press, 1982), p. 15.

instrument aiming not at the protection of society, but because its commands are absolute and must be obeyed for their own sake. However, moral issues have little place in foreign policy. The realists' main criterion for judging foreign policy is how it affects "national interest".<sup>11</sup> In the post-war period, and especially since the 1970s, a new wave of modernization has begun to affect West European societies, as well as the societies in the United States, Japan and other OECD states. It has been characterized by a set of economic and technological changes in the advanced industrial societies which have led to increased economic and technological interdependence and interpenetration. These changes include the development of the world economy, in which production and investment are oriented to international rather than domestic markets. The establishment of virtually instantaneous communication across the globe and the diffusion of similar technologies which have had a homogenizing effect blurred the concept of national boundaries. States became less autonomous in their domestic sphere, but gained wider influence and policy scope internationally, as they dealt with issues beyond their borders through international institutions. Institutions and regimes are likely to be of particular importance in conditions of 'complex interdependence', where states are vulnerable and sensitive to one another's actions.

#### **Economic interdependence: A case study of EU and US:**

In the 1970s, economics came to the fore of international relations. The confluence of developments - such as the evolution of the economic system from the establishment of the Bretton Woods system to its collapse, the rise of resource cartels,

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<sup>11</sup> Ibid., p. 16.

Morgenthau asserts that universal moral principles cannot be applied to states' actions and these must be modified according to the circumstances of time and place. He identified moral laws to the national interests which states pursue in international politics and the commands of states are absolute.



and Soviet attainment of military parity with the United States - made it necessary for western security strategy to be formulated on many levels to harmonize the requirements of military defence with economic stability and prosperity. A satisfactory level of security cannot be achieved individually in a world of accelerating interdependence. In such a world, the distinction between domestic and foreign issues becomes blurred and policy must account for this reality if a nation is to remain secure. "Examples of such blurred military build up and higher interest rates in the United States resulted in foreign capital flows to the United States and high interest rates abroad; the refusal of the Bundesbank to expand the West German money supply perpetuated the fall of the dollar in foreign exchange markets; decisions by Western European countries and Japan to purchase natural gas from the USSR (1982) resulted in technology transfer restrictions by the United States. Each of these is evidence of the need for multinational policy coordination and collective action."<sup>12</sup>

More apparently, one must recognize that nations in the contemporary international system cultivate a mix of policies designed to serve multidimensional security objectives. This means pursuing monetary and fiscal policies that promote economic stability and growth, military policies that preserve physical survival and do not detract from the pursuit of other national security objectives.

Reflection on wealth and power as state objectives soon yields the conclusion that they are complementary. Since late 1940s, American power was used to build international economic arrangements consistent with the structure of American capitalism; conversely, US military strength depended in the long run on close economic

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<sup>12</sup> Mark A. Boyer, International Co-operation and Public Goods: Opportunities for the Western alliance (Baltimore and London: John Hopkins University, 1993), pp. 4-5.

as well as political ties between the United States on the one hand and Western Europe and Japan on the other. The American economic or political goals were primarily dependent on establishing a political environment in which capitalism could flourish and its security interests depended on economic recovery in Europe and Japan.<sup>13</sup>

The basis for a close political, military and economic alliance between the United States and the European states was established towards the end of the 1940s when the Soviet Union took hostile actions in Eastern Europe ensuring cold war, forcing the Europeans to accept American leadership and protection. If we divide the history of Euroatlantic relationship into three phases, the first phase from 1945-65 can be categorised as the stage of hegemony. The United States leadership was manifested in regulating European economic and military security structures. The year 1947 witnessed the Truman Doctrine which provided \$ 400 million for the reconstruction of Europe. The North Atlantic Treaty Organisation (NATO) came into existence to protect Europe from Soviet threats. So the period witnessed the increasing economic and security dependence of European countries on the United States. The Marshall plan in 1947 also provided another impetus in Euroatlantic relations by providing economic assistance for recovery to war devastated Europe.

The second stage (1965-82) is the period of hegemonic decline, the European Union developed into an economic giant in its own right with the capability of making its economic and diplomatic weight felt in civilian international relations.

Intensified international competition and increased public intervention heightened awareness of economic interdependence. As this awareness was assimilated

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<sup>13</sup> Robert O. Kechane, After hegemony: Co-operation and Discord in World Political Economy (Princeton University Press, 1984), p. 22.

into political processes, the ever present, but previously obscured fundamental policy differences between the United States and Europe became more and more apparent. These differences, on such issues as the role of public agencies in trade and industry, were also recognized as a potential cause of serious trade disputes, and were therefore addressed in the Tokyo Round of trade negotiations (1973-79). In these talks the US and Europe sought to establish an operational set of multilateral trade rules governing the use of non-tariff barriers to trade. The major issues discussed included, for example, subsidies, public procurement and selective safeguards.<sup>14</sup>

A crucial factor in US relative economic decline was rapid growth during the long post-war boom of the European Economic Community (EEC) in general and West Germany in particular. The resulting intensification of internal competition played an initial role in establishing the world economy at the end of the 1960s and the beginning of the 1970s. Indeed by the 1990s, economic conflict between Europe and America had become institutionalized. Aggressive bargaining over issues such as GATT, the Common Agricultural Policy and the American blockade of Cuba and Iran have become a routine feature of transatlantic relations.<sup>15</sup>

The rapid economic integration of Europe has followed a double-standard logic. As a single economic entity, Europe has been able to restructure capitalism and extend its globalizing reach in the post-war era. An economically powerful Europe was the linchpin of western strategy throughout the cold war epoch. With two rapidly developing economic super powers - Japan across the Pacific and Europe across the

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<sup>14</sup> Stephen Woolcok, Jeffery Hart and Hans Der Ven, Interdependence in the post multilateral era (Lanham: University Press, 1985), p. 5.

<sup>15</sup> Alex Callinicos, Contradictions of European Monetary Union, Economic and Political Weekly (29 August-4 September 1998), p. PE 76.

Atlantic - America's hegemonic position as a global power could be effectively underwritten, at least in a geopolitical sense.<sup>16</sup> In 1988, the EC had a 20 per cent share of world trade, whereas the USA had 15 per cent and Japan 12 per cent. In 1989, external trade alone accounted for 20 per cent of the gross domestic product (GDP) of the EC. By the start of the 1990s, the bilateral trade between EC-US amounted to some \$190 billion with the EC taking 23 per cent of US exports. Since the start of the EEC in 1958, the US has had a visible trade surplus with it, apart from a period in the 1980s. Almost a third of US service exports went to the EC by 1989 and in 1990 about 38 per cent of US foreign investment was in the EC with the EC accounting for 58 per cent of foreign direct investment in the US. This represents a high degree of transatlantic economic interdependence.<sup>17</sup>

In the 1990s, the United States and the European Community had arrived at a new juncture in the history of their partnership. Within their own domain, the United States and the EC are profoundly interdependent. Bilateral trade and investment and the sales generated by investment, top \$ 1 trillion annually and provide 6 million European and American jobs. Overall the partnership is of immense value to both Americans and Europeans. In the 1990s, the US and EU have reached a new plateau in their bilateral relationship. No longer is the United States a hegemon, with the EC orbiting in its sphere. Best described as a post hegemonic and complex interdependent relationship, the US and EU have entered the 1990s on a much more equal basis with important implications for the future of their international relations.<sup>18</sup>

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<sup>16</sup> T.V. Sathyamurthy, New Europe: Contradictions and Continuities, Economic and Political Weekly (29 August-4 September 1998), p PE 54.

<sup>17</sup> Joseph S. Nye Jr., Bound to lead: The changing nature of American power (New York: Basic, 1990), p. 2.

<sup>18</sup> Kelvin Featherstone and Roy H. Ginsberg, The United States and the European Union in the

## **Various Approaches to International Interdependence**

The "shrinking of the world" has been caused by the emergence of interdependence. Recent decades have seen a growing degree of interdependence between the US and the EU in both political and economic spheres. The globalists see this increase in interdependence as incongruent with the traditional assumptions of the state centric model. The state is no longer the effective agent of political and economic security. Globalists believe that many international organizations function effectively to influence the lives and culture of people in almost all countries of the world and that international interaction via international organizations is rapidly becoming an even more important feature of world politics today than it was before. The result of this development is that the international system can no longer be characterized by anarchy. What is interesting and what may be new about international organizations in our time is that their existence and functioning have introduced a certain amount of bureaucratization, scrutinization, continuity and predictability into international politics.<sup>19</sup>

The structure of the contemporary international system is probably a good deal more complex than we have been accustomed to imagining whereas the study of international politics by analytic convention has been primarily concerned with a single level of interaction between the national or government to government level. But the international system is actually organized on at least four levels: subnational, national,

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1990s (McMillan, 1996), p. 3.

<sup>19</sup> Donald J. Pichala and Stuart I Fazen, International politics in the 1970s: The search for a perspective, *International Organization* (28) (Spring 1974), p. 248.

transnational and supranational.<sup>20</sup>

In the literature of international relations, a variety of perspectives can be found that lie between the nation-state and world society extremes. Of course, being somewhere in the middle of the continuum, these perspectives are especially ambivalent, particularly in their shared view that the authority of the nation-state has undergone substantial erosion even though states are generally the most powerful actors because of their monopoly over military capabilities. Some analysts resolve this ambivalence by treating the changing capabilities of the nation-state as an opportunity to design strategies for hastening its decline and for encouraging the emergence of future world orders in which the nation state is no longer predominant. Others resolve it simply by elaborately describing the proliferation of ties across national boundaries, the implicit assumption being that the range and variety of ties must inevitably lead to a lessening of the nation state's authority. Those who view the nation-state as primary argue that the advent of a multiplicity of new international actors on the world scene has not altered the structure of the global system in any significant manner. "They see the new actors as supplementing, rather than supplanting, nation-states".<sup>21</sup>

(1) **Economic Realist and Structuralist Approaches to International Interdependence**

(A) **Economic Realism:**

The economic realists are the new creeds in international political economy who try to apply realist theory of international politics into the economic field. Among them

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<sup>20</sup> Joseph S. Nye Jr. and Robert O. Keohane, *Transnational relations and world politics. International Organization* (25) (Summer 1971), p.376.

<sup>21</sup> James N. Rosenau, *The study of Global Interdependence: Essays on the transnationalisation of world affairs* (London: Frances Pinter 1980), p. 17.

are John A. Hall, Richard K. Asley and David A. Baldwin who believe that states play a vital role in economic developments. But they do not take the realists' view that separation of domestic and international politics is always possible.

Economic Realism claims its 'realist' credentials from two central propositions:

- (1) there exist inequalities of 'power' and influence within the contemporary political economy;
- (2) the centrality of states within the prevailing international order.

Economic Realism thus locates the character of the contemporary international political economy firmly within its historical origins and context. For Hall, "the emergence of industrial capitalism within western Europe provides a major starting point for analysis. From that historical well spring has grown the industrialism of the modern world, the dynamic role of the capitalist order and the political primacy of the 'Nation-State' prevalent patterns of economic strength and weakness, of advantage and disadvantage, also find their roots in that seminal experience".<sup>22</sup>

Historical experiences are thus the source of ordering principles within the international political economy, the general culture that sustains that order, the structural features of the international political economy and the primary characteristics of its component economies. International structures and domestic structure are intimately interrelated. The product is a complex pattern of interconnectedness and frequent interdependencies, within and amongst the discrete economies that together make up contemporary international political economy.<sup>23</sup>

States may thus be pivotal to economic developments nationally and

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<sup>22</sup> John A. Hall, Powers and Liberties: The causes and consequences of the Rise of the West (Oxford: Blackwell, 1985), p. 3.

<sup>23</sup> R.J. Barry Jones, Globalization and interdependence in the international political economy: Rhetoric and Reality(London:Pinter,1995), p. 31.

internationally in both the short and long terms. Not only do state authorities lead and direct substantial programmes of domestic economic and political purposes, they also seek to influence international economic relations for political and strategic purposes.

**(B) Structuralist Perspectives:**

The main exponents of the structuralist approach to interdependence are Andre Gunder Frank, Raul Prebisch, Arighiri Immanuel and Willy Brandt. They condemn interdependence as it goes against the interests of the less developed countries who do not have bargaining power while entering into international economic relationship with the advanced industrialised countries of the world.

The structuralist approach to interdependence provides reasons to explain why interdependence is more crucial for advanced industrial countries of Europe, Japan and America instead of countries within Latin America, and Sub-Saharan Africa.

The structuralist approach to international political economy focuses on the way in which the structural characteristics of national economies underpin an imbalanced pattern of international 'interdependence' between the rich, industrial societies and their less developed 'partners and, hence, project a vision of a damaging form of globalization. While the advanced industrial countries continue to enjoy the many fruits of technological innovation; the poorer less developed countries are unable to obtain, afford or exploit effectively, the latest technologies and remain condemned, in consequence, to low value added areas of production. The Advanced Industrial Countries (AICs) export advanced goods and services to economies of all types, but predominantly to other AICs, and generate very high standards of international political economy. The less developed countries (LDCs), in contrast, export primary commodities, or highly standardized manufactured goods, mainly to Advanced



Industrial Countries, generate low standards of living for their populations; and exert, with notable exceptions, negligible levels of positive influence upon basic developments within the international political economy.<sup>24</sup>

## (2) **Institutionalist Perspectives**

The institutionalised perspective to interdependence holds the view that growth of international organisations and institutions can be either due to the wishes of a hegemonic power or because of voluntary action, as a result of which international regimes came into existence and interdependence grew among nations. Keohane and Nye (1987) argued that from a foreign policy stand point the problem facing individual governments is how to benefit from international exchange while maintaining as much autonomy as possible.<sup>25</sup>

For Robert Gilpin, the effective management of an interdependent, or globalized, world economy is not held to be either automatic or impossible. The central problem for Economic Realists is to construct the appropriate structures and institutions, within which the actions of individual actors on the international economic stage can be effectively coordinated. Such structures and institutions could be hegemonical in character, with one or a small number of the strongest states effectively writing and enforcing rules of conduct for all other members of the international political economy.<sup>26</sup> While to Krasner, the establishment of enduring regimes, whether by

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<sup>24</sup> Ibid., p. 32.

<sup>25</sup> Robert O. Keohane and J.S. Nye, *Power and Interdependence Revisited*, International Organisation. Vol. 41, No. 4, p. 370.

<sup>26</sup> Robert Gilpin, The Political Economy of International Relations (Princeton: Princeton University Press, 1987), p. 37.

hegemonic influence or through voluntary negotiation, offers another path to institutional management. Such regimes can be formed either by formal regulatory institutions or less formal sets of rules, sustained by a suitable pattern of intersubjectivity amongst pertinent actors. The development of a wide range of institutions within the international political economy has both facilitated and reflected, the steady growth of international interdependence and globalization.<sup>27</sup>

The product of such a process is the profusion of international institutions and collaborative associations. At the level of formal, interstate arrangements, the institutionalization of the international political economy has a number of tangible expressions. The Group of Seven (G-7) constitutes a regular meeting of the leaders of the world's seven leading industrial economies to review global economic developments and pursue, often with limited success, co-ordinated solutions to common economic problems. The Organization of Petroleum Exporting Countries (OPEC) provided a dramatic demonstration of the potential impact of explicit cartels of commodity producers during the 1970s.<sup>28</sup>

Stein argues that sovereign states have a rational self interested and calculated drive to abandon independent decision making. Regimes arise according to Stein when states are confronted with the dilemmas of common interests and common aversions. In both cases jointly reached outcomes are preferable to decisions made independently. So institutions like the European Union are the direct result of coordination and collaboration by national governments in order to maximise their interests through an

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<sup>27</sup> S.D. Krasner (ed.), International Regime (Ithaca: Cornell University Press, 1983), p. 50.

<sup>28</sup> R.J. Barry Jones, Globalisation and interdependence in the international political economy: Rhetoric and Reality (London Pinter, 1995), p. 36.

institutional forum rather than individual bargaining.<sup>29</sup>

**(C) Rationalist Perspectives**

The rationalist perspective to interdependence includes the views held by functionalists, neo-functionalists and interdependence theorists. Earnst Haas, a distinguished thinker on regional integration and neo-functionalist approaches to international relations, views that pure self interest is the main reason for the transfer of power and sovereignty from national governments to new centres of authority. To him, shifts of loyalty can take place only if more satisfaction results from the new institutions like European Community. So to Haas, regional integration involves both a process and an outcome.<sup>30</sup>

Cumulative imperatives are central to Haas' interpretations of the growth of international organizations or the progressive integration of regional associations. As practical difficulties of interaction and co-ordination are encountered in one area or another, pressures build for the establishment of suitable fora within which they can be considered and solutions developed. Successful collaborative responses to existing difficulties contribute to further collaboration in the future in two ways. First, the experience of successful collaboration is, itself, encouraging; it provides a vision of and a model for, future efforts. Second, the fruits of effective international collaboration and co-ordination often provide stimulation for new, or intensified, forms of international interactions which, themselves, generate new difficulties which require resolution

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<sup>29</sup> A. Stein, Why nations cooperate (Ithaca: Cornell University Press, 1990), p. 39.

<sup>30</sup> Earnst Haas, Beyond the Nation State: Functionalism and International Organisation (Stanford: Stanford University Press, 1964), p. 35.

through further international collaboration which is otherwise known as spill over effect.<sup>31</sup>

In an analysis of the European integration process after 1992, Schmitter explained that the European Union is not just another international organisation or a continental nation or a super state in embryo but a new form of political integration and interdependence.<sup>32</sup>

The spill over effect is best realised in the case of the European Union which first came into existence with six member countries in the form of a European Economic Community (EEC), and transferred itself to European Union after the signing of the Treaty of Maastricht in 1992. It now consists of fifteen member countries, is a world economic power, and commands the largest share of world trade in its own right.

Thus, rational choice approaches to the study of international interdependence provide a powerful tool of analysis. Their strength lies in the way economic rationality is used to model decision making. Comparative political advantage is largely determined by the domestic political agenda in an alliance nation. If decision makers actively work to maintain their support, their policy choices will reflect a responsiveness to constituent interests. In the same country, a leader may be reluctant to adopt the domestic economic measures required to correct international economic imbalances if such policies would have direct negative effects on important constituencies.

However, the challenge of contemporary international political economy is, in broad terms, the co-existence of a territorially based political system with an economic

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<sup>31</sup> Ibid., pp. 60-61.

<sup>32</sup> P.C. Schmitter, The European Community as an Emergent and Novel form of political domination. Working Paper, 1991, No. 26, Center for Advanced Study in the Social Sciences of the Juan March Institute, Madrid, p. 9.

system that is increasingly global in scope. Since 1945 to 1999, there has been a movement away from distinct national economies towards a single global economy. International trade and investment have consistently grown faster than national economies. Their growth has led to an accelerating degree of economic interdependence.<sup>33</sup>

So the trends in world politics suggest that it will be more difficult in the future for any single great power to control the political environment and to achieve what it wants from others. As world politics becomes more complex, the power of all major states to achieve their purposes individually have diminished with the rapid growth of international economy and technological changes as a result of which nations or states are vying for the support and loyalty of supranational entities like EU.<sup>34</sup>

Sources of power in general are moving away from the emphasis on military force and conquest that marked early eras to factors such as technology, education and economic growth. Like other forms of power, economic power cannot be measured simply in terms of tangible resources. Intangible aspects also matter. For example, outcomes generally depend on bargaining and bargaining depends on relative costs in particular situations and skill in converting potential power into effects. Relative costs are determined not only by the total amount of measurable economic resources of a country but also by the degree of its interdependence in a relationship.<sup>35</sup>

With the changing actors in world politics come their changing goals. In the

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<sup>33</sup> James N. Rosenau, The Study of Global interdependence, Essays on the transnationalisation of world affairs (London: Frances Pinter 1980), p. 44.

<sup>34</sup> Joseph S. Nye Jr., Bound to lead: The changing nature of American power (New York: Basic, 1990), p. 175.

<sup>35</sup> *Ibid.*, p. 176.

traditional view, states give priority to military security to avoid threats to their survival. Today, however, states must consider new dimensions of security. National survival is rarely at stake, and most people want to feel secure in more than just survival. Because of the increase in the growth of the modern economy, society has been transformed from rural-agrarian to an urban-industrial society where expectations of people are more than what they had in the primitive economy. Most modern national security policies are defined to ensure economic welfare, group autonomy and political status in addition to physical survival within national boundaries.

National security has become more complicated as threats have shifted from military ones to economic and ecological ones. As we entered the 1990s, the trends have intensified; world population has more than doubled since the 1950s, yet world economic activity has more than quadrupled. The population surge in developing countries has encroached upon jungles, wet lands and broad grazing regions, as more and more people exploit surrounding natural resources. Issues such as atmospheric pollution, terrorism, the drug trade, currency crises and AIDS have emerged, that are the direct products of new technologies or world's greater interdependence and are distinguished from traditional political issues by virtue of being transnational rather than national or local in scope. The reduced capability of states and governments to provide satisfactory solutions to the major issues on their political agendas is partly because the new issues are not wholly within their jurisdiction and partly because the old issues are increasingly intertwined with significant international components (e.g. agricultural markets and labour productivity).<sup>36</sup>

In the traditional view, military force is the dominant instrument of power in a

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<sup>36</sup> Paul Kennedy, *Preparing for the twenty first century* (Harper Perennial, 1994), p. 97.



self help system. It has become more costly for modern great powers to use than in earlier centuries. Other instruments such as communications, organizational and institutional skills and manipulation of interdependence have become important instruments of power.

So to understand the changes that have occurred during the last two decades (1980s and 1990s) because of the increase in interdependence and replacement of power politics to economic bargaining from which nations or states derive their power, a new insight is needed to analyse the complexity of interdependence. What are the changes that have occurred during the last two decades? What is the position of a state in deriving power through multilateral institutional arrangements in an era of interdependence? These are the questions which need full answers. Towards the end of the 1980s, changes were manifested in the international system. For more than forty years, the bipolar international system was a simple explanation to a stable international order. But with the disintegration of Soviet Union and the end of the cold war in 1991, the countries within Europe are going through revolutionary changes. On the one hand, some countries of Europe are facing crises of disintegration and ethnic conflicts, while in contradiction the West European countries are going for greater integration within the broader framework of European Union. The new challenges which the countries of the west face are not centered around the bloc rivalries between two super powers but a new type of situation where a preponderance of United States exists over the established monetary institutions. To provide more powers to the countries of Western Europe, the European Union acts as the single forum which provides cumulative power to fifteen member EU to act effectively while entering into international agreements in trade and investment.

This study attempts to understand the nature of interdependence between Western Europe and the United States in a changing world scenario, several approaches to the subject of complex interdependence are used. But the focus of the study is on: structural changes affecting Euro-Atlantic relations in the 1990s; The problems of burden sharing and managing institutional diversity in the European Union; The problems of policy consistency in conditions of multidimensional economic and security linkages.



## **Chapter - 2**

### **THE EVOLUTION OF POLITICAL AND ECONOMIC INTERDEPENDENCE BETWEEN THE UNITED STATES AND WESTERN EUROPE SINCE 1945**

The objective of this chapter is to survey the historical evolution of Euroatlantic interdependence. The relationship between Western Europe and the United States can be traced back to World War II. The United States and the former Soviet Union came out as two super powers after the end of the World War II, as a result of which the world became bipolar and the countries within Europe were enmeshed between the bloc rivalries of two super powers supporting two different ideologies. By the end of the World War II, the United States had emerged as an overwhelming power while Germany was devastated. America which was going through Great Depression of 1933, suddenly rose to a position of economic super power at the end of the war. At the same time, drifts in the relationship between former Soviet Union and the war time western allies were visible. The war time cooperation and friendship between Soviet Russia and the countries of Europe ended and in its place, mutual suspicion, distrust and discontent began to develop. With the conclusion of the war, sharp differences between the Soviet Union and the west cropped up. In April 1946, the Council of Foreign Ministers of war time allies initiated the discussion on the first five treaties in Paris. In that conference, sharp differences between Russia and war time allies on post-war reparation of Europe came out.

By 1950, the cold war was at its height and the eastern European countries were firmly in the Soviet orbit. The year 1950 also witnessed deteriorating economic conditions in Europe. Production in Britain dropped by 15 per cent and unemployment shot up to nearly 7 per cent by 1950. By early 1950, about 20 per cent of Italian workers had no jobs. In Belgium, unemployment which had been about 2 per cent in 1947, rose to 11 per cent. So most of the European countries were passing through economic crises.<sup>1</sup>

Thus, in the post-war climate of Stalinist menace and after having sustained the material and psychological losses of World War II, the European nations were eager for American help, both to rebuild themselves and to guarantee their domestic and international security. American dominance not only seemed natural but was generally exercised with benevolent intention towards European countries, in comparison to former Soviet Russia. In the economic sphere, dominance was not used to consolidate dependence. At the same time, the United States assumed not only the principal burdens of nuclear defence for Europe but also the defence of western interests in the world at large.

During the post-war period, the USA initially supported all European integration efforts. The prointegrative stance was a constant feature of American foreign policy from Marshall plan, the establishment of the European Coal and Steel Community in 1952 (ECSC) and the unsuccessful European Defence Community in 1959 (EDC)

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<sup>1</sup> Richard J. Barnet, The Alliance: America, Europe and Japan makers of the post-war world (New York: Simon and Schuster, 1983), p. 255.

through to the setting up of the European Economic Community in 1958 (EEC) and Kennedy's plan for a "Grand Design" in 1960s.<sup>2</sup> Alongside an idealistic motivation the USA's primary interest in view of the growing tension in East-West relations was to build a powerful western alliance, to guarantee stability and create a flourishing and expanding market, which would become an interesting partner for the American economy.

So, keeping this thing in view, the US sponsored the European Recovery Programme (ERP) which is otherwise known as Marshall plan (1947). In short, the chief aim of Marshall plan was to improve the political and social life of Europe by fighting out poverty and economic crises. The first step towards the cooperation with western European countries and the United States came after the Truman Doctrine was announced on March 12, 1947. The Truman Doctrine put an end to the policy of isolationism which the US had been pursuing towards European politics since the conclusion of the second World War. Besides, the Truman Doctrine may be described as the first direct response to the challenge of Soviet Russia. In this declaration, it was stated that the international peace would be endangered in case of establishment of communist dictatorship over the free people of the world and the security of American continent would be threatened as well. The chief aim of the Truman Doctrine was to

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<sup>2</sup> At first the Eisenhower administration expressed its doubt for German rearmament within the cadre of a supranational European Defence Community. But the Plevin Plan (1950) proposed to place EDC under NATO. At the sametime Jean Monnet in 1951 also convinced Eisenhower of the plan's value and thus shifted the U.S. position towards EDC.

protect the Western Europe from communist aggressions and to preserve balance of power.

“So the history of US relations with the future European Community states in the late 1940s has been written within ideological framework determined by the academics and political advocates of ‘Pax Americana’. The EC experience of that ‘Pax Americana’ has been interpreted through the perspective of the cold war ideology manufactured by the United States rather than by the EC states. US involvement in Europe was presented as a selflessness and generosity unparalleled in modern history.”<sup>3</sup>

### **The History of European integration and the US**

There are two views posed diametrically opposite to each other on European integration and the role of United States. The first held by A.S. Milward maintains that the United States’ objective was to unite western Europe through a British led Organisation for European Economic Cooperation (OEEC) organised on the basis of Marshall plan to serve as the appropriate spring board for unity. But Britain was not interested in European political unity and France was also not interested in OEEC. They felt the American stamp on OEEC very strongly and were not interested in the idea of free trade in general, and competition with Germany in particular, in advance of their own economic revitalisation programme. There were limits on the OEEC. Through it the United States tried to forge regional cooperation through the politically charged

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<sup>3</sup> John Palmer, Europe without America? The crisis in Atlantic Relations (Oxford: Oxford University Press, 1987), p. 31.

issue of how to allocate Marshall Aid. But the Marshall Aid was not important enough to give the US sufficient leverage to reconstruct western Europe according to its own wishes. The Europeans succeeded in finding the correct prescription to forge a peace treaty of Paris (1951) in which each of the former enemies could find key national interests satisfied. The Americans had much less to do with the creation of the ECSC than is accepted by conventional wisdom.<sup>4</sup>

Another view held by Michael J. Hogan states that the United States played a key role in building European Cooperation. The Marshall plan must be judged as one of the most successful peacetime foreign policies launched by the United States in this century: economically, as a programme to control inflation, revive trade, industrial reorganisation and production; politically as a programme to promote stability, resolve the German problem and contain the USSR. The success of European Union as a regional organisation to speak for Europe is due to the US emphasis on self help. The Marshall plan was the 'crucial margin' that made European self help possible. It facilitated essential imports, eased production bottlenecks, encouraged higher rates of capital formation and helped to suppress inflation, all of which led to gain in productivity, to improvements in trade and to an era of social peace and prosperity more durable than any other in modern European history.<sup>5</sup>

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<sup>4</sup> Alan S. Milward, The Recontruction of Western Europe, (1945-51), (Berkeley: University of California, Press), pp.469-471.

<sup>5</sup> Michael J. Hogan, The Marshall plan: America, Britain and the Reconstruction of Western Europe, 1947-52 (Cambridge : Cambridge University Press, 1989), pp. 427-420.

The formation of the EU must be seen against the backdrop of two catastrophic world wars, both triggered by rivalries between the major powers. In the immediate aftermath of World War II, the British wartime Prime Minister, Winston Churchill, floated the idea of a "United States of Europe" in which he proposed that the national economies of Europe should be fused together into such a complete and mutual interdependent union that war between its member states would be unthinkable. So in the early post-war years, negotiations to build an economic community in Europe were primarily driven by political, rather than by economic considerations.

While the post war situation was fluid because of the bloc rivalries between the two super powers, it was Jean Monnet, the then French Finance Minister, who gave the concrete idea of European Community as a third way to break the bipolar mould. Today's European Union is the result of Jean Monnet's step to coordinate the economies of Europe (France and Germany in particular). But Monnet's plan to coordinate an independent economic structure for Europe after the World War II could only be visualised through the Schuman (the then French foreign minister) plan of May 9, 1950. On the line of Schuman plan, first intergovernmental organisation to come out was European Coal and Steel Community (ECSC) in 1952 to which Great Britain was not a party to contract. Though the idea of United States of Europe came in the Zurich (1946) speech of Winston Churchill. "The nostalgia for an imperial world role and a gross overestimation of its own economic and political influence lay at the core of British

establishment's delusion that United Kingdom could stand aside from European involvement".<sup>6</sup>

By the mid-1950s, the world situation was beginning to change, quite apart from shattering of illusions after the Suez fiasco of 1956, the true fragility of Britain's post war economic recovery was becoming apparent. The scale of Britain's decline as an economic and political world power only began to dawn during the Prime Ministership of Harold Macmillan from 1957 to 1963. Two factors seemed to have influenced the change of course which Britain had continuously and consistently pursued under Macmillan. The first was the growing evidence of British industry's diminishing share of world markets. The second was the scale of economic recovery and potential competitive threat not just from West Germany but also from other European economies. So Macmillan tried to develop a special closeness with the United States on the one hand and on the other hand applied for membership of the European Common Market. But the later was harshly rejected by Charles de Gaulle the then French President.

In 1958, the Fifth Republic of France was established. Charles de Gaulle came to power in 1958 as the President of the fifth Republic of France. The era of de Gaulle saw a nascent nationalism in the policy of French government. The strong anti-American policy under de Gaulle government was the direct result of American policy followed towards North Africa (countries like Morocco, Tunisia and Algeria. the

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<sup>6</sup> John Palmer, Europe without America? The crisis in Atlantic Relations (Oxford: Oxford University Press, 1987), p. 33.

previous protectorates of France). During the second world war, the United States established its bases in Morocco which was a protectorate of France. After the end of the war, US expanded its bases in Morocco at a cost of \$ 500 million, despite continuing protest by France. On March 2, 1956, Morocco got independence because of the steps taken by America which irked French dissatisfaction. Beginning in 1963, de Gaulle's attitude towards the United States hardened. The era of de Gaulle saw increasingly frequent contacts between Paris and Moscow. The strong sense of an independent foreign policy outside the American influence was seen in the speech made by de Gaulle on February 4, 1965:

“Europe is the mother of modern civilization, must attempt to develop its immense resources from the Atlantic to the Urals in harmony and cooperation in this way and together with America, its child, it will then play its appropriate role in the progress of the two billion people who are so much in need of it”.<sup>7</sup>

In December 1966, Soviet leader Aleksei Kosygin's visit to France was also marked by the same type of feeling with his slogan: “Technological proletariats of both the parts of Europe unite, what is at stake is to be better or at least as good as the United States in a wider variety of fields”<sup>8</sup>. So the rejection of Britain's membership to European Economic Community was more or less motivated by the independent foreign policy goal pursued by de Gaulle. It was apprehended that Britain's inclusion into the

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<sup>7</sup> Alfred Grosser, The Western Alliance: European-American Relation since 1945 (London: Macmillan, 1980), p. 212.

<sup>8</sup> *ibid.*, p.213.



European Coal and Steel Community would provide opportunities for the United States to involve itself in an institution which believes in independent common foreign policy for the members within this institution.

With the passage of time, the economic integration of western Europe grew stronger in comparison to the United States in late 1960s and 1970s. Before this time, the United States was the dominant economic as well as military partner, and US leadership was clear in multilateral regimes such as the Bretton Woods system and GATT. After 1965, the US trading balance went into deficit with the involvement of United States in Vietnam war. In 1959, there were about 156 multinational companies that dominated the 13 major industrial sectors of the world economy, such as petroleum, metals, autos and so forth. Out of them 111 were from the United States. But by 1976, 68 of these companies were American and rest of them were either from Japan or from European countries. The number of European and Japanese firms ranked among the top 12 companies in each sector equalled or exceeded the number of American companies. In the mid-1970s, it was becoming clear that European and Japanese firms were outcompeting US corporations not only in older industries such as steel and ship building but also in the product in which one American job out of every six depended: the Automobile. Even before the oil crisis (1973), commodity prices had suddenly shot up 65 per cent from the end of 1971 to the spring of 1973. By the end of 1970s, prices jumped 101 per cent in the US, 137 per cent in Japan, 136 per cent in Italy and 236 per

cent in Britain.<sup>9</sup> The system of fixed exchange rates pegged to a strong dollar collapsed in 1973. The oil shocks of 1973 and 1979 opened sharp policy differences between the US and European States. Disputes over trade, foreign policy and defence continued throughout the 1980s and into the 1990s. Meanwhile, the US share in world trade gradually fell relative to that of the West Europeans. The US share in world trade fell from 27.3 per cent in 1950 to 15 per cent by 1975. While the West Germans increased their share of world trade between 1950 to 1975 from 7.3 per cent to 19.7 per cent<sup>10</sup>.

The development of the European Community in 1967 with the integration of the European Coal and Steel Community (established by the Treaty of Paris, 1951) and the European Economic Community (established by the Treaty of Rome in 1957) to a single organization created a political framework for further West European integration.

The community gathered impetus through the 1980s, with the strengthening of intergovernmental political cooperation, the easing of budgetary disputes and the Single European Act (1987). Member states increasingly coordinated their foreign policy and sought EC backing for their foreign policy positions. The decade of the 1980s began amid speculation that Europe was an emerging super power.

The latest decade in the history of the EU has seen huge changes in the world situation: The reunification of Germany and the collapse of the USSR. It also witnessed

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<sup>9</sup> Richard J. Barnet, The Alliance: America, Europe and Japan makers of the post war world (New York : Simon and Schuster, 1983), p. 203.

<sup>10</sup> *ibid.*, p.255.

an acceleration of union with neo-functional directives. The Council adopted goals for economic and monetary union at Madrid in 1989. Next, border controls were waived by the Treaty on European Union signed at Maastricht in 1992, and the European Economic Area was agreed. In sum, the EU has grown greatly in terms of area, political significance and institutions. Growing from the original 6 members (West Germany, France, Italy, Belgium, the Netherlands and Luxembourg) in 1957 to 9 in 1973 (with the inclusion of Britain, Ireland and Denmark), it increased to 10 in 1981 (with the accession of Greece) and became 12 (with inclusion of Spain and Portugal), it now numbers 15 members after Finland, Sweden and Austria acceded to the EU in 1995.

#### **THE EC AS A POLITICAL SYSTEM:**

The institutional structure of the EC is based on two separate notions of power and representation which can be termed intergovernmentalism and federalism. The Council of Ministers is the decision taking body in the EU. It comprises the ministers of national governments, and best represents the intergovernmental character of the EC. The European Council establishes the broad based political framework for the work of other institutions within the European Community. The European Council meets at least twice each year, once during each six months. The matters of highest importance are subject to European Council review and the development of the Community has proceeded at the pace and in the direction determined by the body. The crucial junctures on the road to the single market, Economic and Monetary Union, and political union are the results of council meetings. The European Council is headed by the president for a term of two years in rotation basis. The institution does not have secretariat of its own and depends on the Council of Ministers or the Troika. The decisions of the meetings

are taken by qualified majority voting (QMV). For a measure to pass under qualified voting, it must receive 54 votes out of 76 allotted to countries (data based on 1994 European Commission Report changes have taken place in 1995 with the inclusion of three other members to European Union).

**Map 2.4** European Union Expansion in the 1990s



The "twelve" became "fifteen" when Sweden, Finland, and Austria joined the EU in 1995.

**Source :** European Commission, 1998

**Table 2.1: Weighted Votes in the Council of Ministers, 1994**

Belgium	5
Denmark	3
Germany	10
Greece	5
Spain	8
France	10
Ireland	3
Italy	10
Luxembourg	2
The Netherlands	5
Portugal	5
Britain	10
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Total	76
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**Source:** EC Commission, 1994.

The European Parliament, the world's first directly elected international assembly, best represents the federal dimension. The other institutions of EU are Commission and the Court of Justice. The Court of Justice, based in Luxembourg, adjudicates on EC laws which take precedence over national legislation. The Commission, the administrative and executive agency of the EC is, based in Brussels, and is the only body formally entitled to propose new legislation. The Commission is appointed by the national governments. The limits to representation and accountability inherent in this hybrid structure have prompted criticism of the EC's democratic deficit. EC legislation is passed according to several process, which differ according to policy sector. The final outcome is determined by the Council and the

Parliament, though legislative power of each varies according to the provisions governing the particular policy sector.<sup>11</sup>

**Table 2.2: National Representation in European Parliament**

Countries	Number of MEPs	Population per MEP
Belgium	25	403,300
Denmark	16	324,700
Germany	99	819,200
Greece	25	415,600
Spain	64	611,200
France	87	664,400
Ireland	15	238,100
Italy	87	654,700
Luxembourg	6	65,000
The Netherlands	31	495,300
Portugal	25	394,700
Britain	87	669,800
Total	567	---

Eurostat.

In external relations, the EC has long operated in a unique and differentiated manner. In external trade negotiations, the Commission is the key actor having executive authority initially mandated by the Council of Ministers. Kechane and

<sup>11</sup> Nigel M. Healy (ed.), The Economics of the New Europe (London : Routledge, 1995), pp. 17-19.

Hoffman (1989) agreed that the Single European Act has revived the supranational style of decision-making that was lost after 1966. "Yet", they argue, "this style is supranationality without supranational institutions: the Commission is not a supranational entity" in the sense of being an authoritative decision-maker above the nation state, nor has loyalty been transferred from the nation-state to it.<sup>12</sup> They hold the view that the Community be viewed as a "set of complex overlapping networks in which a supranational style of decision-making, characterised by compromises upgrading common interests, can under favourable conditions, lead to the pooling of sovereignty".<sup>13</sup>

### **The European Union and the United States in the International System:**

The genesis of US-EC relations drew much less from domestic sources than from the current of bipolar/cold war international politics, although international economic co-operation at the Bretton Woods conference in 1944 predated the advent of the cold war. Both sides needed a military, political and economic partnership in order to contain Soviet Communism and bolster a liberal world political economy. Since the United States had a preponderance of the world's material resources at the time, EC was placed in a junior position in the partnership.

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<sup>12</sup> Robert Kechane and S.Hoffman, European Community Politics and Institutional Change. Working Paper Series no. 25 (Center for European Studies, Harvard University. 1989), p. 13.

<sup>13</sup> Ibid., p. 3.

With the end of the cold war, both America and Europe assume that in future their relations would be determined far less by security and military considerations than previous decades. This is already acknowledged in the transatlantic declaration of November 1990 which indicated to both partners new common interests after the cold war. The post-cold war international system, in which there are multiple poles and different kinds of power,<sup>14</sup> presents new challenges to US-EU relations. The pressures of coping with the rise of nationalism in Eastern Europe, the collapse of old Soviet Union, the pressing need to push for peace in the middle-east, the future of the international trade and monetary order and the demands of the developing world looming over the horizon all impinge on the US-EU and require common approaches. Thus, the international system of the 1990s, while drastically transformed, poses no less significant challenges to US-EU relations".<sup>15</sup>

At the Madrid Summit in December 1995, a new transatlantic agenda and a programme of action were announced proposing systematic and increased co-operation in the political, security and economic spheres. The following points were agreed:

- (1) Political co-operation aimed at finding common ground on important issues.

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<sup>14</sup> The bipolar international system which was existing during the period of cold war ended with the disintegration of Soviet Union in 1991. The new world order which emerged after the cold war can be classified as multipolar one in which powers like Germany, Japan, Great Britain and France are coming as economic powers and influencing the international economic system In military sphere China is emerging as the new super power to counter the US hegemony.

<sup>15</sup> Kelvin Featherstone and Roy H. Ginsberg, The United States and the European Union in the 1990s (London: McMillan, 1995), p. 3.



- (2) The creation of a transatlantic market by harmonising standards and examining together ways and means of removing trade barriers
- (3) A common approach to new global challenges like environmental protection, migration, the proliferation of weapons of mass destruction, organized crime and terrorism.<sup>16</sup>

### **US-European Relations: A Historical Perspective**

The basis for a close political, military and economic alliance between the US and EC states was established in the beginning of the cold war when the Soviet Union took hostile actions in Eastern Europe and encouraged Europeans to accept American leadership and protection. The decisions taken in the late 1940s and early 1950s to create transatlantic and European institutions to strengthen the overall position of the western world moulded US-EC relations for the next four decades.

In 1947, Truman Doctrine's commitment to offering military assistance to states under communist pressure was designed to contain the "evil empire" and was a precursor to the economic commitment to rebuild Europe. On 5 June 1947 at a speech at Harvard University, Secretary of State G.C. Marshall offered massive aid to revive the war torn economies of the European powers. Marshall's offer led a year later to Congressional enactment of the European Economic Co-operation Act. That law

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<sup>16</sup> Margarita Mathiapodos, *The USA and Europe as Global Players in the twenty-first Century*, *Aussen Politik* (2/98), p. 37.

created the European Recovery Programme (ERP) which extended \$13.3 billion in aid between 1948-51. In its first year, ERP aid accounted for 10 per cent of the federal budget and 2 per cent of the GNP of the United States.<sup>17</sup>

The United States was interested in encouraging co-operation among the Europeans as a first step towards a process of unity. A united Europe would heal old wounds and be better able to stand up to Soviet pressure and become a partner of the United States in the post-war international economic order. In 1948, the organization for European Economic Co-operation (OEEC) came up as the first post-war inter-governmental organization which was a symbolic step in the formation of the Federal Republic of Germany in 1949 and the Schuman plan that followed in 1950. Today's European Community is the heir to the Schuman plan.

Since 1949, the Atlantic alliance has been the nucleus of the post-war international system. NATO became the vital center of military stability and politico-economic order between western Europe and North America. Within these separate military and economic institutions, the political relationship between the United States and its allies were markedly different. NATO's formal organization, for example, was forthrightly hegemonic. In many respects, western Europe seemed to be an American military protectorate. All members, even those with nuclear deterrents of their own, depended on the American strategic deterrent to balance the immense Soviet nuclear force. Most including the Federal Republic of Germany, had no other strategic defence.

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<sup>17</sup> Frank Loy, Marshall plan for European recovery is 40 years old (Europe, June 1987), p. 16.

In addition, NATO vested the United States with organizing and leading Europe's defence. Thus, an American general is always NATO's supreme Allied Commander (SACEUR).<sup>18</sup>

The multilateral institutions which grew after the World War II among the first world countries were mostly organized to seek economic relations outside the hegemony of United States. The most obvious institutional arrangement was between the European Countries to establish the powerful European Economic Community (EEC) in 1958, where Europeans meet without Americans not only to regulate the intimate and independent economic relations within Europe but also to try to form a common position for dealing with the rest of the world. As the Europeans recovered from the war and grew stronger, they built their own independent organisation, EU, for American relations but chose to remain militarily dependent within an American dominated alliance. Thus, while western Europe remains an American protectorate militarily, it has organized itself into an economic bloc that has become not only America's biggest single economic but also its biggest industrial and financial rival. This differentiation between military and economic relations can be seen as a sort of transatlantic compromise. While NATO preserves the forms of American hegemony, the reality has grown more complex, with a substantial part of Europe's own military and economic strength outside the NATO framework.

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<sup>18</sup> "The military balance 1985-86". A Discussion Paper on the US military role on NATO. The International Institute for Strategic Studies (London, 1985), pp. 13-14.

In the 1970s, the distributive conflicts increased within the alliance as the question of burden-sharing came on the agenda of some US legislators. Some US legislators questioned whether the US should continue to bear disproportionate costs for western defence and the maintenance of international economy, when western Europe was believed to be benefitting disproportionately more than the US.<sup>19</sup> At the same time, EC states sought to adopt and sustain a policy of *ostopolitik* - despite the Soviet invasions of Czechoslovakia (1968) and Afghanistan (1979).

With the enlargement of the European Community (EC) following accession by Britain, Ireland and Denmark (1973), European-American relations had changed to such an extent that the US secretary of state, Henry Kissinger, felt that a new "Atlantic charter" was needed. In his speech in New York on 23rd April 1973, he launched his "year of Europe" diplomatic initiative and called for a joint declaration defining the future goals of co-operation between partners and establishing a new form of relations. Between 1970 and 1982, biannual talks were held at ministerial level between the EC Commissioner for External Relations and the US Deputy Secretary of State, which

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<sup>19</sup> In 1965, the US involvement in Vietnam and the massive aid given to the western European allies of US led to large payment deficits owing to economic problems at home. The US payment crisis coupled with an expanding trade deficit led the Nixon administration in the early 1970s to unilaterally strengthen the dollar and combat domestic recession. Previously, the countries of Europe accumulated dollar through Marshall Aid and it led to gold drain on the dollar because of the free exchange of dollar to gold in international monetary system. See John Palmer, Europe without America? The crisis in Atlantic Relations (Oxford : Oxford University Press, p. 11). In defence, the United States spent almost 40 to 50 per cent of its defence budget in maintaining NATO Army on European soil from 1951 to 1982. While the countries of Europe were enjoying the military security protection from the United States developed themselves in economic sphere to compete with their ally the United States. See Phil Williams, US Troops in Europe, Catham House Papers, 25 (London : RIIA, Printer, 1984), p. 19.

addressed all issues coming under the Community's responsibility. To an increasing extent, however, these meetings became too bureaucratic and ineffective; the practice was dropped in 1982.

Closer contacts also developed during the 1970s and 1980s between the USA and the European Political Co-operation (EPC). The arrangements made by the EC foreign ministers at their meeting in 1974 in Gymnich and the Tindermann's Report on European Union (1975) suggested the first steps towards more intensive ties. Finally, the European Council meeting in November 1976 decided to hold meetings every six months between the Commission President and the American President as well as to establish closer contacts in EPC matters between the presidency and the respective American embassy.<sup>21</sup>

The decade from 1978 to 1988 saw two further enlargements after 1973 to European Community, with the inclusion of Greece in 1981, and Spain and Portugal in 1986. The Community's monetary system was set up with the launch of the European Currency Unit (ECU) in 1979. The first elections for parliament by direct universal suffrage were also held that year.<sup>22</sup>

Developments in the 1980s triggered a new phase in US-EC relations, owing first to the relaunching of the EC with the passage and implementation of the Single

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<sup>20</sup> Horst G. Kenzler and Wolfram Kaiser, *The Transatlantic Declaration: A New Basis for Relations Between the EC and the USA*, *Aussen Politik*, Vol. 42, Quarterly ed. No. 4, p. 365.

<sup>21</sup> *Ibid.*, pp. 365-66.

<sup>22</sup> Nigel M. Healy (ed.), *The Economics of the New Europe* (London : Routledge, 1995), p. 45.

European Act in 1987 (SEA) and the progress of European political Co-operation, and second the democratic revolution in Eastern Europe. US and EC views diverged sharply when it came to the correct common western response to relations with the East. EC adopted West Germany's policy of *ostpolitik* as its own. First, Adenauer's *westpolitik* tied Germany closely to France, then Brandt's *ostpolitik* opened the way for co-operation with the Soviet Union and German Democratic Republic (GDR). These initiatives laid the ground work to Confidence and Security Building Measures (CSBM) in Europe which contributed to the easing of tensions with the Soviet Union and finally to the Helsinki Agreement in 1975.<sup>23</sup>

The Conference on Security and Co-operation in Europe (CSCE) process grew out of the cold war, but it also pointed forward to the new political order. Initially a bargain between the Soviet Union's desire for recognition of existing frontiers and the western desire for Soviet observance of human rights, the CSCE elaborated a new set of norms for interstate behaviour in Europe.

Other links were developing between East and West. Trade grew in the 1980s. Despite political restrictions, such as the Co-ordinating Committee on Export Controls (COCOM), it was important to both sides. The Soviet Union imported food and technological products from the west; Western Europe imported Soviet energy (Gas pipe line deal, 1982).

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<sup>23</sup> Werner Bauwens, Bruno Cloesen, Wim De Harr, Koen De Feyter, Oliver Paye and Nico Vertongen, the CSCE and the changing role of NATO and the European Union, NATO Review, Vol. 42, No.3, June 1994, p. 21.

The East European countries could not easily escape from the constraints on their economic system. Inefficient use of labour, wastage of energy, high energy intensity and heavy pollution were endemic, resulting from planned output targets irrespective of inputs. Resistant to innovation and weak in local management skills, their economies become incapable even of sustaining growth. The Communist regimes in eastern Europe grew more corrupt and democratized. They took strength from contacts with social movements in west.<sup>24</sup>

In 1988, Gorbachev's initiative opened the way for consideration of an entirely new approach to security in Europe, one that depended increasingly on co-operative structures and relationships and less on confrontation and military balance. Progress towards this more co-operative system developed in two parallel frameworks. One, the Conference on Confidence and Security Building Measures and Disarmament in Europe (CDE), concentrated on building up a structure of information exchanges, constraints and inspections that had begun in the adoption of voluntary Confidence Building Measures included in the 1975 Helsinki agreement on the Conference on Security and Co-operation in Europe (CSCE). The second, the negotiations on Conventional Armed Forces in Europe (CFE), succeeded the long running negotiations on Mutual and Balanced Force Reduction (MBFR) in 1989 as the framework for negotiating reduction in military forces from the Atlantic Ocean to the Ural Mountains.<sup>25</sup>

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<sup>24</sup> Hugh Mail, "Shaping the New Europe", (London : The Royal Institute of International Affairs, Pinter Pub., 1993), p. 15.

<sup>25</sup> Manfred Worner, The Atlantic Alliance on the new era, NATO Review, Vol. 39, No. 1, Feb. 91, pp.3-7.

"By the 1980s, the United States also experienced mounting trade deficits, this disinclination to bear a high cost became an outright antagonism against free riders".<sup>26</sup> At the same time, western Europe accelerated the implementation of its programme for further integration. The Single European Act (SEA) gained momentum to harmonise vast areas of activity in the European Community, ranging from immigration and border controls, to monetary union and competition policy. Significantly, the member states of the European Union (EU) began to debate a Common Foreign and Security Policy (CFSP), the creation of an European army, Eurocrops. On 1st January 1993, the Single Market Programme was launched for the entire European Community which integrated a wide range of political and economic areas. The United States felt its exporters were prejudiced in a number of areas, such as public utilities, television broadcasting, telecommunications and standards and certification, thus leading to fears of a "fortress Europe". With the integration of Europe, EU achieved the capacity to bargain against its military partner the United States of America in multilateral trade institutions like GATT. So while targeting "unfair traders" in its annual list, the United States has been most cautious about naming Europe. Indeed, the US has been most careful during sensitive negotiations either to remove it at very last minute or to place it on a secondary list of partners 'to watch'. This is most likely because the EC has been the only trade partner of the US to institute a bite of its own, to consistently implement counter sanction retaliatory measures, and to defend its interests by proactively escalating trade

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<sup>26</sup> Jarrod Wiener (ed.), The Transatlantic Relationship, Ch. The Transatlantic Partnership in the 1990s by Jarrod Wiener and Dan Hiester (London: McMillan, 1996), p. 2.



conflicts.<sup>27</sup> That is why in November 1992, in the midst of the bitter agriculture dispute of the Uruguay Round, Jacques Delors, the then president of European Commission, stated that "it is important for an adolescent Europe to say no to Big Brother".<sup>28</sup>

The year 1991 witnessed a swift change of political scenario in Eastern Europe. The end of the cold war, establishment of a generally more peaceful military, political and economic order in Europe brought about a shift from a cold war to a post-cold war international order in 1990s. In the 1990s, the Soviet army was not the overwhelming source from which security threats emanated and as such threats became more diffuse. A presence of over 300,000 US troops in Europe became difficult to justify to disgruntled voices in Congress. At the same time, while the US and EC remained deadlocked in the acrimonious agricultural negotiations of the GATT in February 1992, many Congressmen, ominously, for the first time, linked publicly the progress of the GATT negotiations to the number of US troops in Europe. The vice president (US) Dan Quayle warned, 'we will see the cold war replaced by a trade war',<sup>29</sup> which could not have occurred during the cold war.

The end of the cold war and the subsequent collapse of the Soviet Union in 1991, seems to have removed almost overnight, NATO's *raison d'être*. It no longer had the mission to defend the west from the Communist East. A question was raised about

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<sup>27</sup> Report on US barrier to trade and investment, Services of the European Commission Doc. No. 1 (April 94), p. 144.

<sup>28</sup> 'Leap into the unknown for nervous EC leadership', *Financial Times*, 5 November 1992, p. 8.

<sup>29</sup> Quayle Warns on EC-GATT talks, *Financial Times*, 10 February 1992, p. 1.

the relevance of NATO in the post-cold war era which acted as the conduit between Europe and the US. The Declaration of peace and co-operation which was agreed by NATO Heads of State and Government at the Rome Summit in November, 1991 stated that "the challenges which the new Europe will face cannot be comprehensively addressed by one institution alone, but only in a framework of interlocking institutions tying together the countries of Europe and North America".<sup>30</sup> Thus, NATO's January 1994 Brussels Summit Declaration while noting the end of the period of global confrontation embodied in the cold war, referred to the new causes of instability, tension and conflict that have emerged.<sup>31</sup> The post-cold war scenario poses no less challenge than the cold war period. With the break out of ethnic conflicts in eastern Europe (Yugoslavia), the active intervention of NATO and US was needed to bring peace. At the same time, Gulf crisis was needing intervention of the allied power in the matters of west Asia. So the summit launched initiatives like Partnership for Peace (PfP) and Combined Joint Task Forces (CJTF) to establish peace and democracy in the world.

In the economic sphere, the European Union achieved a milestone in the 1990s. With the ratification of Treaty of Maastricht in 1991 and coming into effect from November 1, 1993, EU became the leading actor in economic sphere. The common currency Euro, which came into effect from 1st January 1999 assumes a new responsibility in the global financial system. Though partially it came into effect with

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<sup>30</sup> Volker Ruhe, "Europe and the Alliance. Key factors for peace and stability", NATO Review, Vol. 41, No. 3, June 93, p. 17.

<sup>31</sup> Stanley Solan, "Transatlantic relations in the wake of the Brussels Summit", NATO Review, Vol. 42, No. 2, April 94, p. 27.

the eleven member countries (within EU) it tries to replace the old hegemony of the dollar. By the year 2002, if it becomes the common currency for entire European Union obviously it will set a new bipolar world currency system. So if the Euro transforms Europe into a world power, then the transatlantic relationship will also have to be restructured. Though the security link between Europe and the United States will continue to exist, both will need economic co-operation to rebuild themselves.

### **How Complex the Pattern is-**

Interdependence is a general concept drawing together economic as well as political aspects. The concept is inherently multidimensional. Yet the manifestations of interdependence are likely to take distinct forms; interdependence is likely to produce 'political' and 'economic' expressions which can be distinguished. Moreover, an interdependent relationship may have a stronger economic dimension, than a political or security one.

The concept of interdependence is defined by Robert O. Kechane and Joseph Nye in their book *Power and interdependence* (1977). They saw dependence a state of being determined, or significantly affected by external forces. 'Interdependence', they understood as a state of mutual dependence,<sup>32</sup> while complex interdependence has three main characteristics. Firstly, there are multiple channels of various types which connect

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<sup>32</sup> Robert O. Kechane and Joseph S. Nye, Power and Interdependence (Boston: Little Brown, 1977), pp. 29-36.

societies. Secondly, the agenda of international relations consists of multiple issues that are arranged neither in a clear nor in a consistent hierarchy. Finally, military force is not used by a government towards other governments within an interdependent region, though it might be used vis-à-vis outside countries. There are four elements to these processes: linkage strategies, agenda setting, transnational and transgovernmental relations and the role of international organisations.<sup>33</sup>

If we take carefully the US-EC relations, it may come close to the Kechane-Nye's concept of 'complex interdependence'. The relationship appears to display a profound level of interdependence, albeit one varying across policy sectors.

The US and EU relationship can be analysed within four interlocked environments. (A) Within the EU environment, a distinction remains between EU and national government policies and actions in relation to a third party such as the US. In economic sphere, the European Union acts as the collective institution to express the common interests of countries within European Union. Decisions on trade and investment in international fora are taken by the European Union. Trade disputes between European Union and other third parties such as the US are resolved through the dispute settlement procedures of WTO by the active involvement of European Union as an institution for protecting European interests at large. While on security and political issues, the national governments act on their own. Though the European Union achieved some leverage on politico-military affairs by the Treaty of Maastricht through

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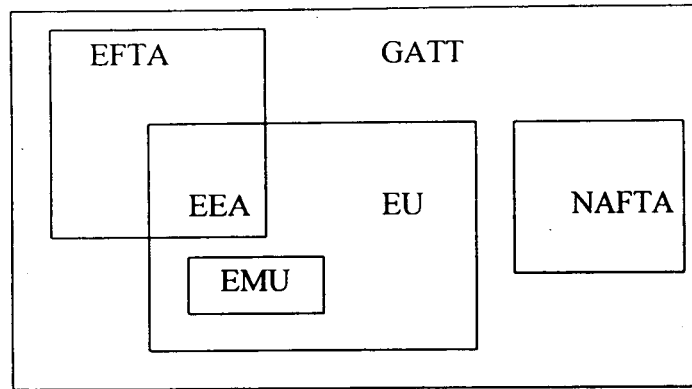
<sup>33</sup> Ibid., p. 37.

Common Foreign and Security Policy, it needs more on the part of national governments to delegate their power to EU in order to make it a full fledged supranational institution. The decisions taken by individual national governments to send their troops to Gulf area and the decision to recognise Croatia and Slovenia as two independent republics of Federal Republic of Yugoslavia shows that nations also act within their own spheres.

(B) The second environment is that of interactions between the EU and the US on political, security and economic matters. It involves biannual consultations between the presidents of the council and commission on the one hand and the US President on the other. At ministerial level, it includes biannual consultations between the European Union foreign ministers, commissioners and the US Secretary of State. The third way through which interaction between European Union and the United States is established involves Troika foreign ministers (Troika includes the current presidency of the council and the preceding and the following ones), consultation with the US Secretary of State on an adhoc basis at the beginning of each new European Commission presidency. The fourth one includes commission level talks through biannual consultations between the commission and the US government at cabinet level. On political level, it includes briefings by the presidency of European council to US representatives on European political cooperation (EPC) meetings at ministerial level. At last, it includes Congress and European parliament for the joint meetings decided upon by both to conduct their relationship.

(C) The third environment is the US foreign policy making process, within which policy towards the EU is elaborated. Although in USA, there exists a single powerful executive branch, it has not been without its difficulties in terms of policy coordination. There are also inter-agency issues. In the 1940s and 1950s, the State Department fulfilled an overall policy coordination role for the United States economic policy. But with the growth of the United States' economy more and more departments of government began to assume an active role in policy coordination. By the 1970s, the State Department's role had been significantly reduced. There had been a progressive fragmentation of decision making among Commerce, Agriculture, Treasury and other Departments. In the field of trade policy, the United States Trade Representative's office (USTR) was established to coordinate trade negotiations. In addition, there had been progressive shift in power away from the executive to Congress, especially on trade policy measures. So most of the time, these institutions conduct commercial policies of the United States with third parties such as the European Union.

(D) Finally, there is wider international environment in so far as it impinges on the US-EU relationship. As the US and EU member countries are the members of international organisations, they conduct their trade and economic relations through multilateral fora like World Bank, IMF and WTO.



**Fig. 2.1 Regional trade blocs within the broader framework of global integration.**

Figure 2.1 given above best represents the complexity of interdependence. While regional trade blocs can be taken as zones of differential integration within the broader framework of global integration, which may overlap to a greater or lesser extent. The EU as one trade bloc within the General Agreement on Tariffs and Trade (GATT) framework enjoys a special relationship with European Free Trade Area (EFTA), paralleled by other blocs like NAFTA and embracing a subset of member states which proceeded to an exclusive EMU.<sup>34</sup> This highlights the fact that economic integration can take place at different rates between different groupings. The complexity lies in the

<sup>34</sup> In 1991, an effort was made by Jacques Delors, President of the then European Commission to integrate the European Union's market with European Free Trade Area. As a result of which a decision was taken in October 1991 to establish European Economic Area. The European Economic Area came into force in 1994 by enabling free movement of goods, services, capital and people without restrictions. In the history of European Union's expansion, the year 1973 witnessed Britain and Denmark's membership to European Union which were previously the founding members of EFTA. In 1995, another round of expansion led Austria, Finland and Sweden to be the members of European Union which were previously members of EFTA. Now, these four countries are members of EFTA but established their relationship with EU through European Economic Area as per the agreement reached between the two. These countries are Norway, Iceland, Switzerland and Liechtenstein.

fact that countries pursue their independent foreign policies at the bilateral level. Simultaneously, they also pursue trade relationship with another country while remaining within the multilateral trade institutions like GATT. The member countries also establish their relationships with other member countries while remaining within the regional trade blocs like EU.

The transatlantic partnership in the 1990s consists of a complex web of institutions wherein the United States and Europe co-operate in the sphere of politics, security, economics and culture. These institutions have shown a greater dynamism in the 1990s than perhaps at any time since their creation. Responding to changed security realities, the North Atlantic Treaty Organization (NATO) was enlarged to encompass the states of Central and East European Countries (CEECs) through the North Atlantic Cooperation Council (NACC) in December 1991 and the partnership for peace (PfP) programme in January 1994. The main transatlantic partners are also the main players in the economic organisations of the United Nations, the International Monetary Fund (IMF), World Bank (IBRD) and were the dominant forces behind the transformation of the General Agreement on Tariffs and Trade (GATT) into the World Trade Organization (WTO) in January 1995.

So the beginning of the decade 1990 witnessed a great many changes out of which the EU has emerged as a major force on the world economic stage and is becoming increasingly more acceptable as a political voice. "Many security experts saw ugly ghosts of the nineteenth century looming up again. Experts like Zbigniew



Brzezinski hold the view that the Eurasian continent is a giant chess board on which America's future as the first and the last global super power is going to be decided.<sup>35</sup>

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<sup>35</sup> Margarita. Mathiopodos, The USA and Europe as global players in the twentieth century, Aussen Politik (2/98), p. 42.

## **Chapter - 3**

### **ECONOMIC INTERDEPENDENCE BETWEEN THE EUROPEAN UNION AND THE UNITED STATES IN THE POST COLD WAR ERA**

The objective of this chapter is to apply the concept of complex interdependence to US-EU economic relationships in the 1990s. The chapter focuses on four main areas of discussion:

- (1) It explores the way in which the EU's economic weight has grown relative to that of the United States and the ways in which this has shaped their mutual perceptions.
- (2) It assesses systemic differences between the EU and the US and the ways in which these have become more obvious in the post cold war period.
- (3) It explores the evidence for the growth of economic blocs, centered in this case on the USA and the European Union and their expression - either an expansive or a defensive form of regionalism within the world economy.
- (4) Finally, it analyses problems of policy coordination, first at the level of government in the USA and the European Union, and then in the context of calls for increasing international coordination through multilateral fora.

There has always been a close link between trade and security in US-European relations. In 1990s, the link was unusual in that the most persistent calls for a Transatlantic Free Trade Area (TAFTA) came from politicians and security experts seeking to strengthen and consolidate transatlantic relations at a time of weakening of security ties in the post cold war era.

The commercial policy of European Union and United States can hardly be considered in isolation. It must be seen in the context of a complex set of factors. The central role of both the US and EU in the international economy mean that bilateral relations cannot be considered without reference to their impact on third countries or in the multilateral system, such as the World Trade Organization (WTO) and the Organization for Economic Co-operation and Development (OECD).

US and EU trade and investment relations are characterised by two contradictory trends. On the one hand, there is an ever closer economic interdependence which creates a high level of policy interdependence. On the other hand, there appears to be a tendency towards increasingly fractious relations associated with claims and counter claims about the construction of regional trading blocs. The central question for US-EU relations, therefore, is whether the two leading heavy weights of the international trading system will cooperate as trading partners or seek to score political points of each other in a way that may ultimately undermine business confidence in continued stable economic links.

To begin, what do we mean by the US-EU economic partnership? The United States and Europe traded with one another long before the second world war. Then what made post-war economic relations different? The pre-war economic relationship was between the United States and individual European states. There was neither a legal nor a political framework for such a relationship. Indeed, a breakdown of the international economic order occurred in the 1930s with the demise of the League of

Nations and functional co-operation, trade protectionism and other forms of economic nationalism wreaking havoc upon the world trading system.

The post war US-European relationship became a partnership because it took on a legal and political framework which entailed commitments through the International Monetary Fund (IMF), Organization for Economic Co-operation and Development (OECD), General Agreement on Tariffs and Trade (GATT) and Coordinating Committee (COCOM). It has simultaneously political, ideological and security objectives and dealt with exclusive bilateral links between the United States and the European Union. The economic partnership helped to contain former Soviet influence by strengthening the economic and thus political foundations of post-war western Europe. One of the most striking aspects of the US-EU economic relationship was and is its implications for the broader set of political and security links between the United States and European Union members.

The security imperative in transatlantic relations during the cold war could be seen as helping to moderate commercial disputes. Faced with the need to maintain a common front vis-à-vis the USSR, disputes over trade in specific sectors or differences over how to conclude trade negotiations were played down so as not to disturb transatlantic political and security relations. Security took precedence, so that differences over how to conclude the Tokyo round of trade negotiations were overcome so as not to jeopardize the two track strategy of NATO (to contain former USSR and to establish a liberal economic order in western Europe). It has therefore been argued (Blake and Walters, 1987) that the end of the cold war and the end of the security

imperative could result in greater trade tensions.<sup>1</sup> In reality, the growing intensity of transatlantic commercial links has provided a disincentive against trade wars. The United States and the EU emerged as two dominant forces in international trade. Together, they account for about half of the world trade, the EU 37 per cent and the US 14 per cent in 1997.

**Table 3.1: Total World Trade of the EU and the US  
as Percentages of Total World Trade, 1950-97**

	1950	1955	1960	1965	1970	1975	1980	1985	1990	1995	1997
EU	16	34	36	40	40	38	38	35	44	40	37
US	16	15	15	14	14	13	12	15	13	13	14

**Source:** International Financial Yearbooks (Washington: International Monetary Fund, 1988, 1989, 1990). WTO Annual Report 1998.

Table 3.1 given above depicts the total world trade of the European Union and the United States from 1950 to 1997 in percentage which shows a continuous increase of European Union's world trade share from the 1950 to 1970. It has increased from 16 per cent in 1950 to 40 per cent in 1970. There is two fold increase in the percentage of share of the European Union to the world trade. The table shows that in 1997, total share of the United States and European Union in the world trade is above 50 per cent. There exist a high degree of interdependence between the European Union and the United States. Two way trade was some \$ 184 billion in 1990. The European Union

<sup>1</sup> David H. Blake and Robert S. Walters, The Politics of Global Economic Relations (New York: Prentice Hall, 1987), p. 9.

accounts for 25 per cent of US imports and the US 18 per cent of European Union's exports (see Table 3.2), while in 1997, the two way trade between EU and the United States reached to \$ 303.9 billion accounting for 19 per cent of total US trade share with EU.

### **MULTILATERAL INSTITUTIONS AND BILATERAL PROCESSES OF US-EU ECONOMIC RELATIONS:**

The United States and European Union economic relations are conducted in two spheres. In the multilateral sphere, the US and EU members as members of international organisations and regimes abide by certain rules, engage in consultations and negotiations and make common policies. In the bilateral sphere, the United States and European Union are engaged in economic summitry, diplomacy, negotiations, consultations, conflict resolution and policy co-ordination. While the regimes governing US-EU trade relations are found in the multilateral rather than bilateral sphere, the formal bilateral sphere is characterised by a process, not an institution of conducting relations. The multilateral sphere consists of both processes and institutional structures like WTO, IEA, UNCTAD and EBRD.<sup>2</sup>

### **MULTILATERAL FORA:**

Even before the beginning of the establishment of the US-EU relationship in 1951 with the founding of the ECSC, the United States and the future EU members were

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<sup>2</sup> There does not exist any formal institution for the economic relations between European Union and the United States in bilateral sphere. The Transatlantic declarations and other forms of relations are only processes to establish an institution like Transatlantic Free Trade Area (TAFTA) for both European Union and NAFTA countries in near future.

engaged in multilateral organisations dealing with international codes for labour through International Labour Organisations (ILO) 1919, currency stabilisation through International Monetary Fund (IMF), 1945, International economic development through FAO, 1945, economic reconstruction through OEEC, 1948, international trade liberalisation through GATT, 1948 and collective self defence through NATO, 1949.

The most relevant multilateral fora are the WTO (the new form of GATT), NATO, COCOM, OECD, Western Economic Summits (G-7) and CSCE. In all the multilateral organisations and meetings the US and EU take part as members of the group and not exclusively to the concerns of bilateral relations between the two. Of all the multilateral fora established after the second world war, GATT was the most central to US-EU relations. US-EU trade relations are dependent on the GATT as a framework of rules, dispute settlement procedures and trade liberalisation. Despite the many challenges world wide that put the GATT system in some doubt, it had provided the US and EU a framework to avoid commercial chaos.

It is at the WTO that the US and EU submit trade disputes to bilateral consultations for resolution and if that fails then to panels which investigate and make nonbinding opinions. It is also at the WTO that the two partners engage in periodic rounds of negotiations to reduce trade barriers.

WTO sets up a panel of independent experts to examine disputes, reach conclusions and in some cases make recommendations for a solution. The dispute settlement process has five stages: consultations and conciliations enabling the parties to settle their dispute through bilateral consultations and if that fails, WTO sponsored

conciliation; establishment of a formal panel. If bilateral settlement cannot be reached after the panel findings are made then the findings are circulated at the next meeting of the WTO council for decision to adopt the report. As a last resort, the complainant may request WTO authorities to suspend concessions or other obligations with respect to the defendant at an amount of trade equivalent to the traded item in dispute.<sup>3</sup>

The United States and European Union are heavily involved in WTO proceedings. They are the two largest and most powerful parties to the Multilateral Trade Negotiations (MTNs) and are the two most involved parties in dispute settlement procedures. The majority of US-EU trade disputes make their way to WTO for possible settlement. The United States has participated in more GATT/WTO dispute settlement cases than any other single GATT member, most often as the complainant. From 1948 to 1985, it was a party to more than one half cases. The US filed complaints in 33 cases and was named in 13 complaints. The most frequent target of the United States complaints were EU, against which about two-thirds of US complaints were filed. In 14 cases, US complaints were concerned with farm products and 10 of these were against EU. The second ranking target of US complaints was Japan which was the subject of five US complaints.<sup>4</sup>

In the Uruguay Round in September 1986, new issues related to production, employment and trade in services (e.g. financial service, transport, tourism, telecommunications or freelance services) were discussed. The new issues on Trade

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<sup>3</sup> Gerd Langguth, "Will GATT System Survive?", Aussen Politik, 3rd Quarter, Vol. 43, 3/92, pp. 220-222.

<sup>4</sup> Kelvin Featherstone and Roy H. Ginsberg, The United States and the European Union in the 1990s: partners in transition (London: McMillan, 1996), p. 127.



Related Intellectual Property Rights (TRIPs) and Trade Related Investment Measures (TRIMS) were part of the discussion to protect patent rights from piracy in many developed and developing countries. As US, the largest Foreign Direct Investor within European Union contributing to 40 per cent of the investment and generating two million American jobs by 1988 went through an extensive discussion within the GATT framework with its trade ally (EU) on the issues like General Agreement on Trade in Services (GATS), liberalisation of telecommunications and insurance sectors. The inclusion of audio-visual services on the negotiating agenda of the Uruguay round raised concerns about 'cultural security'. The audio-visual services issues concerned two European Directives, the Television Without Frontiers' Directive of 3 October 1989 (which came into force on 3 October 1991) and various media programmes. The former established a quota of 51 per cent for European content in television programmes aired in the EU. The latter is a subsidy programme to assist in the funding, production and distribution of cinema films, mainly by assisting cooperative productions among member states. The television directive is perhaps more commercially distorting, since the quota is emphatic: it restricts the broadcast of US television programmes.<sup>5</sup>

The US therefore challenged the 'Television Without Frontiers' Directive' in the GATT on 23 October 1989 on the basis that its local content quota violated the GATT. The European Union retorted that television programming is exempted from the GATT because it is a powerful medium to define and shape national values. The debate

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<sup>5</sup> Jarrod Wiener, *Transatlantic Trade: Economic Security, Agriculture and the Politics of Technology*, p. 146 in Jarrod Wiener (ed.) *The Transatlantic Relationship* (London : Macmillan, 1996).

continued in 1990 in the services negotiations of the Uruguay round as the Group of Negotiators on Services (GNS) created a special audio visual working group to study the issue. The draft services agreement agreed to the 'special cultural status' of audio-visual services, which the European Union endorsed. The EU, with the support of the European Parliament, sought the inclusion of a 'special clause' in the final services agreement. France, however, was not satisfied with the mere recognition of the specificity of culture industry. They desired audio-visual services to be excluded completely from the GATT. At the eleventh hour, on 13 December 1993, President Bill Clinton agreed to EU stand on this issue, and withdrew the United States' insistence on a code for audio-visual services.

The language in which the debate was framed is perhaps more interesting than its outcome. The US argued that the product of its audio-visual 'entertainment industry' is a commodity like any other and should therefore be subject to the liberal principles of the GATT. Many in the EU, however, and particularly the French, insisted on referring not to an audio-visual industry but to a 'cultural industry'. The argument stated by France was "If culture cannot be treated as an exception in GATT negotiations, Europe's cultural identity will die".<sup>6</sup>

The motivation of the US to ensure an export market for its entertainment industry, is more or less, motivated by the profit it earns from the EU markets. Films are the second export earner for the US, after defence industries. In 1992, the US earned \$ 3.15 billion on the sale and royalties of television, cinema and video in the EU.

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<sup>6</sup> Ibid., p. 147.

Though the vast majority of complaints are levelled against EU by the United States, the European Union has also its own complaints against the United States. The year 1997 saw three complaints lodged by European Union against United States which were related to: tax treatment for foreign sales corporations, United States measures affecting imports of poultry products, harbour maintenance tax by the United States under the Dispute Settlement Body (DSB) of WTO. In the year 1998, European Union lodged complaints on measures affecting Textiles and Apparels products by the United States under WTO.

Whereas GATT / WTO has provided a multilateral framework for trade liberalisation and dispute settlement for US and EU, NATO has provided the security umbrella. At NATO eleven out of the fifteen European Union members form the majority of the sixteen member organization and work with the United States on many issues that have an impact on bilateral and multilateral economic relations: government procurement, product standardisation, restrictions on exports of strategic products and economic sanctions against aggressor states (case of Iraq during the Gulf war). In the integrated structure, nine EU members excluding France, Spain, Ireland, Finland, Austria and Sweden and the United States are committed to collective self-defence. Within NATO structure, export controls of military sensitive products to certain countries has been a source of concern and consultation, while co-ordinating committee (CoCoM) provided the venue for such co-ordination between European and United States.

At the conference on Security and Co-operation in Europe (CSCE) where the European Union has played the central and dynamic role since the negotiations began that produced the 1975 Helsinki Accords, the EU works with the United States and other member countries in promoting trade and economic, scientific, industrial and environmental co-operation between the East and West Europe. In its 1992 summit meeting at Helsinki, it was decided to improve contacts and practical co-operation with appropriate international organisations (NATO, EU, NAFTA) by inviting them to attend CSCE meetings and seminars as guests of honour, with appropriate nameplates indicating their organization and to give presentations. On 21 November 1990, the CSC states signed Charter of Paris for a New Europe which reassigned the content of the three previous Helsinki baskets (trade, security and human rights) to seven new sectors like human dimension, security, economic co-operation, environment, culture, migration of workers and Mediterranean.<sup>7</sup>

The US and EU have another opportunity to interact in the Organisation for Economic Co-operation and Development (OECD). The OECD is a forum for industrialised democracies to consult on and coordinate a broad range of economic issues. The objectives of this organisation are to: promote the members' financial stability and economic growth; promote economic development of LDCs; and expand multilateral, non-discriminatory world trade. Heir to the old 1948 organisation for European Economic Co-operation (OEEC), the OECD conducts economic studies.

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<sup>7</sup> Werner Bauwens, Bruno Colsan, Wim De Haan, Koen De Feyter, Oliver Paye, Nico Vertongen, "The CSCE and the changing role of NATO and the European Union". *NATO Review*. No. 3, Vol. 42, June 94, pp. 21-25.

prescribes economic policy and makes economic forecasts. It also promotes an open, non-discriminatory, multilateral trade order.<sup>8</sup> The OECD Convention set out the objective of pursuing the liberalisation of capital movements. This found expression in the 1961 code on Liberalisation of Capital Movements, which requires member countries to grant any authorisation required for the conclusion or execution of transactions and for transfers of capital, including direct investment. In 1976, the OECD produced a Declaration on International Investment and Multilateral Enterprises to remove all controls on capital movements by 1990. The OECD has legal agreements to which the European Union members and US are signatories. Since 1990, the OECD has been committed to promoting economic reforms in Central and Eastern Europe States (CEES) and OECD observers point to the organisation's potential role as a productive force in the transformation of the economies of the former Soviet bloc states (CIS). The organisation provides an important forum for the US and EU to meet and consult on matters of multilateral significance (GATT Round, aid to Eastern Europe) and bilateral significance.

Other Multilateral Fora in which the US and / or the EU are members, but whose work is not directly and immediately relevant to the US-EU relationship include the IMF and the World Bank, UNCTAD, The European Bank for Reconstruction and Development (EBRD) and the International Atomic Energy Agency (IAEA). At the World Bank founded in 1944 to pave the way for post war reconstruction, the US and EU states, among the other 150 member countries, finance Third World economic

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<sup>8</sup> Stephen Woolcock, Market Access Issues in EU-US Relations: Trading Partners or Trading Blows? (London: RIIA, Pinter Publishers, 1991), p. 121.

development projects. The United States and European member states together have the lion's share of voting power: 15.1 per cent for the United States and 29.7 per cent for the European Union members, while Japan's share is 8.7 per cent. At the IMF, also founded in 1944 to help the Europeans meet their debt obligations, the US and EU members join 150 other members in providing loans to countries with payment deficit. Here too, the US and European Union again grab the lion's share of voting power; 19.6 per cent for the US and 28.9 per cent EU member states while 6.1 per cent goes to Japan.

At UNCTAD, founded in 1974 as a UN body to promote international trade as a means of supporting third world economic development, the US and EU states are among other UN members who exchange views on development issues and are involved in various areas under UNCTAD.

**BILATERAL FORA:** Formal bilateral relations began with the exchange of diplomatic recognition between the United States and the ECSC in 1951 and the setting up of an ECSC mission to Washington and a US mission to the ECSC high authority in Luxembourg which later became the US mission to the EU Commission in Brussels. Since then the US and EU have raised and expanded the level of their diplomatic interactions. There are at least 25 fora in which the US and EU interact among them eight are bilateral. For the purposes of studying economic relations, the most relevant bilateral fora are (a) the biannual US-EU high level meetings among the EU Commission President and relevant Commissioners in one side, and on the other, the US Secretary of State and relevant cabinet members; (b) the US-EU biannual summits of the EU council president, the EU Commission president and relevant EU

Commissioners, and the US president, Secretary of State and relevant cabinet members; and (c) biannual meetings of US Secretary of State and EU Foreign Ministers with EU Commission president. There are also adhoc consultations between the Troika and the United States Secretary of State.

On November 23, 1990, the Transatlantic Declaration pulled under one rubric the bilateral principles and objectives of US-EU economic relations and the levels, frequency and content of bilateral consultations. Although US administration had hoped for a treaty institutionalising US-EU relations, the Declaration was all that could be reached by negotiation. In the realm of economics, the Declaration commits the US and EU to

- (1) promote market principles, reject protectionism and expand, strengthen and further open the multilateral trading system;
- (2) inform and consult each other on important matters of common economic interest with a view to bringing their positions as close as possible and to co-operate in appropriate international bodies;
- (3) expand their dialogue to include discussion on matters such as technical and non-tariff barriers to industrial and agricultural trade, services, competition policy, transportation policy, standards, telecommunications, high technology and other relevant areas; and
- (4) strengthen mutual co-operation in exchanges and joint projects in science and technology, including research in medicine, environment protection, pollution

prevention, energy, space, high technology physics and the safety of nuclear and other installations.<sup>9</sup>

The Transatlantic Declaration serves inter alia to fill the legitimization vacuum for the US presence in Europe, which had been created by the end of the East West Conflict in its traditional post war structure. As the American government wants to maintain its politico-military and economic presence in Europe a closer cooperation with the EU, which is the intention of the Transatlantic Declaration, helps stabilise the American European policy by pointing out the mutual benefits of partnership in harmony. The Declaration points to a form of division of labour, which encompasses the political, economic and in the final analysis, medium term military cooperation on the basis of equal partnership.<sup>10</sup>

The 1990 Transatlantic Declaration provides a framework for a bilateral relations between EU and US, but it is neither a binding treaty nor an institutional arrangement. As a result, the United States and EU mostly rely on multilateral institutions to provide a legal context for economic relations.<sup>11</sup>

In the year 1998, another round of negotiation between the European Union and the United States took place because of the initiatives taken by Sir Leon Brittan to give a concrete shape to bilateral trade relations between the two trading partners on the Most Favoured Nations (MFNs) status basis under the umbrella titled New Transatlantic

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<sup>9</sup> Horst G. Krenzler and William Kaiser. 'The Transatlantic Declaration: A New Basis for Relations Between the EC and the USA' Aussen Politik, Quarterly No. 4, Vol. 4291, pp. 363-71.

<sup>10</sup> Gunther Hellman, EU and USA NEED Broader Foundation: The Case for a "Transatlantic Treaty", Aussen Politik No.3, Vol. 45. 94. pp. 236-238.

<sup>11</sup> *Ibid.*, p. 238.



Market Place Agreement (NTMA). The NTMA does provide a map of potential areas of negotiations short of a full fledged Free Trade Agreement (FTA). The major provisions of these agreements are:

- (1) A commitment to eliminate by the year 2010 all industrial tariffs on an MFN basis.
- (2) A commitment to negotiate a Free Trade Area in services, including the provision of an establishment of liberalisation of market access and elimination of regulatory obstacles on the basis of mutual recognition of the major rules for national regulatory systems.
- (3) Liberalisation beyond existing WTO rules in the areas of government procurement, intellectual property and foreign direct investment.
- (4) Widespread removal of technical barriers to trade such as technical specifications and performance requirements, accreditation, information and labelling of goods and specifications concerning test procedures.<sup>12</sup>

But the agreement on New Transatlantic Market place should not be taken at par with the institution like Transatlantic Free Trade Area (TAFTA). The attempt for NTMA is a preliminary step to visualise TAFTA in near future which can be a linchpin for giving new dimension to the US-EU relationship. It is argued by some European and American policy makers that the establishment of Free Trade Agreement could become the central mechanism to reinforce weakening Euroatlantic economic and security ties after the cold war. As Belgium Prime Minister Jean Luc Dahaene has

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<sup>12</sup> Claude E. Barfield, The Deceptive culture of a Transatlantic Free Trade Agreement: A US perspective, *Intereconomics*, Vol. 33, No. 5, Sept./October 1998, p. 207.

stated, "the glue, which kept us (Europe and the United States) together so long, has lost its strength and a new forum would be necessary to conduct US and EU relations".<sup>13</sup>

On the trade front, it is also argued by Jeffery J. Schott that the EU and the United States have similar levels of industrial and technological development, national income, legal systems and social customs so it would be easy to negotiate greater liberalisation through bilateral fora compared to the unwieldy negotiations among highly diverse economies in the 135 member WTO.<sup>14</sup>

#### **Bilateral trade and investment:**

There is a high degree of interdependence between the EU and the US. Two way trade was some \$ 183.9 billion in 1990 which reached to \$303.9 billion in 1997. The table 3.2 depicts two way trade between the United States and the EU, Canada and Japan, as a percentage of total US trade with the world from 1981 to 1990. The EU is the largest trading partner of the United States, although Canada has been close on the EU's trail. Indeed, US-Canadian trade exceeded US-EU trade in value from 1983 to 1985 and from 1993 to 1997. The EU accounts for 20 per cent of US exports and the US for 18 per cent of EU exports.<sup>15</sup> "More importantly, there is no structural deficit in transatlantic trade, whether visible or invisible as there is in the case of transpacific trade". For nearly twenty-five years, between 1958 to 1982, the US maintained a visible

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<sup>13</sup> Ibid., p. 209.

<sup>14</sup> Jeffery J. Schott, Reflection on TAFTA in Bruce Stokes (ed.) Open for Business: Creating a new Transatlantic Marketplace (New York : Council on Foreign Relations, 1996), p. 32.

<sup>15</sup> Thomas, J. Dueterberg, "Prospect for an EU-NAFTA-Free Trade Agreement", Washington Quarterly, 18(2), Spring 95, p. 72.

trade surplus with the EU. In 1980, US exports to the EU exceeded imports by a factor of 1.74.<sup>16</sup>

**Table 3.2: Two way trade between the US and the EU, Canada and Japan as percentage of total US trade with the world, 1981-97 (\$ US billion)**

Year	EU	%	Canada	%	Japan	%	World
1981	92.9	19	83.9	17	58.8	12	487.9
1982	88.0	19	80.0	18	58.4	13	449.4
1983	86.2	19	88.5	19	62.1	14	452.6
1984	107.9	20	110.8	21	79.4	15	535.0
1985	114.2	20	120.0	21	89.8	16	556.5
1986	125.6	21	121.3	21	104.9	18	585.2
1987	137.3	21	127.8	20	110.9	17	646.0
1988	155.3	21	148.9	20	125.1	17	747.4
1989	166.5	20	163.0	20	134.6	16	817.4
1990	183.9	21	170.2	20	134.9	16	865.0
1991	182.2	19	169.6	18	137.3	14	930.0
1992	189.1	18	181.4	18	141.3	14	1002.0
1993	203.4	19	213.7	20	150.5	14	1068.2
1994	130.5	19	249.3	20	159.2	13	1201.8
1995	160.4	19	274.3	20	191.4	14	1355.5
1996	275.3	19	292.2	20	185.4	13	1447.0
1997	303.9	19	321.4	20	189.9	12	1587.7

**Source:** Data from the US, International Trade Commission and the US Department of Commerce in current prices (1985, 1989, 1990 & 1993). WTO Annual Report, 1998.

<sup>16</sup> Stephen Woolcock, *Market Access Issues in EC-US Relations* (London : Pinter, 1991), p. 7.

(a) **Agriculture and Manufactures:**

In 1989, US exports of manufactures totalled \$ 360 billion, of which some \$ 87 billion went to the EU. Manufactures accounted for 25 per cent of US exports to the EU and agricultural products 20 per cent.<sup>17</sup> Table 3.3 shows the agricultural exports and imports between two partners from 1980-97. The year 1997 witnessed a tremendous change in the European Union position to US in agricultural exports and imports. While in the 1980s, it was the largest receiver of US agricultural exports, its position dropped to second in the beginning of the 1990s. In receiving US agricultural exports, its position is superseded by Japan, In imports, share of Canada increased relative to European Union. In the 1980s, EU was the largest share holder to the United States agricultural imports but in 1992, EU position declined to second. Canada rose to the first position by holding largest share in US agricultural exports, while Japan's position remain stable from the year 1980 to 1997 in terms of both imports and exports.

**Table 3.3: Share of US agricultural exports to imports from EU, Canada and Japan, 1980-97 (in percentage)**

	1980	1981	1982	1983	1984	1985	1986	1987	1988
<u>Exports</u>									
EU	27	26	28	25	21	22	25	24	20
Canada	5	5	6	6	6	6	7	7	6
Japan	15	15	15	17	17	18	19	20	20
<u>Imports</u>									
EU	14	15	18	18	18	20	20	20	20
Canada	6	7	9	9	9	9	9	11	11
Japan	0.6	0.7	0.8	1	1	1	1	1	1

<sup>17</sup> Ibid., p. 8.

	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>Exports</b>									
EU	20	21	21	20	20	18	17	15	16
Canada	8	9	11	10	10	11	11	10	12
Japan	20	20	21	21	20	20	22	21	20
<b>Imports</b>									
EU	18	16	16	17	15	15	13	14	14
Canada	12	15	18	18	23	25	30	31	30
Japan	1	1	1	1	1	1	1	9	1

**Source:** US Department of Commerce, 1988. US International Trade Commission, 1993. WTO Report, 1998.

The table given above shows a downward trend of US agricultural exports to EU from 1982 to 1997. In 1982, it was 28 per cent of the total share of US agricultural export which went to EU while it became 16 per cent in 1997. Still interdependence exists between EU and US while taking total amount of share in agriculture (in percentage) in comparison to Canada and Japan who are also the largest trading partners of United States. The reduced share of the EU in the exports of US farm products has been politically explosive in the US farm belt, which blames the Common Agricultural Policy (CAP) for its reduced share in that historical market.

**Table 3.4: Share of US manufactures exports to imports from EU, Canada and Japan, 1980-97 (in terms of percentage)**

	1980	1981	1982	1983	1984	1985	1986	1987	1988
<b>Exports</b>									
EU	25	22	22	23	22	22	23	24	24
Canada	21	23	21	26	28	29	28	27	25
Japan	6	6	6	7	7	7	9	8	9
<b>Imports</b>									
EU	24	22	22	21	21	22	22	22	21
Canada	20	21	21	21	21	20	18	17	17
Japan	23	25	25	24	24	26	27	26	25

	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>Exports</b>									
EU	23	22	24	22	21	23 *	21	20	21
Canada	25	24	23	23	22	24	24	23	24
Japan	9	7	9	8	8	9	9	9	8
<b>Imports</b>									
EU	21	22	22	22	21	21	19	20	20
Canada	16	17	18	16	19	17	16	16	16
Japan	23	24	22	19	20	18	20	18	17

**Source:** US Department of Commerce (Washington 1988, 1993).  
WTO Annual Report, 1998.

Manufactures are another area in which both the parties are dependent upon each other. For the United States, the most important sectors are aircraft and aircraft parts, followed by data processing equipment, internal combustion engines, electronic equipments and organic chemicals. The table 3.4 shows the import-export balance in manufactures.

Table 3.4 shows that EU supplies about one fifth of total US imports in manufactures while the largest share of supply is with EU, Japan contributes nearly 17 per cent of US manufactures imports and Canada contributed nearly 16 per cent in 1997.

While Canada receives the largest share of US manufactures, EU is at the second position holding 21 per cent of the total US manufactures exports in 1997.

(b) Services: The interdependence between EU-US is even higher in services, where US exports totalled \$ 230 billion in 1997, of which nearly one third or \$ 76 billion went to the EU. The US interest in liberalizing trade in services clearly stems

from the country's sizable surplus in this sector, compared with its persistent trade deficit in manufactures. In 1997, it had a surplus of \$ 6 billion in business services related to information technology. The United States interest in intellectual property reflects its worldwide \$ 22 billion surplus from royalties (TRIPs), of which revenue from the EU accounts for half. Likewise, the disputes over EU's broadcasting directive, which set a high ceiling on US sales of motion pictures and television programmes to Europe, touches on the interests of a sector in which the US had a surplus of nearly \$ 5 billion in 1997.<sup>18</sup>

For the EU, the strongest service sectors are travel and insurance. It had a surplus of \$ 4.5 billion with US in 1997 from the travel (expenditure by visitors). There is also a surplus of \$ 5 billion in 1997 with US insurance premium receipts, most of which went to British firms.<sup>19</sup>

In telecommunications services the US runs a deficit with the EU about \$ 1.7 billion in 1997, as with most other countries, owing to the fact that international charges are lower in the United States than in the more regulated EU telecommunications services, so that there are more outgoing calls from the US than vice-versa.<sup>20</sup>

#### **The US balance of trade with EU:**

Table 3.5 given below depicts United State's total share to EU in trade with specific reference to imports and exports. The United States merchandise trade balance

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<sup>18</sup> WTO Report, 1998.

<sup>19</sup> WTO Report, 1998.

<sup>20</sup> IDATE, IMO Report, 1998 URL:<http://WWW.earn.net/EU>.

with the EU went into deficit from 1983, while in 1981, trade balance was in favour of United States with \$ 9.2 billion surplus against EU. In 1982, the trade balance was also in favour of United States with a negligible amount of profit (\$ 3.4 billion) while consecutively from 1983 to 1989, US trade deficit started with a marginal increase except in the year 1990 with \$ 2.3 billion trade surplus in favour of United States. In the years 1991 and 1992, the trade balance was also in favour of United States. US received \$ 12 billion in 1991 and \$ 5.5 billion in 1992 as trade surplus from the total merchandise trade with European Union. But from the year 1993 to 1997, trade balance went into deficit again. In the year 1997, it touched a new height of \$ 21.1 billion.

**Table 3.5: US balance of trade with the EU, 1981-97 (\$ US billion)**

Year	US exports to EU	US imports from EU	Balance
1981	50.6	41.4	9.2
1982	45.7	42.3	3.4
1983	42.4	43.8	-1.4
1984	44.8	56.9	-12.1
1985	46.7	67.5	-20.8
1986	50.2	75.4	-25.2
1987	57.2	80.1	-22.9
1988	71.3	84.0	-12.7
1989	82.5	84.0	-1.5
1990	93.1	90.8	2.3
1991	97.1	85.1	12
1992	97.3	91.8	5.5
1993	97.2	106.2	-9
1994	109.6	120.9	-11.3
1995	123.6	136.8	-13.2
1996	127.9	147.4	-19.5
1997	141.4	162.5	-21.1

**Source:** Data from US International Trade Commission (1985, 1989, 1990, 1993).  
WTO Annual Report, 1998.



## **INVESTMENT:**

The US and the EU trade and investment continue to expand greatly. In 1994, total two way trade and investment was over \$ 570 billion, a hundred per cent increase over 1985 levels in real terms. By 1990, some 38 per cent of the stock of US foreign investment was in the EC, up from 18 per cent in 1960. Over the period 1985-89, some 40 per cent of US foreign investment went into EU. In other direction, no less than 58 per cent of the total FDI stock in the United States was of EU origin.<sup>21</sup>

Investment interdependence between the United States and EU more tightly enmeshes their economies than does bilateral trade. There is no larger investment partnership in the world than between these two.

**Table 3.6: US Foreign Direct Investment (in \$ US billion and per cent total)**

	1990	1994
<b>Inward FDI in US from:</b>		
EU-15	\$ 229 (58%)	\$ 285 (57%)
Canada	\$ 30 (8%)	\$ 43 (9%)
Asia-Pacific	\$ 93 (24%)	\$ 118 (24%)
<b>Outward FDI by US in:</b>		
EU-15	\$ 184 (43%)	\$ 256 (42%)
Canada	\$ 70 (16%)	\$ 73 (12%)
Asia-Pacific	\$ 65 (15%)	\$ 208 (34%)

Source: US Department of Commerce, Survey of Current Business (Washington D.C., Aug. 1992, Aug. 95).

Table 3.6 depicts the investment position of United States. Over half of the foreign direct investment (FDI) in the US comes from Europe, contrasted to about 8 per

<sup>21</sup> Gary Hafbuer and Barbara Kotschwar, "Policy Forum: Transatlantic Free Trade". *Washington Quarterly*, Spring 96, pp. 112-113.

cent from Canada and around 24 per cent from Asia-Pacific. The United States has put over 40 per cent of its FDI in Europe, roughly three time more than in Canada and slightly more than in Asia-Pacific.

The largest change in American direct investment abroad and in the European Union are in the petroleum and financial industries. American direct investment in the petroleum industry in Europe was marked by a number of major purchases, including Atlantic Richfield's purchases of shares in Brit Oil PLC for \$ 700 million in 1987, Tricentral PLC in 1988 and E.I. du pont de Nemours' acquisition of Tennece Oil Norway and Triton Europe OLC. These investments pushed American direct investment abroad in the petroleum industry to \$ 18.8 billion in 1990.<sup>22</sup>

American direct investment in foreign, especially European, financial concerns rose by more than four times during the 1985-1990 period, reaching \$ 99 billion. As a result of these direct investments, American direct investment in foreign financial business accounts for 40 per cent increase in the US world wide direct investment since 1985. Within the European Union, American direct investment in the financial industry stands at \$ 41 billion and represents an array of American investment in European credit, securities, insurance and investment companies. General Electric with \$ 7 billion or about 13 per cent of its revenues generated abroad, acquired a number of credit firms in the United Kingdom, including Burten group financial services for \$ 330 million in 1990. American Express which generates 20 per cent of its total revenues from its

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<sup>22</sup> James K. Jacksen, "American Direct Investment in the European Community" in Glennen J. Harrison (ed.) Europe and the United States: Competition and Cooperation in the 1990s (London : M.E. Sharpe, 1994), p. 276.

foreign operations acquired Signet Ltd., a British credit firm in 1991 for \$ 235 million. Such American firms as Citi Corp, McGraw Hill Inc. also have invested in financial business in a number of EU countries. Most of these investments are in the United Kingdom.<sup>23</sup>

In the transportation sector, the three major US automobile manufacturers acquired EU companies. General Motors, which already derives \$ 34 billion in revenues or one-fourth of its total from its foreign operations, acquired the British exports car manufacturer, Group Lotus in 1986. In 1987, Chrysler Corporation acquired the Italian firm, Nuova Automobile L. Lamborghini; Ford Motors Company had the largest investment with its acquisition of the British firm, Jaguar PLC, for \$ 2.6 billion in 1990.<sup>24</sup>

American direct investments in the wholesale trade, services and manufacturing industries in the EU have grown rapidly. Within manufacturing American direct investment has grown most rapidly in the chemicals, transportation and metals industries. Procter and Gamble (P and G) which is rated among the largest multinationals with 40 per cent of its revenue generated from its foreign operations, acquired the West German Company Bleindam Group in 1987 for \$ 400 million. E.I. du pont de Nemours and Co. which ranks among the top ten American multinational companies acquired shares in firms in Italy and Denmark. The Sara Lee Corp. made one of the largest investment in the EU chemicals industry when it acquired AK20, NV,

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<sup>23</sup> Ibid., p. 277.

<sup>24</sup> Ibid., p. 278.

the food and consumer products unit of Royal Dutch Shell NV for \$ 600 million in 1987.<sup>25</sup>

This shows largest investment partnership of United States multinational companies within European Union and expands the scope for greater interdependence between the two.

**Employment effects of bilateral trade and investment:**

The number of full time jobs in the United States associated with exports to the European Union was estimated at 1.3 million on average during the period 1978-84. The number of full time jobs in the EU associated with the United States imports from the European Union was 1.2 million on average during the same period. The largest employment sector of US-EU trade is manufacturing. The number of full time jobs in US associated with manufactures exported to the European Union was 658,000 on average during 1978-84, while in the European Union the number of full time jobs associated with exports to the US was 757,000.

In 1990, the overall employment generated from the two way trade between European Union and the United States is 5.3 million of which 2.9 million jobs were created in the United States while in European Union over 2.4 million jobs.<sup>26</sup>

**Trade disputes:** The trade relationship between EU and the United States covers a wide area. The most important areas which come under the domain of bilateral trade can broadly be classified into agriculture, manufactures and services. Agriculture is the

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<sup>25</sup> Ibid., p. 278.

<sup>26</sup> Kelvin Featherstone and Roy H. Ginsberg, The United States and European Union in the 1990s (London : McMillan, 1996), pp. 154-55.

wider area in bilateral trade consisting of several items like soyabeans, oil seeds, bananas, foodstuffs, wheat flour, sugar, citrus fruits, tinned fruits, other areas of consumer goods include poultry, pasta, wine and meat. The other areas of dispute lie in manufactures like aircraft, ship-building and coal mining and in services telecommunication, cinematographic films are the major areas of dispute in bilateral trade. The emerging areas of dispute which lie outside it are a range of directives related to technical, sanitary and safety standards, such as labelling and certification.

During the 1980s, the EU developed a new approach based on mutual recognition of national standards and certification. Under the new approach. EU legislation confines itself to laying down the essential minimum requirements to which products must comply in order to ensure the protection of public health or safety, of the environment or of the consumer. As a result of which the Committee of European Standards (CEN) and the European Electrical Commission were established in 1961. In 1973, European electrical Commission became the European Committee for the Coordination of Electronic Standards (CENELEC). In 1987, the European Conference of Post and Telecommunications Authorities (CEPT) determined to establish European telecommunications standards as a result of which European Telecommunications Standards Institute (ETSI) was established. At the same time, US has developed its standard institute financed by industry. There are some 250 major standards developers, of which only 17 per cent operate through the American National Standards Institute (ANSI) and the rest are privately owned. The main aim of these standard institutes is to politically score upon each other on the imported products as a mode of restriction to the

traded commodity on the plea of quality control, while the institutes like International Organisation for Standardization (ISO) and Institute for Electronic Certification (IEC) exist under multilateral fora. As a result of which during the Uruguay Round, there were negotiations on an improved code on technical barriers to trade. The code appears to be an effort at a compromise to bring the private standards bodies in countries such as the US into the international system.<sup>27</sup>

A major dispute erupted under quality control was meat. A ban was imposed on imports of bovine hormone somatotropin (BST) beef and the setting of new health and safety standards for third country slaughterhouses and packing plants exporting meat to the EU. For health purposes, the EU banned all sales of meat treated with growth hormones from 1st January 1988. The US government insisted that there was no evidence indicating that growth hormones posed health risks. The value of US meat sales in the EU subject to the new ban amounted to about \$ 100 million in 1988. As a retaliatory measure, the US government imposed punitive duties of 200 per cent on boneless beef, processed pork ham and shoulder, prepared or preserved tomatoes, fermented beverages with less than seven per cent alcohol content and fruit juice. The meat dispute promises to be one of the most difficult trade disputes between US and EU in the 1990s.

On 20 May 1996, panels were established under WTO Dispute Settlement procedure to consider the complaint by the United States regarding the EU's import

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<sup>27</sup> Stephen Woolcock, Market Access Issues in EC-US Relations, (London : Printer, 1991), pp. 102-103.

prohibition on meat and meat products from livestock that are treated with hormones for growth promotion purposes. The panels under WTO found that the EU violated Article 3.1, 5.1 and 5.5 of the agreement on sanitary and phytosanitary standards (SPS). In September 1997, the EU appealed the panel's findings on the interpretation of the SPS agreement. The Appellate Body reversed the panel's finding that the EU had violated Article 3.3 by maintaining that the members of WTO have the autonomous right to establish a higher level of protection than the prevailing international standards in matters relating to human health in the event there is scientific justification to do so. On 13 February 1998, the Dispute Settlement Body (DSB) adopted the reports of Appellate Body and the report of panel's findings. A reasonable time period of 15 months was given to European Union to prove in its defence how the hormone treated meat can cause health hazards in human beings. But with the failure of European Union to prove it in May 1998, an arbitrator was appointed under Article 21.3(c) of the Dispute Settlement procedure to determine the period of time to implement the report of panels within 15 months from the date of adoption, 13 February 1998. In case of European Union's failure to adopt the report of panels the United States will get the permission to impose restrictions on European Union exports to the United States equal to the amount met by the prohibition of meat products from the United States.<sup>28</sup>

Agriculture is another area of conflict between EU and US. To protect the farmers of EU and to increase the growth of agricultural products, common agricultural

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<sup>28</sup> For further details, see Case No. (WT/DS 26)(WT/DS 48) of WTO. WTO Annual Report: Special topic on Globalisation and Trade, 1998, p. 105.

policy was introduced. As outlined by the treaty of Rome in 1958, the CAP was designed to meet both social and economic objectives. Among the most important instruments of the common agricultural policy was a price support mechanism similar to that used in the United States to prevent farmers' incomes from falling too low. The commission would establish a 'threshold' price for individual commodities and would intervene to purchase stocks from farmers at that price if the world market price fell below it. With falling world prices and a growing dependence on guaranteed prices, European farmers had increased production.<sup>29</sup> As a result of which the EU produced 140 per cent of world demand for butter and 118 per cent of world demand for cereals by 1986. While previously most of the EU countries were dependent upon American exports in agriculture, during 1970s, US trade balance was \$ 1.3 billion which increased to \$ 26.6 billion in 1980. US was enjoying monopoly over the EU markets in agriculture with confidence in the export market, on which 60 per cent of US wheat production became dependent, farmers in US borrowed heavily to purchase more land and equipment. As a result total US farm debt stood at \$ 127 billion in 1982. At the same time, bumper crops in 1981 and 1982 caused price decline and president Carter's use of agricultural embargoes as a political weapon has earned the US the reputation of an unreliable supplier, which contributed to falling exports. US had lost many traditional customers, and US agricultural exports halved over the period from \$ 45 billion in 1981 to \$ 28 billion in 1986. In 1984, US farmers were indebted to the tune of

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<sup>29</sup> Brian Hocking and Michael Smith, Beyond Foreign Economic Policy: The United States, The Single European Market and the changing world economy (London and Washington: Pinter 1997), p.35.



\$ 251 billion. As a result of which the US exerted pressure on the EU in a number of ways to conform with its preference for liberalisation. At every opportunity, the US condemned various policies of CAP, and either initiated GATT dispute settlement procedures to investigate the legality of the subsidies, or acting on its own determination, threatened to retaliate unilaterally against the EU with trade sanctions.

In 1986 another trade dispute broke out between EU and the United States with the inclusion of Spain and Portugal to the EU. Spanish import levied on corn and sorghum rose from 20 to 120 per cent in order to meet the much higher common external tariff (CET) of the EU. The United States stood to lose sales in Spanish market for these products to internal EU suppliers. With regard to Portugal the United States opposed an article in the country's accession treaty that set aside 15.5 per cent of the Portuguese grain market solely of EU suppliers. In response to the EU action, the United States threatened to increase import levies for EU products as beer, chocolates, confections, and pear and apple juices. On 29 January 1987, a peace accord was agreed to avoid this trade dispute and EU agreed to eliminate 15.5 per cent of share of the Portuguese market reserved for EU suppliers.

In agriculture, the banana dispute is the major dispute erupted between the European Union and the United States in the year 1993 with the establishment of Lome Convention reached between EU and the African, Caribbean and Pacific countries (ACP). The European Union's common market organisation for bananas, instituted in 1993, allocates import quotas based on the origin of the bananas and allocates import licenses. So the tariff preferences to the ACP as established by the Lome Convention of

1993 is against the WTO convention on free trade and MFN to all member countries within WTO.<sup>30</sup> Interestingly, the United States grows no bananas outside Hawaii and no banana to export. Yet its objection to the banana import regime of EU is severe. The key to the mystery behind the strong US action is the fact that the EU market accounts for potential profits about \$ 1 billion a year and that a US businessman, lobbyist and banana baron Carl Linder controls 26 per cent of the world production and trade in bananas. The family of Linder owns the Chiquita Brands International and controls so called 'dollar bananas' coming from the Latin American countries. So the banana dispute which does not involve US export and does not affect jobs is a direct result of Linder's enormous lobby to protect the interest of his Latin American banana empire.<sup>31</sup>

The panels under WTO dispute settlement procedure found the banana regime of European Union is against the true spirit of GATT procedure in 1997 and the Appellate Body in its report uphold the panel's principal findings on violations of Article I, III and XIII of GATT and Article II and XVII of General Agreement on Trade in Services (GATS). In case, European Union fails to comply with the report of the panels the United States own WTO's go ahead to slap \$ 191 million sanctions on selected European Union exports by the end of May 1999.<sup>32</sup>

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<sup>30</sup> Lome Convention of 1993 establishes a duty free import regime with 69 ACP countries. See for details WTO Annual Report 1998, Special topic: Globalisation and trade (WT/DS 27), p. 106.

<sup>31</sup> C. Satapathy, US-EU trade war over bananas, Economic and Political Weekly, Dec. 26, 1998, pp. 3303-3304.

<sup>32</sup> Adrian Croft, After banana row, more transatlantic battles loom, Business Times, Times of India, April 30, 1999.

## **Impact of European Monetary Union on US-EU Monetary Relations**

With the coming up of European Monetary Union on 1st January 1999, the European Union's international political and monetary power is enhanced. Though the currency for European Monetary Union (EMU), the Euro has not shown its impact initially consists of eleven member countries except Britain, Denmark, Greece and Switzerland. The European Union leaders expressed their faith on Euro as the single currency for Europe would be the harbinger for a more prosperous and united continent.

As Win Duisenberg, the president of European Central Bank said "the Euro will become Europe. A currency is part of the identity of people it reflects what they have in common".<sup>33</sup>

Euro will confirm toward more symmetric US-EU interdependence as a possible rival currency to the US dollar with its full implementation by the year 2002. In the past, the Bretton Woods system, IMF and the G-7 have provided fora in which the US and EU conducted their monetary relations. This was always unsatisfactory because (a) the United States was a dominant force in these fora, (b) the European Union lacked unity to speak with one voice on monetary issues, (c) the vast trade flow of goods and services between the United States and EU was heavily affected by exchange rate fluctuations. With the coming up of Euro as an international currency, dollar fluctuations will not drive wedges between European currencies. The eleven member countries of European Union represent 20 per cent of world economic output and 18 per

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<sup>33</sup> Jeffery Ulbrich, Euro fuels hopes for United States of Europe, *Times of India*, 3 January 1999, p. 9.

cent of world trade and the Euro will certainly provide them power to play an important role in the world economy.<sup>34</sup> The Euro came at a time when the countries of Asia and Russia are suffering from currency crisis in a dollar dominated currency system. So the Euro provides a chance for rivalling US dollar by adding new flex to the muscles of European Union. So with the visible realisation of single currency for entire western Europe, a new chapter to interdependence between the European Union and the United States will be added.<sup>35</sup>

The chapter on economic interdependence between the European Union and the United States shows that the political cooperation which started in 1949 to fight against the common enemy (USSR) transferred to an economic cooperation and continues to be a type of competitive cooperation wherein cooperation coexists with competition for resources between the two trading partners in the 1990s. Throughout the cold war period, European Union constituted itself as a major force in international economy. The individual countries of Europe get the cumulative power through the union to make to their presence felt in international political economy. The changes which have occurred during the early years of this decade (1990s) have its deep impact on the economic relations between European Union and its long time ally the United States. The integration of European Union under the Treaty of Maastricht in 1992 and coming up of common currency Euro on 1st January 1999 added a new episode to the bilateral relationship between the United States and the European Union. While discussing the

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<sup>34</sup> Thomas Wagner, With Euro, financial world is set to go bipolar, Times of India, 4 January 1999, p. 13.

<sup>35</sup> Heinrich-Dietrich Dickmann, Europe as Engine of Multipolar World, Times of India, 1 January 1999, p. 12.

respective roles played by the European Union and the United States in international economy, this chapter tries to focus on both current conditions and the implications of possible future developments. The issues which are taken into account under this chapter Economic Interdependence between European Union and the United States in the 1990s lead to the following conclusions:

- (1) The European Union has increased its economic muscle relative to the USA. The US remains a considerable force and one that is more than able to do considerable damage to the international economy if domestic pressure gets the upper hand. But its ability to shape the multilateral and international economic order has been declining from the year 1982. The revival of European Union has helped in bringing about a cognitive shift in the minds of many Americans to a greater recognition of this fact.
- (2) The European Union remains effective as an international actor in economic relations. Its strength lies in the areas of international economic interdependence, where the Union's approach is based on willingness to accommodate systemic differences. It offers better prospects for the cooperation among nations to gain collective strength vis-à-vis United States.
- (3) Neither the European Union nor the United States conforms to the model of a monolithic regional bloc and both are committed to both bilateral and multilateral fora where a reconciliation of the differences between the two trading partners could be reached. While the bilateral fora provides solid base for the resolution of disputes between the two, multilateral fora provide additional institutional structures within

which the countries of European Union and the United States act as members of these institutions.

(4) Finally, the challenges which the United States and the European Union face in the 1990s are how to manage the complex interdependence which involves both security and economic cooperation. The institutions of the post war period have gone through changes which were never experienced before. Institutions such as WTO which replaced GATT in 1995 can best be described as a post cold war institution which is different from the other International Monetary Organisations in its organizational structure. While the previous institutions showed a democratic deficit because of the US dominance, the new one is arranged according to the one member one vote principle. In institutions like International Bank for Reconstruction and Development (IBRD) and International Monetary Fund (IMF), the US is holding the largest share in voting on the basis of the financial assistance it was providing through these institutions during the period of cold war to establish its influence over the world. The other changes which the countries of Europe and the United States face are how to tackle the new problems which cropped up after the disintegration of Soviet Union. The Treaty of Maastricht, which also provides Common Foreign and Security Policy for the member countries of European Union by establishing Western European Union (WEU) as an integral part of EU, may have its indirect influence on European economic cooperation with the United States.

## Chapter - 4

### **MILITARY-SECURITY INTERDEPENDENCE BETWEEN THE EUROPEAN UNION AND THE UNITED STATES IN THE POST COLD WAR ERA**

The aim of this chapter is to survey issues and events as they have emerged during the early 1990s affecting security interdependence between the European Union and the United States. The chapter is structured around two key areas:

- (1) The way in which the United States of America and the European Union have responded to the collapse of Soviet Union, the emergence of the new Germany and the politics of the new European states system, particularly the crisis in Yugoslavia.
- (2) What is the American reaction to the independent security structure for European Union under Western European Union? How will it affect US and EU relations as NATO is the organic security link between Western Europe and the US from the cold war period to now?

In general, the argument can simply be stated that the US and EU face challenges in defining their new roles in international politics after the end of the cold war. The debate about European defence and the US role in Europe no longer leads to ideological quarrels with the disintegration of former Soviet Union. Previously posed bipolar world was a simple explanation to threat, as the two super powers were supporters of two different ideologies evenly opposite to each other. But the recent developments which lead to multiple sources of threat and conflict in a multipolar world

is more complicated than the previous one. On the one hand, there is increasing economic interdependence and economic integration of national economies to global economy among the developed countries of the European Union, on the other hand, there is disintegration of countries in Eastern Europe in the name of ethnic, religious and border disputes. The first complex set of issues brought about by changes in most East European countries by the end of 1989 is contained in the breaking up of military, political and economic structure of the Warsaw Treaty Organization (WTO) and Council for Mutual Economic Assistance (CMEA), as well as the Soviet Union itself. Although in this way the danger from the block confrontation in European continent has been largely removed, these changes resulted in the vacuum of power in the east of the continent and thus revived many almost forgotten ethnic conflicts in Europe.

The disintegration of USSR reflects the fact that US emerged as the winner of the cold war and is the only true super power. But events in the second half of the 1990s (before Kosovo) hinted that the global influence of the United States was declining on the European continent. It was in 1980s that the US experienced mounting trade deficits with the European Union. In 1991, with the coming up of treaty of Maastricht, the member states of European Union began to debate on a Common Foreign and Security Policy (CFSP) the creation of an European army, Eurocorps and strengthening of European defence institutions, such as the Western European Union (WEU). At the same time NATO was increasingly faced with the problem of safeguarding its inner cohesion due to reduced military presence and political influence of the US in Europe and the rising influence of great European powers, in the first place united Germany, as



well as with growing divergence of their interests in the post cold war period.<sup>1</sup> If not in political sphere, EU has emerged as an economic giant for the twenty-first century while sharing 37 per cent of the total world trade in comparison to US' 14 per cent in 1997, as we discussed in earlier chapter. So, the first complex issue in this respect is certainly the relationship between Europe and the United States. In other words, growing integration of Western Europe within the European Union and the desire of this organization to develop into a political union through Common Foreign and Security Policy (CFSP) raises the question of future presence of the United States in Europe and hence survival of NATO. With activation of the Western European Union (WEU) and its transformation into the European Union's military arm there would be no need for NATO to exist any longer and for the American military to be present in Europe. This is also complemented on the other side of the Atlantic by the danger of returning isolationism of the United States, which warns that this country can no longer neglect major internal problems in the interests of military and political involvement abroad.<sup>2</sup> However, the departure of the United States from Europe would leave a vacuum in the

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<sup>1</sup> The year 1987 witnessed a politically weakened US administration, faced with an astronomic budget deficit and a weakening economy. In this occasion, the European NATO governments came under massive pressure from the US to shoulder a much bigger share of NATO's costs. To that time, the US was spending at least 6.4 per cent of its Gross National Products on maintaining US troops under NATO in European soil, while the countries of Europe were spending 3.8 per cent of their Gross National Products (GNP). So the period saw an increasing transatlantic confrontation on burden sharing as a result of which Brzenski suggested transferring some of the NATO troops, at least 100,000 of them, to highly sensitive Persian Gulf area as that area carries strategic importance for US. The beginning of the year 1991 also started with Gulf crisis with Iraqi invasion of Kuwait. So the year witnessed most of the US NATO troops concentrated in the Gulf area. For details, see John Palmer, Europe without America? The Crisis in Atlantic Relations (Oxford : Oxford University Press, 1988).

<sup>2</sup> Dr. Predrag Simic, Europe after the cold war, Review of International Affairs, Vol.XLIII, No.III, 1992, p.25

Western structure, because any combination of European powers can hardly ensure the role of hegemony in Western Europe. (The time frame of this chapter is confined to the events as they emerged during the period from 1991-97. Changes have taken place in 1998 and 1999 in the wake of the Kosovo crisis).

### **The France-German alternatives**

With the end of the cold war, policy makers for the Europe contribute to development of an alternative security structure of Europe. The French believed that the demise of the cold war ended the need for an integrated military command able to respond rapidly to aggression on the basis of pre-agreed political directives. The Mitterand government proposed a two pillar NATO, in which Europe would constitute one integrated column and the other the United States as a separate pillar at the top.<sup>3</sup>

The French model would retain NATO and the United States connection for those contingencies that Europe could not handle by itself, for example, the most unlikely resurgence of a major military threat to Western Europe. All other contingencies would become the provenance of Europe, simultaneously building confidence and capability.<sup>4</sup> The Eurocorp's embodied this prospect assigned to NATO under **Article V** Contingencies, yet intended primarily as the basis for a European Army to address security issues without depending on NATO or the United States.<sup>5</sup>

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<sup>3</sup> Kori Schake, "NATO after the cold war, 1991-95: Institutional competition and the collapse of the French Alternative", Contemporary European History, Vol. 7, No. 3 (1998), p. 379.

<sup>4</sup> Rob de Wijk, "NATO on the Brink of a New Millennium" (London: Brassey, 1997), pp. 24-28.

<sup>5</sup> Article V of NATO agreement provides for collective defence planning process and concrete preparations for joint and combined action in case of threat to any allies within NATO. It excludes the act of area operation of NATO beyond the Allies territory. For further explanation,

As a result of this alternative, European Union perceives the Conference on Security and Co-operation in Europe (CSCE) as the core of a broader European security while the WEU remains as the military arm for the European Union. The CSCE which grew out of the East-West conflict was constituted as a pan European security organization under Helsinki Agreement of 1975.<sup>6</sup> Organization in broader terms consist of 57 states by the end of 1995. The countries like United States, Canada, Russia and Eastern Europe are members of this organization. The CSCE was given operational functions in 1990 and now operates in three so called 'baskets':

- (a) Security Questions in Europe;
- (b) Co-operation on economic, science, technological and environmental matters; and
- (c) Co-operation on humanitarian and kindred matters.<sup>7</sup>

The other security alternative was a proposal to create a multinational corps (with a division each of French and German troops) made by defence ministers of France and Germany respectively on the eve of the NATO defence ministers' meeting in 1997. The multinational corps would be answerable to the European Union (Eurocorps).<sup>8</sup> To the United States military leaders, the Franco-German corps signalled

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see Yost, S. David, "The New NATO and Collective Security", Survival, Vol. 40, No. 2, Summer 1998, pp. 135-160.

<sup>6</sup> Hojberg Else Anne, "The European security structure: A plethora of organizations?", NATO Review, Vol. 44, Nov. 1995, p. 31.

<sup>7</sup> Cotti Flovio. "The OSCE's increasing responsibilities in European security", NATO Review, Vol. 44, Nov. 1996, pp. 7-12.

<sup>8</sup> Kori Schake. "NATO after the cold war, 1991-95: Institutional Competition and the collapse of the French Alternatives", Contemporary European History, Vol. 7, No. 3 (1998), p. 387.

that the German government was willing to sacrifice NATO's military capabilities for the political gains of allaying French concerns about unification. Germany at the same time had no forces independent of NATO's integrated military command, which meant that any forces assigned to the corps would take German troops out of the integrated military command and place the corps in direct competition with NATO.<sup>9</sup> Yet, the German government argued that it was bringing France closer to NATO by building a multinational corps that would be necessarily be part of NATO. While France declared that it had no intention of taking part in the integrated military command, the Eurocorps represented the beginning of a European army independent of NATO.<sup>10</sup>

#### **The EU from Civilian Power to a Common Foreign and Security Policy:**

The European Union which started its journey as a civilian institution from the European Coal and Steel Community (ECSC) in 1951 to the European Union established by the Treaty of Maastricht, 1992 committed members of the European Union to act toward developing a Common Foreign and Security Policy (CFSP). The disintegration of Soviet Union and to a lesser extent perhaps the US policy of burden shedding provided potent stimuli for reappraising policy direction in a recession hit western world. "While EU members were under no illusion that European security was multi-faceted and rested not just on the maintenance and preservation of the western alliance but also on the extension of economic prosperity to central and Eastern Europe, initial euphoria spawned an interest in so called new European architectures";

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<sup>9</sup> Ibid., p. 388.

<sup>10</sup> French ambassador Gabriel Robin, "Letter to the Editor", *Survival*, Vol. XXXVIII (1996).

preoccupation with such ideas marked the failure to establish a strategic culture which might have made the transition of the EU from its civilian power mind set to a credible foreign and security policy player.<sup>11</sup> \*

"With the threat to Western Europe fewer than it had been in half a century, the need for the North Atlantic Treaty Organization and for US leadership became less clear than in the past".<sup>12</sup> These trends combined to create substantial pressure for a European Security and Defence Identity (ESDI). Many members of the European Union considered that a common foreign and eventually defence policy would naturally result from the economic and monetary union outlined at Maastricht. The ESDI that developed under these conditions represented the first serious challenge to NATO's predominance in the European security architecture.<sup>13</sup>

Between November 1994 and March 1995, the European Union managed to adopt eleven common position (such as sanctions, embargoes, and similar reactions to crises) under **Article J2** of the Maastricht treaty (of which four related to former Yugoslavia) and 16 joint actions under **Article J3** (of which eight related to former Yugoslavia).<sup>14</sup> Confusion between European Commission matters and those under the

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<sup>11</sup> Wiener Jarrod, The Transatlantic Relationship (ed.) (London : Macmillan, 1996), chapter - "The EU: From civilian power to speaking with a common voice" nu Juliet Lodge, p. 71.

<sup>12</sup> Wornier Manfred, "The Atlantic Alliance in the new era", NATO Review, Vol. 39, No. 1, February 1991, p. 4.

<sup>13</sup> Professor Jao de Deus Pinheiro, "The European Security Architecture Transatlantic links remain indispensable", NATO Review, Vol. 39, No. 1, February 1991, p. 11.

<sup>14</sup> While Article J1 assigns five principal objectives to the CFSP: safeguarding the common values, fundamental interests and independence of the union; strengthening its security; preserving peace and strengthening international security; promoting international co-operation and developing and consolidating democracy and the rule of law, and respect to human rights and fundamental freedom.

jurisdiction of the CFSP inhibits effective policy implementation. For example, a political decision to implement a trade sanction affects trade, finance and co-operation schemes and all activities under community jurisdiction. Similarly, adhoc joint actions have been randomly adopted on a range of issues (observing elections in Russia and South Africa); regulatory work (export of dual purpose goods); sensitive security issues (stability pact and Non Proliferation Treaty) and the mobilisation of human and financial resources (humanitarian aid to Bosnia, etc.).<sup>15</sup> Article J4 (1) provides for the EU to 'request' the WEU to elaborate and implement decisions and actions having implications for defence, but so far no formal use has been made of this.<sup>16</sup>

### **Interlocking of the Institutions**

As the objective of this chapter is to explain the complex pattern of military security interdependence between the EU and the United States, the study would be incomplete without citing the institutions which are involved in it. Towards the end of the year 1989 and beginning of the year 1991, the continent of Europe experienced a revival of security organizations which had lost their value during the cold war due to dominance of NATO and overwhelming influence of US on security of Western

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Art. J2 are intended to permit greater coordination of national policies, especially in international arena.

Art. J3 by contract represent a major step forward by allowing political, financial, economic and humanitarian resources to be released for specific purpose. For further details, refer Jacques Santer's Article on European Union's security and defence policy, NATO Review, vol. 43, No. 6, November 1995, pp. 5-10.

<sup>15</sup> Wiener Jarrod, The Transatlantic Relationship (London : Macmillan, 1996), Chapter - The EU: From civilian power to speaking with a common voice by Juliet Lodge, pp. 87-88.

<sup>16</sup> Article J 4(1) provides that the union requests the WEU, which it describes as an integral part of its development, to elaborate and implement decisions and actions which have implications in the field of defence.

Europe. The countries within European Union and Western Europe were depending largely upon the military security umbrella of the United States for more than four decades. The situation changed in 1991 with disintegration of Soviet Union. As a result of this, countries within European Union and outside are engaged in developing security organization of their own to avoid US dominance on security related matters over them. Perhaps the countries of Europe are the first to go on experimenting with many security organizations out of the jurisdiction of NATO and the United States leadership. The Treaty of Maastricht is the first agreement to give shape to military security relations among the members of European Union. As a result of which Western European Union which grew out of the Brussels Treaty of 1948 to prevent resurgence of military threats was restored to its earlier glory as it became the military arm for the European Union.

Another security organization which dates back to Helsinki agreement of 1975 Conference on Security and Co-operation in Europe (CSCE) evolved in order to dismantle the East-West conflict and to provide transparency in maintaining human rights between European Union and former Soviet Union. The Paris Summit of CSCE on November, 1990 became a much more important event than NATO's London Summit a few months earlier in the same year as the treaty on Conventional Forces in Europe (CFE) was signed in that summit meeting.<sup>17</sup> The Paris Summit symbolised Europe overcoming the military blocs of the cold war and developing a pan European security framework. Though the organization in itself is not an integral part of European Union, all the members of European Union are members of this organization. The

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<sup>17</sup> Werner Bauwens, Bruno Colson, Wim De Haar, Koen De Feyfer, Olivier Paye and Nico Vertongen, "The CSCE and the changing role of NATO and the European Union". NATO Review, Vol. 42, No. 3, June 1994, pp. 21-24.

organization became Organization for Security and Cooperation in Europe (OSCE) in its Budapest meeting in December, 1994.<sup>18</sup> A decision was also taken in that meeting to embrace all the military security organizations involved in Europe. Before this, at the Helsinki CSCE Summit in July 1992, it was decided to improve contacts and practical cooperation with appropriate international organizations by inviting them to attend CSCE meetings and seminars as guests of honour, with appropriate nameplates including their organization ('NATO', 'EU', 'WEU' and so on), and to give presentations.<sup>19</sup>

"In NATO's Brussels Summit Declaration further steps were taken by member states to strengthen the CSCE being the only organization comprising all European and North American countries, as an instrument of preventive diplomacy, conflict prevention, cooperative security and the advancement of democracy and human rights. It also stated that NATO will actively support efforts to enhance the operational capabilities of the CSCE for early warning, conflict prevention and crisis management".<sup>20</sup> The Figure 4.1 given below best depicts the institutional interaction between the four organizations involved in maintaining peace and security in Europe (CSCE, EU, WEU and NATO).

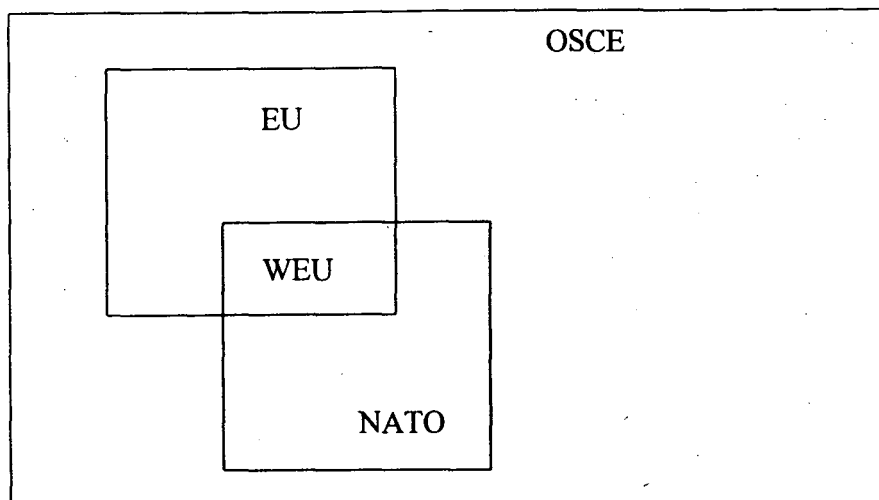
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<sup>18</sup> Cotti Flevio, "The OSCE's increasing responsibilities in European security", NATO Review, Vol. 44, No. 6, Nov. 1996, pp. 7-9.

<sup>19</sup> Jacques Santer, "The European Union's security and defence policy", NATO Review, Vol. 43, No. 6, Nov. 1995, p. 6.

<sup>20</sup> Werner Bauwens, Bruno Colson, Wim De Haar Koen De Frylter, Olivier Paye and Nico Vertongen. "The CSCE and the changing role of NATO and European Union", NATO Review, Vol. 42, No. 3, June 94, p. 23.





**Figure 4.1 Institutional security pattern for Europe.**

As we discussed earlier the European Union has begun to develop its Common Foreign and Security Policy (CFSP) according to the relevant Maastricht provisions. Its objectives are not only to strengthen the security of the Union and its member states, but also to preserve peace and international security. It should be noted that the CSCE has, from the very beginning, been a core element for European political cooperation and that over the years, the European Community has succeeded in securing for itself formal recognition within the CSCE, though sometimes not without difficulties encountered in the larger western group of nations.

Based on the European Union's CFSP mandate and following the evolution of the US reaction to the changing European security environment, European political cooperation is becoming more and more visible within the CSCE. Developments at the Forum for Security Co-operation illustrate this trend: as far as Western Coordination is

concerned, the emphasis is shifting towards the European caucus, which today meets more frequently and with greater impact than the past.<sup>21</sup>

In addition to above institutional arrangements, the EU has also declared its readiness to develop measures at the higher end. In the Maastricht treaty's provisions relating to the framing of a common defence policy, the Western European Union is requested to elaborate and implement decisions and actions of the Union with defence implications. The EU can thus become an organization capable of handling all security tasks by deepening its own integration process, although it has clearly stated that it does not seek an alternative to the Atlantic Alliance NATO, in turn, wholly encourages the development of a European security and defence pillar within the Atlantic Alliance. In this connection, the EU-NATO relationship has much to gain from the adjustment to the WEU's membership which is brought closer to that of both NATO and EU through the establishment of an observer and associate status (it is a device through which those who are members of NATO and EU, but are outside WEU, they can be given observer or associate status).<sup>22</sup>

Another development which took place at the Brussels Summit of NATO in 1994 was the proposal to form a **Combined Joint Task Force (CJTF)**.<sup>23</sup> The proposal

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<sup>21</sup> Ibid., p. 24.

<sup>22</sup> Bruce George, "The Alliance at the flash point of a new era", *NATO Review*, Vol. 41, No. 5, October 1993, pp. 7-11.

<sup>23</sup> The idea was to build within existing NATO headquarters separate command cells for planning and commanding combined (meaning participation by more than one nation) and joint (which describes operations involving more than one military services) operations. These combined joint task forces (CJTF) could be pulled out of the NATO structure for non NATO operations, whether run by the western European Union or another organization NATO supported. Because they are indigenous to the integrated command, they would be assured support and not compete for resources with the NATO.

provides for independent national armies to be maintained under the NATO to provide common security out of the **Article V** of the Treaty. As a result of which the capabilities of NATO and WEU in future will be separable but not separate.<sup>24</sup>

If we take the Western European Union (WEU), NATO and the Conference on Security and Co-operation (CSCE) as three concentric circles whose size is related to their respective numbers, each has a basic representation to the existing structures upon which the security architecture of Europe can rest, since the Warsaw pact no longer exists as an entente. Each of the three has specific capabilities and by putting them all to serve agreed purposes to their best ability a coherent and structural model can be achieved.

#### **Failure to Implement a Common Foreign and Security Policy towards Yugoslavia**

The former republic of Yugoslavia provided the first battle ground to test the implementation of Common Foreign and Security Policy by European Union, without taking into account United States or NATO. Yugoslavia began sliding towards war in the autumn of 1991, while US attention was still focused on the Gulf war. The EU took the leadership in negotiating with the parties to conflict and providing humanitarian

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<sup>24</sup> Kori Schake, "NATO after the cold war", Contemporary European History, Vol. 7, No. 3 (1998), p. 381.

The operation under Non-Article V is provided to NATO in its Brussels Summit meet in 1994 to make NATO more relevant to tackle new security threats. Previously, the sole purpose of NATO was preventive diplomacy and collective defence of its allies. But the new clause empowers NATO to operate for collective security in case of threat to international security, peace and human rights.

assistance. France even advocated an EU/WEU peacekeeping operation in the summer of 1991.<sup>25</sup>

Despite agreement that the EU should undertake the management of the Yugoslavia crisis, the EU countries were unable to develop a common policy. The EU states did not have agreement among themselves on how to handle Yugoslavia's collapse, as the disagreement over recognition of Slovenia and Croatia soon demonstrated. Germany's insistence on EU recognition of the two secessionist republics in December 1991 created resentment of the unified government but it did not inhibit the EU from its involvement in the crisis.<sup>26</sup>

The EU states also disagreed over the role of their troops being sent to Yugoslavia under a United Nations mandate. France believed that the peacekeepers should be neutral distributors of humanitarian assistance. Others argued for openly supporting the Croats and Bosnian Muslims to defend themselves against Serbia. These disagreements were certainly not unique to the EU states but also surfaced in NATO and the United Nations.<sup>27</sup>

The general confusion over what the United Nations forces were intended to do in the former Yugoslavia was mirrored in conflicting mandates from the UN Security Council. The United Nations Protection Force (UNPROFOR) was placed in the

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<sup>25</sup> Francke Klaus, "Importance of the EU Common foreign and Security Policy", Review of International Affairs, Vol. XLVIII, 15 May 1997, pp. 19-20.

<sup>26</sup> Professor Dr. Kovac Oskar, "Regional Approach of the European Union to Co-operation among the countries of the Former Yugoslavia", Review of International Affairs, Vol. XLVII, 15 December 1996, pp. 1-4.

<sup>27</sup> Kori Schake, "NATO after the cold war", Contemporary European History, Vol. 7, No. 3, 1998, p. 401.

untenable position of being both neutral peacekeepers and enforcers of the will of international community, each task undercutting its ability to succeed at the other.<sup>28</sup>

France blocked any NATO involvement in Yugoslavia until 1993 as part of its strategy to constrain NATO to Article V operations and provide opportunities for the Western European Union to develop an operational capability.<sup>29</sup> Despite US protests that NATO's Standing Naval Force Mediterranean (STANAVFORMED) was underutilised and perfectly suited to the task, European states first chose the Western European Union to monitor the UN arms embargo against Yugoslavia in the Adriatic sea. The USA pressed allies involved in the integrated military command (IMC) to deploy STANAVFORMED) as a competing flotilla.<sup>30</sup> By 1993, Yugoslavia became the battleground of the post cold war institutional order. Institutions were so engaged in demonstrating their relevance that for several months, until they were finally merged into operation Sharp Guard under the leadership of United States within NATO which led to enforcement of Dayton Agreement in 1995.

### **Resurgence of NATO and United States Military Capability**

Despite promising developments towards a European Security and Defence Identity, by 1995, European security was once again dominated by the NATO alliance

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<sup>28</sup> Prof. Dr. Racic Obrad, "The United Nations charter and internal conflicts", Review of International Affairs, Vol. XLVII, 15 April 1996, pp. 3-5.

<sup>29</sup> Womer Manfred, "NATO Transformed: The Significance of the Rome Summit", NATO Review, Vol. 43, No. 2, 1995, p. 10.

<sup>30</sup> Roderik Ven Lipsey, "Breaking the cycle: A framework for conflict intervention" (ed.) Ch. "The collapse of Yugoslavia", by Kori Schake (New York: St. Martin Press, 1997), p. 57.

and US leadership, perhaps to a greater extent than even in the last years of the cold war.

Within a span of only five years, the momentum for an independent European security and defence identity was gone.<sup>31</sup>

The question arises here that why did the European alternative not overtake NATO as the central pillar of security? There are three major reasons.

First, NATO undertook a rapid reorganisation to justify new missions relevant after the cold war, and restructured its military forces to carry out the new missions successfully, making NATO going concern rather than an anachronism.<sup>32</sup> In NATO's Rome Summit (1992), the USA took firm steps to preserve NATO's operational coherence to eliminate the two serious operational challenges raised by the Eurocorps: unity of command and competition for resources. The USA pressed Germany and France into agreeing to terms for Eurocorps' participation in NATO operations such that German forces would not be withdrawn from NATO and instead the Eurocorps would come under NATO command, at least for Article V operations.<sup>33</sup>

To shield NATO further from resource competition, the defence planning committee agreed in the spring of 1992 that the primary responsibility of NATO military forces was to meet the collective defence commitments of the Alliance. NATO military leaders had been greatly concerned that efforts to establish a European security

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<sup>31</sup> William Drozdiak, 'US, Europe Face NATO Burden-Sharing Debate', Washington Post, 16 December 1997.

<sup>32</sup> Michael Alexander, 'NATO's role in a changing world', NATO Review, Vol. 38, No. 2, April, 1990, p. 3.

<sup>33</sup> John Kriendler, 'NATO's changing role - opportunities, and constraints for peacekeeping', NATO Review, Vol. 41, No. 3, June 1993, p. 16.

and defence identity would result in forces and resources being siphoned away from NATO requirements, leaving a hollow force in NATO while a competing structure was created for the EU. The December 1992 agreement established the primacy of NATO'S claim on the forces and defence assets of member nations.<sup>34</sup>

In Brussels Summit (1994) of NATO, the USA adopted a range of missions in direct competition with WEU to preserve NATO's humanitarian and rescue tasks, peace keeping tasks, tasks of combat forces in crisis management, including peace keeping.

Secondly, most European states did not, and do not, have military forces capable of deploying beyond their own territories without the support from US forces. European forces were largely structured to fight in place and with the support of local communities and infrastructure. The military assets needed to project power (long range) requires transport aircraft, mobile communications, theatre intelligence, assets are in short supply, which restricted Europe's ability to respond to crises.<sup>35</sup>

Thirdly, the collapse of Yugoslavia demonstrated the fallacy of the French alternative. In Yugoslavia, the Europeans were faced with the limits of their political consensus on foreign policy, the difficulty of organizing large military operations without an integrated military command outside the NATO area without US participation, and perhaps, the realization that the US would actually let them fight a war in Europe without caring enough to become involved. The Western European alternative to a NATO centric European security system fundamentally depended on the

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<sup>34</sup> Ibid., p. 17.

<sup>35</sup> Kori Schake, 'NATO After the Cold War, 1991-1995: Institutional competition and the collapse of French alternative', *Contemporary European History*, Vol. 7, No. 3, 1998, pp. 381-382.

US becoming involved in a crisis if the USA's European allies could not manage the situation themselves.<sup>36</sup>

By 1994, European political leaders were beginning to realise the extent of their dependence on US military capabilities in order to operate outside their home territories.

Yugoslavia showed that unless the USA was central to the process of any use of force from the beginning, the European Union and its security organization could hardly resolve any problem on their own. And the only way to guarantee security and to hold US position in Europe is to keep NATO at the centre of Europe's security structures. The intense phase of institutional competition among western institutions that was unleashed by the end of the cold war ended in 1995 with NATO's deployment of the implementation force (IFOR) in Yugoslavia.

On defence the difference between the United States of America and NATO forces under it in one hand and on the other hand, European Union and WEU is their respective spending on equipment and support to deploy forces. While the US budgeted about \$ 265 billion per year on defence, the EU members of NATO together spent around \$ 150 billion per year. The US spent that extra \$ 100 billion per year on three things essential to power projection: manpower, training and equipment.<sup>37</sup> The USA maintains **thirteen active** duty divisions and intended every one of them for deployment outside the country.<sup>38</sup> The stark difference in the power projection capabilities of the

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<sup>36</sup> Ibid., p. 382.

<sup>37</sup> Ibid., p. 396.

<sup>38</sup> The current US force consists of ten active duty army divisions and three active Marine Corps divisions.



USA and its European allies created an intractable problem for development of a European security and defence identity. The Europeans had not brought the capabilities necessary to be truly independent of the USA. While the French could protest against NATO having a right of first refusal over NATO (predominantly US) assets, Europe had no realistic alternative to eventually accepting the US offer to underwrite ESDI operations.

In this chapter, the focus has been primarily upon the ways in which the US and EU, individually and collectively, responded to the political challenges of the 1990s. These challenges are more complex, more mercurial and less predictable than those of the cold war era and they demand innovative and imaginative responses on a number of levels. The creation of a new European states system, embedded within a more turbulent global context and penetrated by new economic and social forces, is one of the central challenges to the notion of Euro-Atlantic interdependence. By the middle of 1992, the clearest feature of the situation was its lack of clarity and definition: the continuing landslide of change in the former Soviet bloc had perhaps slowed, but the new crises along lines of ethnicity in former Yugoslavia proved the limits of diplomacy by the European Union countries without taking into consideration its long standing ally USA. Though involvement of the United States brought peace in Yugoslavia by implementation of Dayton agreement in 1995, it was temporary; the new crisis of ethnicity cropped up in Kosovo. So it can be concluded from the above arguments that there exists the demand for European self-assertiveness but this serves merely to underline the limitations of the Union as an expression of a European identity. The

continuing ambivalence of many members of European Union about not only its internal working but also its international presence and role feeds directly into European/American relations. As it is noted in case of Yugoslavia crisis, there is very often a desire on the part of others for European Union's involvement which overturns or miscalculates the EU's real capacity to act. Not only did the Yugoslavia crisis prove European Union's inability to act together but also the Gulf crisis which emerged in 1991 after Iraqi occupation of Kuwait showed the weaknesses of European Union to act as an international political actor. Clearly, national interests abounded during the Gulf war and Yugoslavia crises. Britain, France, Italy, Belgium and the Netherlands eventually drafted individual policies to contribute to US-led military effort in the Gulf or Yugoslavia - a similarly diverse set of responses on arms and military equipment embargo, suspension of financial protocols, suspension of trade and cooperation agreement and of various trade and aid benefits to Yugoslavia was seen. So the events in the 1990s show that though there is an effort by European Union to come to its full strength as an independent political and economic union in order to stand on its own, its members lack the capacity to implement such policies, at least on security issues outside the area (European Union) of operation without the involvement of United States.

study US-EU relations in a post cold war scenario. The magnitude of this subject matter is so great that it needs to focus almost at all levels of the international system as a whole. The multidimensional nature of European Union's international relations creates a profound analytic complexity. In this context realist assumptions which emphasises on government to government relations are no longer valid.

In economic sphere, highly intense trade and investment relations between US and EU are the foundations of their closely woven interdependence. While on the one end, there exists financial and economic interdependence, on the other side European Union and the United States are involved in trade disputes. But these type of disputes are the results of intense trade and economic interdependence which should not be considered as a threat to cooperation. Both European Union and the United States are also busy in resolving these disputes through bilateral and multilateral fora. The new scenario in which the European Union and United States operate needs to be considered within a definite framework. The US-EU relations in the coming years could go in one of the following four directions. One scenario based on neo-mercantilist assumptions is for an increase in fratricidal trade wars to occur as the cold war ends. The fabric of ties could unravel as the politico-security framework which once tempered economic nationalism is unveiled after the end of the cold war through trade disputes and intensive bargaining. The end of the cold war could unleash neo-isolationist tendencies in the United States and regional protectionism in the European Union. But the second argument seems to be far away from reality because of the increasing integration of the national economies to international economy. There also exists co-operation among the countries within European Union

and the United States within a broader framework of WTO. The third scenario is the continuation of status quo between European Union and the United States. As the mechanisms related to economic and politico-security matters have been established over the years to cope with disputes that might have the potential of escalating into trade war. The fourth scenario is the deepening economic links between the United States and European Union. The deepening scenario could result from an awareness, on the part of both the US and EU, that they need to cooperate closely, not only to ensure a sound economic foundation for a Euroatlantic political and security relationship, but also to provide stability in the management of the international economy and to shape the commercial “rules of the game” in a manner that reflects their common interest in a liberal, rule based multilateral system.

On security issues, the European Union and United States are posed with no less challenges than the economic issues. The first set of developments to dominate, after the break up of the east European stalemate in 1989 and 1990 concerned NATO. As the center piece of the western alliance, the organization had been defined not only by the organic link between the United States and European security but also by the persistence of a seemingly monolithic threat from the East (Soviet Union). But the collapse of the Soviet Union, the dissolution of the Warsaw Pact and the progress of European integration have not ended the need for NATO’s essential commitments to safeguard Europe from security threat. During 1990, the response at the institutional level was two fold. On the one hand, there was an intense search for a new doctrine at the military and the political level, capable of resolving or at least containing the new tensions while retaining the umbilical link between the USA and Europe. The direct

result of this was London Declaration of June 1990 and Rome Declaration on peace and cooperation in November 1991. In 1993, the U.S. added a new dimension to the relevance of NATO by engaging Russia in a partnership for peace and in 1998, A Euro-Atlantic Partnership Council was constituted on the lines of Warren Christopher's proposal to keep a U.S. presence within Europe after the end of the cold war. On the other side, European Union established its own security institutions after the second round of ratifications of the treaty of Maastricht in 1993. The result of this ratification provides WEU as an integral structure of European Union. The establishment of an European Security and Defence Identity (ESDI) shows that in future, the countries within European Union may come out of integrated security structure of NATO and may depend on WEU for their security and protection. But for the time being, European Union countries are not in a position to provide security for themselves without involving United States. The Bosnian and Kosovo crises demonstrated that the United States remains as important to European security as it was before.

So the present study tries to focus on the possible future of Euro-Atlantic relations and an effort is made to identify the direction in which events are moving. From this, we can conclude that the most likely future of Euro-Atlantic relations is one of competitive cooperation in which collaboration and competition will run in parallel and create both challenges and opportunities for new relationships.

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