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STRATEGIC FORESIGHT INITIATIVE

## Global Trends 2030: Challenges and Opportunities for Europe

Over the next generation, Europe will be buffeted by waves of transformation. The reaction to the economic crisis, the rapid empowerment of individuals thanks to the growth of information technology, the reality of climate change, the diffusion of power across the globe, and demographic changes will all shape the continent's future.

The National Intelligence Council's *Global Trends 2030: Alternative Worlds* report, released last December explores many of these trends in detail, some already much in evidence. Ongoing uncertainty about the long-term health of the European Union (EU) has caused the people of many member states to look inward, stirring old nationalisms and regional division and jeopardizing a long transition toward global institutions as mechanisms for problem solving.

We are approaching an inflection point that could lead to a future of economic and political volatility and zero-sum behavior of inward-looking nationalisms; a more collaborative rules-based world marked by cooperative efforts at global problem-solving; or perhaps most likely, some hybrid featuring elements of both.

In the coming decades the world will increasingly enter a post-Western period. As China and India reemerge, they may return to their respective proportions of the global economy prior to the industrial revolution. Never in human history has information been so instantaneously accessible and communication been possible from anywhere on the planet. Never have wealth and prosperity spanned so many geographic boundaries and civilizations, from the northern hemisphere to the southern, the west to the east.

### Transatlantic Partnership for the Global Future

The Transatlantic Partnership for the Global Future brings together experts from government, business, academia, and the science and technology communities to address critical global challenges, explore how emerging technologies will shape them, and assess their effects on transatlantic relations going forward. The Partnership is a collaboration between the Brent Scowcroft Center on International Security's Strategic Foresight Initiative and the Government of Sweden. Together, we seek to make foresight actionable by connecting long-term trends to current challenges to inform policy and strategy choices.

The Strategic Foresight Initiative, which strives to forge greater cooperation on futures analysis among its main partners around the world, has rapidly become a hub for an expanding international community of strategic planners in government and the private sector.

### Europe in an Era of Situational Power

As wealth and power shift from west to east and north to south, the the dynamics of globalization are changing. Regions are becoming more region-centric (e.g. intra-Asian, intra-Latin American, intra-European), and emerging G-20 economies are driving more growth. The new global order calls for changes to existing multilateral institutions, and perhaps new ones that more accurately represent new and emerging realities, from political and military alliances to global financial and trading systems, rules and norms in the global commons of cyberspace and outer space, and global governance writ large. A central challenge

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is preserving the successful operating principles of the international system while better enfranchising rising powers with more divergent views as they seek a larger role in global rule-making.

Complicating this further is a change in the very nature of power, which has led some analysts to write of a “G-Zero world” or “the end of power.”<sup>1</sup> While these are exaggerations, the world is moving toward a relatively flatter, more complex redistribution of global power. This trend is likely to persist. Whether in the breakdown of the Doha global trade round or the ineffectiveness of the Kyoto Protocol on Climate Change, it has become more difficult to achieve desired outcomes to global problems—the very definition of power.

Between now and 2030, both the United States and Europe will increasingly have to pursue their goals in an international environment characterized by what may be called “situational power.” This does not imply multipolarity in the classic sense of three or four major poles, but rather a world of diffused power, where any single actor’s ability to shape outcomes will differ according to the nature of the issue or problem. Different constellations of actors will have different political weights, and on some matters, like global health issues, for instance, nonstate actors may even wield more power than states. The principle would be that form follows function. Who sits at the table depends on what he or she brings to it. Thus, on the Iran nuclear problem, the UN Security Council P5+1 group has led diplomatic efforts. On North Korea, the six-party talks have brought together key actors in northeast Asia (the United States, China, Japan, Russia, South Korea, and North Korea). Since the end of the Cold War, ad hoc multilateralism has become a key to solving international problems, and it shows no sign of abating. In fact, in cases like the major emitters group and the Proliferation Security Initiative it has proven more functionally relevant than established institutions.<sup>2</sup>

That said, traditional transatlantic allies will likely remain central to US foreign policy (and vice versa), though

in some particular instances, partners in Asia and the Middle East may prove more critical. The realities of situational power will compel Europe to make more careful calculations about how and where it can most effectively apply its influence. In certain circumstances, such as the Middle East crises, situational power may mean that NATO partnerships assume a greater role in responding to problem situations. In broad terms, as states and multilateral institutions negotiate new rules on trade, finance, cyberspace, and outer space, transatlantic partners will have to pool their respective influence to achieve better outcomes.

Of the potential game-changers identified in the National Intelligence Council (NIC) *Global Trends 2030* report, in addition to the predominant ones of economic uncertainties (Europe’s chief among them) and individual empowerment, the trajectory of the ongoing transformation of the Middle East and North Africa may have the most direct impact on Europe, while the diffusion of power, the role of the United States, and the character of US-China relations will have a larger impact in shaping the global system writ large.

### **Europe to 2030**

As Europe confronts its current malaise, its economic and political trajectory is complicated by the impact of global trends. How the EU addresses its internal challenges will in large measure determine its preparedness for the world of 2030. As a historically unprecedented experiment in ‘meta-sovereignty’ or supranational governance, the European project remains very much a work in progress. The idea of Europe was animated by the devastating experience of World War II, and a desire to avoid the patterns of the past. But amid a stagnating economy, the rising generation of Europeans appears driven more by local concerns, namely widespread unemployment and a dearth of opportunity, than any unifying political vision. The gap is growing between the European Parliament’s enhanced powers under the Lisbon Treaty and its perceived popular legitimacy, exacerbated by the Euro crisis and the renationalization of European politics. Worse, new fissures are opening inside old states, introducing tensions between Scotland and the United Kingdom, Catalonia and Spain, and the Flemish and the Walloons in Belgium.

1 See Ian Bremmer, *Every Nation For Itself: Winners and Losers in a G-Zero World*, Portfolio Publishers, 2012; and Moses Naim, *The End of Power*, Basic Books, 2013.

2 For more discussion on situational power see *US Strategy for a Post-Western World*, Atlantic Council, December 2012.



*Protestors took to the streets in Greece to speak out against austerity measures. Photo credit: Flickr.*

The uneven distribution of Europe's challenges reflects a multispeed and multitiered reality: the Northern tier, including Germany, Austria, the Netherlands, the Scandinavian countries, and perhaps Poland, are best positioned for 2030, with viable social welfare states and more competitive economies. The debtor states of the Mediterranean tier, including Portugal, Spain, Italy, Greece, and France, face enormous challenges of structural reform and economic competitiveness. In the post-Cold War states of the southeastern tier, including the Balkans, Hungary, Romania, and Bulgaria, a sort of backlash against EU norms is unfolding.<sup>3</sup> The United Kingdom is rethinking its place in the EU altogether. At the same time, the absence of a dynamic and cohesive Franco-German core has created a disconcerting leadership deficit.

### ***New Populism, Demographics, and Europe's Democratic Deficit***

Divides thus appear both among EU states and within them. The Euro-barometer poll, which the European

Commission conducts twice annually, finds Euro-skepticism ascendant.<sup>4</sup> Confidence is eroding not only in debtor nations like Greece and Spain, where 72 percent of the population distrusts the EU, but in prosperous nations like Germany and the Scandinavian countries.

This political dynamic, in large measure a consequence of the global financial crisis, fuels new populist pressures, with voters in some of the Northern tier donor states growing to resent their responsibility for bailing out debtors, and Mediterranean states resenting the austerity policies accompanying the European Central Bank's rolling bailout of \$1.1 trillion and counting.

In this economic climate, and with social media empowering people to associate and organize more effectively than ever before, voters are coming to reject established political parties. A sense of alienation from Brussels elites and EU institutions coupled with populist antiglobalization sentiment has sparked a search for new

<sup>3</sup> See Neil Buckley, "'Transition Backlash' in Eastern Europe Sets off Alarms," *Financial Times*, March 13, 2013, p.2.

<sup>4</sup> See Jose Ignacio Torreblanca, "Europe has lost its citizens," European Council on Foreign Relations, March 13, 2013.

identities on both the left and the right—where parties largely oppose immigration. In Italy, the leftist Five Star movement headed by comedian Beppe Grillo garnered 25 percent of the vote in the February 2013 parliamentary elections, after a strong but ultimately unsuccessful showing by Greece's radical leftist Syriza coalition in June 2012. In recent years, Denmark's People's Party and its Freedom Party, the Swedish Democrats, the French National Front and Italy's Northern League have also impacted their respective countries' politics from the far right.

One cannot separate Europe's political dynamics from their economic underpinnings. The IMF projects the eurozone will shrink 0.3 percent and experience an anemic growth rate of 0.1 percent in 2013. All told, winding down debt, working through banking problems and enacting difficult labor reforms to restore economic growth will take Europe at least three to five years, and perhaps the rest of the decade. As the outlier political groupings evolve or unravel, they will reveal whether the new populist trend reflects cyclical developments or deeper structural problems.

That economic backdrop may complicate efforts to rejuvenate the European project over the coming generation. However, to the extent that the banking union centralizes EU members around a common financial system, Brussels' response to the economic crisis could strengthen EU political bonds, as well. The prospect of political union still seems over the horizon, but by 2030, the EU may bear greater resemblance to the federalist system of the United States than to the United Nations.

In addition to economic recovery, restoring a perception of legitimacy in European leadership will almost certainly necessitate a refurbishing of EU institutions, including the European Parliament, the presidency of the European Commission, and the Commission itself so that all become more closely tied to the national politics of their member states. Notionally, there are a range of actions both the European Parliament and national parliaments could take to strengthen links between voters and elected members, such as creating new institutional links between Brussels and other EU member capitals and more closely monitoring the European Parliament's legislative process.

The 2014 EU Parliamentary elections promise to be a bellwether event in this regard, particularly if they result in the appointment of a president of the European Commission. However difficult it would be to enact, direct election of the president of the European Commission could also help bridge Brussels' legitimacy gap with the people. In any case, increasing Europeans' comfort level with their institutions will come as a prelude to European political union, and indicates how problematic the idea might be.

German Chancellor Angela Merkel suggests that the answer to EU economic and political challenges is "more Europe."<sup>5</sup> Berlin appears uncomfortable with its dominant economic role, which has resulted in a backlash of widespread "Germanophobia." Yet in a provocative speech in 2011, Polish Foreign Minister Radoslaw Sikorski appealed to Berlin for EU leadership, declaring, "I fear German power less than I am beginning to fear German inactivity"—a statement all the more remarkable from a Pole.<sup>6</sup>

While the Germans have moved cautiously toward banking union and a pooling of debt, their role in Europe and their broader approach to foreign policy remain tentative and uncertain, particularly toward conflict-prone areas like the Middle East. As columnist Philip Stephens wrote in a thoughtful commentary in the *Financial Times*, "if Berlin is not to be accused of building a German Europe, it has to develop a narrative about its willingness to carry the responsibilities of a European Germany."<sup>7</sup>

Absent a coherent Franco-German core to project a unified Europe, how and when Germany brings clarity to these large strategic questions is uncertain. Yet much of the answer to the question of whether the eurozone will become a coherent economic space and Europe will play a global role commensurate to its weight in 2030 hinges in large part on the German question.

Regardless, Europe will face new demographic challenges. They begin with the graying of the EU population. In 2030, roughly 25 percent of the EU's population will be over the

5 See for example, "Merkel Demands 'More Europe'," Deutsche Welle, June 7, 2012: <http://www.dw.de/merkel-demands-more-europe/a-16007150>.

6 Cited in the *Economist*, November 29, 2011.

7 See Philip Stephens, "Germany Should Face the German Question," *Financial Times*, April 18, 2013.



age of sixty-five. A 2010 Pew Center report estimates that the number of Muslim immigrants in Europe will grow from 44.1 million in that year to 58.2 million in 2030. In France, Belgium, and Austria, Muslim populations are projected to grow to about 10 percent of the total; in Bulgaria, 16 percent; and in Sweden, where there are some 500,000 Muslim immigrants (6 percent of the total population), the immigration rate may nearly double over the same period. And these projections of Muslim immigration may even be low, if the “Arab Awakening” results in continued turmoil. Muslim immigrants tend disproportionately to fill the ranks of the unemployed in Europe, adding a layer of stress to social welfare systems and the respective social contracts of European states, and fueling nationalist parties. The May riots in Sweden were testimony to this problem.<sup>8</sup>

This reality also affects Turkey’s relationship with the EU. Prior to the recent anti-Erdogan political unrest, European reluctance about Ankara’s accession to the EU had been diminishing. But the cultural baggage of past debates and Europe’s faltering economic performance has made Turks themselves more skeptical about the EU. Given Turkey’s economic dynamism and its important role in managing the transformation of the Middle East and North African (MENA) states through the G-20 and other international groupings, Brussels could reap significant benefits by granting it membership in the EU.

### **European Economic and Energy Futures**

Europe’s malaise appears even worse in the context of global economic trends. Emerging G-20 nations, particularly China and India, continue to drive global growth, albeit at reduced levels. Trade and investment are increasingly becoming South-South phenomena, as the Asia-Middle East energy nexus illustrates so dramatically. Two-thirds of Mideast oil exports now go to Asia, and at least 70 percent of Asian oil imports originate in the Mideast. Continued intra-regional trade and investment growth in both Asia and Latin America also underscore these trends. Similarly, the United States appears poised for an economic resurgence—despite a dysfunctional political system—driven by the shale gas revolution.

In May 2013, the Obama administration eliminated a key impediment preventing US companies from exporting natural gas. The United States has already witnessed a surge in energy-intensive industries, including chemicals, petrochemicals, and steel. Refurbishing of the US financial sector has led to new buoyancy: estimates that US non-financial firms now hold cash reserves of \$1.5 trillion, consumer debt is coming down, and the housing market is recovering. All these developments suggest challenges to European competitiveness.

The EU faces two near-term internal economic challenges: reform and stabilization of its financial sector, and labor reform in Spain, France, Italy, and other Mediterranean states. To restore lasting growth, Brussels will have to resolve both problems.

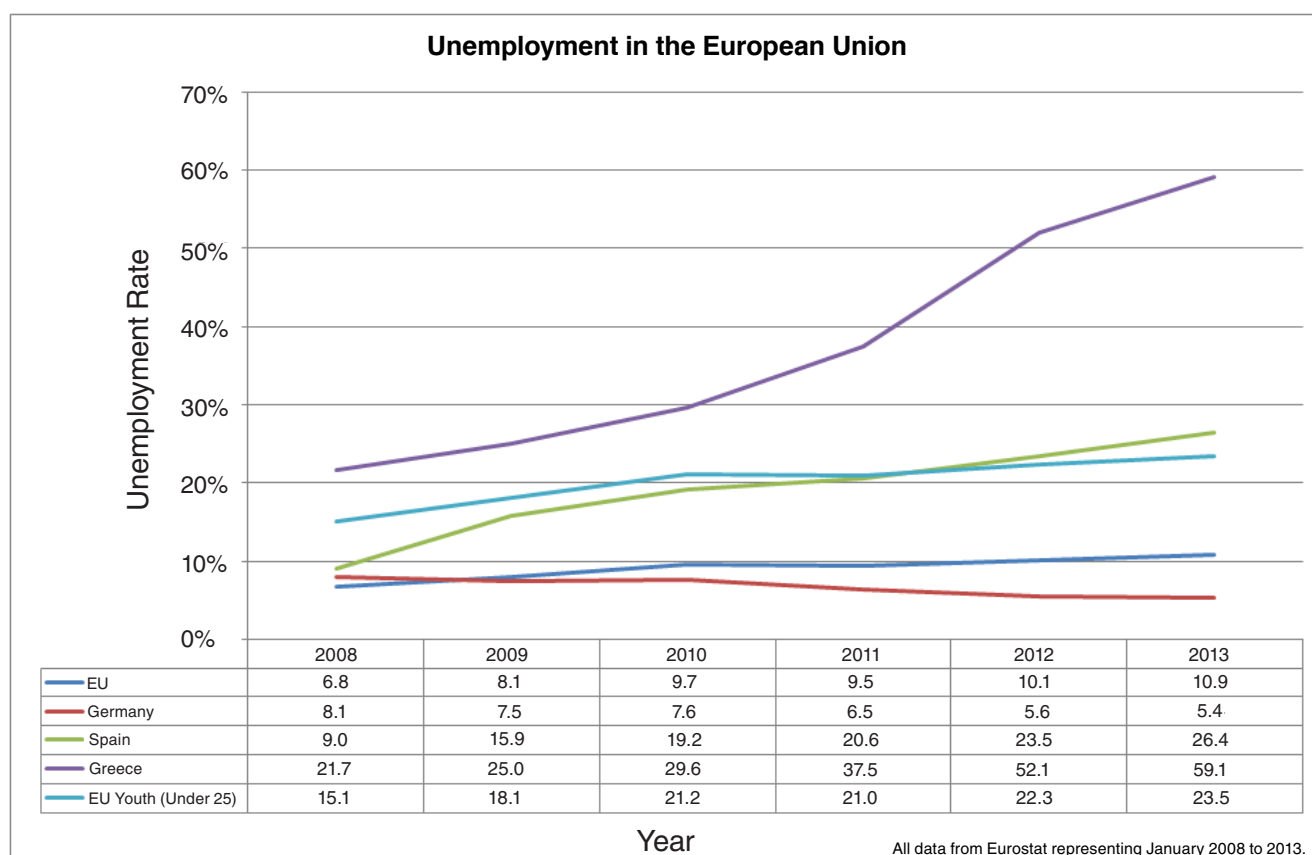
The controversy over the recent Cyprus bailout, with demands that bank account holders bear some of the burden highlights the overlap of the sovereign debt crisis and banking crisis as well as the distance the Europeans must go to achieve true banking union—a single system of supervision, resolution, and deposit insurance. Since the crisis began to unfold in 2007 and 2008, the EU has gradually developed a means of responding to crises, the European Stability Mechanism. The possibility of the Baltic states, Poland, and other recent and new Central European EU members joining the Eurozone in the coming decade could lead Sweden and Denmark to rethink their exception to the eurozone.

One consequence of the EU financial crisis has been a contraction of European banks’ lending, which in turn reinforces the austerity measures that are spurring political tensions between donor and debtor states, and within debtor states themselves. Unlike the US financial bailouts, under which US banks largely cleared their balance sheets, the EU bailouts have proven protracted and difficult.

To restore Eurozone economic competitiveness, however, Brussels will need to do more than meet basic challenges of fiscal discipline and financial supervision. The EU will need to make a host of structural changes, including pension reform, education and innovation policies, and not least, reform labor relations.

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<sup>8</sup> See Ian Traynor, “Sweden join Europe-wide backlash against immigration,” *The Guardian*, 24 September 2010.



Among Mediterranean states, Spain stands at the forefront, creating more flexible arrangements between management and unions. Since 2008, Spanish labor productivity has increased by more than 11 percent, and the country has seen new investment in its industrial sector. While progress is evident in Ireland and Portugal, France, whose eroding economic competitiveness has been a concern in recent years, is more problematic. And perhaps the largest concern in this regard is Italy, whose recent election results hint at popular resistance to reform.<sup>9</sup> The sheer magnitude and protracted nature of youth unemployment, with all its attendant social consequences, underscores the need for serious reform.

For the entire suite of necessary structural reforms, the Nordic countries appear to hold a considerable amount of soft power appeal vis-à-vis the Mediterranean states. Sweden and Denmark, for example, have enacted pragmatic reforms that have made their social welfare states more viable and have limited income inequality of

the sort seen in the United States.<sup>10</sup> Similarly, Finland's educational excellence also may offer a "best practices" example for reform in that realm.

#### **New Economy**

In the coming generation, Europe must position itself more competitively with respect to both innovation and adaptation of new technologies, ushering in what some call an emerging "Third Industrial Revolution." As in the rest of the world, Europe is witnessing a convergence of technologies that are mutually enabling: information technology, additive manufacturing (3D printing), robotics, nanotechnology, and biotechnology. All of these are currently in varying stages of commercial adaptation.

Thus, in the near future, instead of ordering a toy or device from Amazon, consumers may buy the electronic blueprint and create it in their own 3D printer. Bio-printing of human cells and organs is another example of overlapping transformational technologies. Carbon nanotubes may

<sup>9</sup> See for example, Tony Barber, "Spain's labour reforms set the pace for rest of bloc to follow," *Financial Times*, February 13, 2013, p.2.

<sup>10</sup> See *Economist*, "Special Report: Northern lights," February 2, 2013 for a discussion of Nordic successes in reforming the public sector to be more efficient.

become capacitors, providing new and improved power sources for electric vehicles. Nanotechnology is currently used in sunscreens, paint, and stain-resistant fabrics. Global sales of nanotechnology-enabled products are already estimated at \$254 billion, and the US National Science Foundation projects they will grow to \$3 trillion by 2020.<sup>11</sup>

The above is just illustrative of the cauldron of innovation bubbling up. As these new technologies and the industries that produce them begin to reshape the economic landscape, methods of production will become more local, more customized, and niche-oriented. 3D printing, for example, may significantly alter the way global supply chains operate for a wide range of products from medical instruments and auto parts to cellphones. In this growing knowledge economy, competitive investment and regulatory environments and appropriately skilled and flexible work forces will become important ingredients for success.

At present, Europe's Northern tier appears best positioned to adapt to these trends. Sweden and other Nordic states that are most wired and have a high proportion of college-educated citizens appear well-situated to adapt to the new economy. The pace and scope with which the rest of Europe makes the necessary educational and labor reforms in response to the current crisis will shape how competitive the EU as a whole is in the emerging economic universe. Research and development investments will also be important. The degree to which the EU strengthens the European Research Area and the extent to which it mobilizes and incentivizes the knowledge economy across the EU will be a significant factor shaping its competitiveness.

### **Energy Trends**

The most dramatic energy trend reshaping global energy markets is the Shale Revolution, whose long-term impact is only starting to be felt, and whose consequences for Europe are, at best, a mixed picture. The hydraulic fracturing or "fracking" revolution has dramatically reduced US natural gas prices, and the US Energy Information Agency estimates that the United States is now producing nearly 70 billion cubic feet per day. Yet the diminishing

growth in gas production has only meant that US firms are applying the technology more to "tight oil" in shale formations. This has driven up US oil production to over 7 million barrels per day (bbl/day), and in the next year, perhaps as much as 8 million bbl/day. The International Energy Agency projects that US oil output will overtake that of Saudi Arabia by 2020, and that the United States will become a net oil exporter by 2030.<sup>12</sup>

Meanwhile, shale gas is dramatically altering the US energy mix. According to the EIA, natural gas now rivals coal for electricity production, with coal accounting for 34 percent, and gas for 32 percent. Natural gas also burns 50 percent cleaner than coal, reducing greenhouse gas emissions.

This has a range of implications for Europe's energy future and its economy writ large. In the near term, the largely unanticipated US energy surge has meant a substantial increase in European coal imports from the United States. US shale has also resulted in a greater availability of gas on world markets, making available resources which the United States had earlier been projected to import.

Perhaps most importantly in terms of energy security, the US shale revolution is leading to a growing global gas market, severing the link between oil and gas prices, and increasing the role of liquefied natural gas (LNG). LNG currently accounts for less than 15 percent of natural gas production. Given the difficulty and large front-end investment required to build gas-receiving terminals, large-scale expansion of the LNG trade will likely not occur until 2015 or 2020. At present, Europe imports 36 percent of its gas from Russia, though specific dependency varies from country to country. Much to Europe's benefit, however, recent gas discoveries in the Eastern Mediterranean and offshore Mozambique will accelerate the growth of a global LNG market beginning by the end of the decade.

The shale revolution is having a major impact on Gazprom and other Russian gas firms. With shale allowing US companies to sell gas at prices 75 percent below what Gazprom charges eastern European customers, the most important cog in Russian President Vladimir Putin's corrupt state capitalist system may now be at risk. Gazprom

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<sup>11</sup> See Peter Marsh, *The New Industrial Revolution*, Yale University Press, 2012. See particularly chapters 9 and 10.

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<sup>12</sup> Lannanh Nguyen, "U.S. Oil Output to Overtake Saudi Arabia by 2020," *Bloomberg News*, November 12, 2012.

has been forced to lower its prices to Europe, and the European Commission is investigating it for price-fixing. The result likely will increase pressure on Gazprom to lower prices further. Gazprom's market value has already plummeted from \$365 billion in 2008 to \$120 billion today, and the company has canceled major projects, including the Shtokman gas project in the Arctic. Gazprom and other Russian firms are looking to LNG for future exports, underscoring the trend of delinking gas and oil prices. This is likely to lead to lower gas prices for Europe over the rest of this decade and more diverse sources of supply by the 2020s.

Outside North America, shale gas development is still in its embryonic stage. The UK has only just lifted its moratorium on shale gas, and has yet to pursue full-fledged exploration. Poland has led Europe in the search for shale, awarding 111 exploration concessions to both domestic and foreign firms. Geology, infrastructure, and tax and regulatory policies have placed limits on exploratory drilling. ExxonMobil withdrew, and Conoco Phillips has abandoned some of its options in Poland. Warsaw is forging ahead, but production is unlikely before 2015. And Ukraine is now exploring shale gas development, as well.

The shale revolution will have several negative implications for Europe. European industrialists are increasingly concerned that cheap US gas will put them at a competitive disadvantage. At the same time, lower prices of gas also are changing the economics of wind and solar power, and dampening enthusiasm for the expansion of nuclear power in Europe—which had already suffered dramatically in the wake of the meltdown at the Fukushima plant in Japan. Though gas is viewed as a transitional energy source, it has delayed a shift to renewable energy sources, which are simply not cost-competitive. This will mean a longer timeframe for subsidies that Germany and other EU states provide for renewables. The wild card in this energy picture is technology. Breakthroughs that lower the cost of solar and wind energy may still occur in this decade, but they are difficult to predict.

### **Europe as a Global Actor**

What do all these trends suggest about Europe's role in a world system where economic and strategic weight is shifting east and south? One clear consequence of European austerity is a steadily diminishing European

defense capability. As a 2012 RAND Corporation analysis concluded, "planned defense cuts to the armed forces of the UK, France, Germany, Italy, Spain, Netherlands and Poland (which together comprise 80 percent of NATO Europe's defense spending)...will have a serious impact on NATO Europe's ability to deploy and sustain power over long distances."<sup>13</sup>

The United Kingdom's capacity to project air and sea power will be significantly diminished, and it faces difficult tradeoffs. Upgrading Britain's Trident nuclear force could cost \$60 billion. How will that decision impact spending on conventional military forces?

### **NATO Partnerships and EU Geo-Economic Power**

In his farewell address in Brussels, former US Defense Secretary Robert Gates warned NATO allies of "the very real possibility of collective military irrelevance" if Europe did not assume its share of the burden. Though at some \$300 billion, Europe's defense spending is collectively the second largest in the world, the total is far less than the sum of its parts. Growing UK-France defense cooperation may bridge some capability gaps, but continuing defense reductions in both countries will limit the benefits of such collaboration. Nonetheless, Paris's continued integration into NATO's command structure will remain vital. For Europe to maintain its relevance as a military actor, its militaries will need to pool their capabilities and pursue greater defense-industrial cooperation.

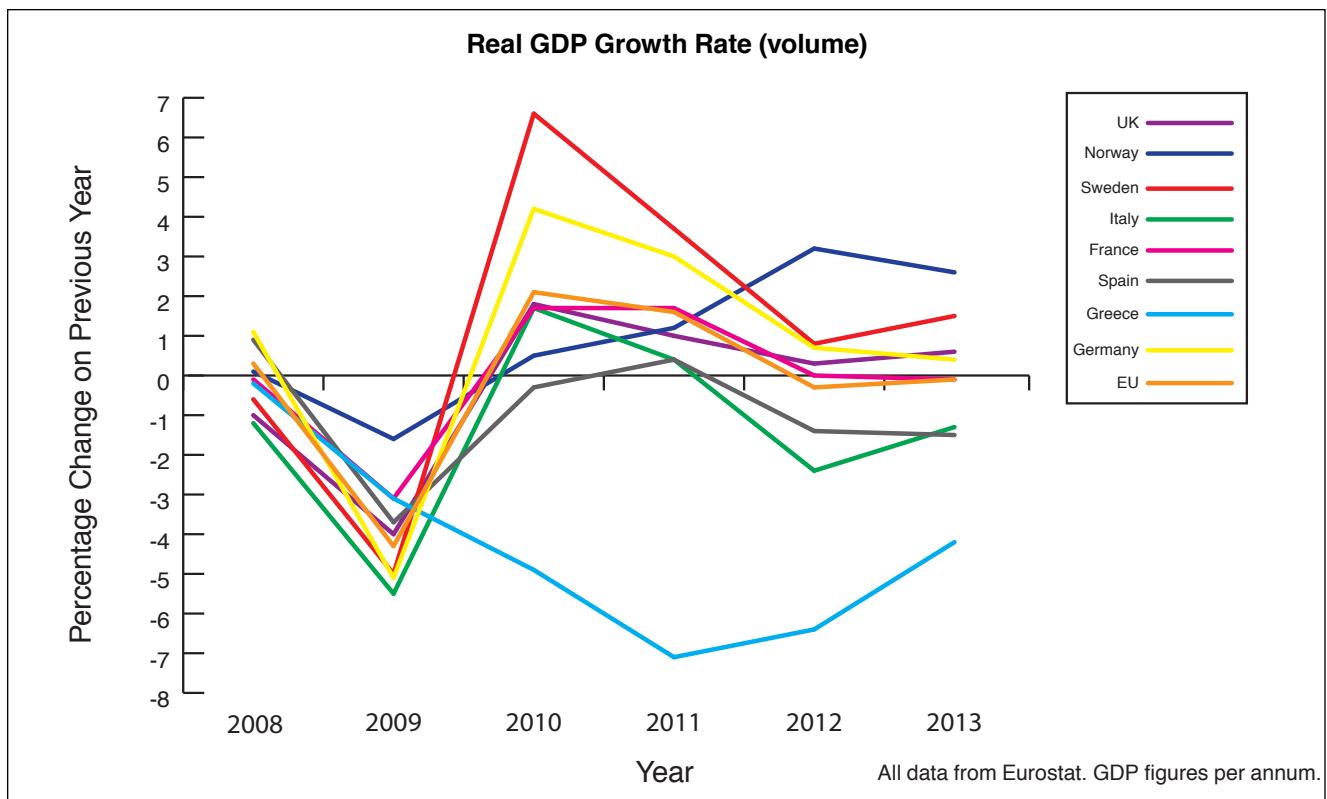
Despite its limitations, NATO has demonstrated its enduring utility as a global security institution. Even if scaled back, it will remain an important actor, particularly with respect to the Middle East and North Africa, and on functional issues such as counterterrorism, maritime piracy, and cybersecurity.

However, the precipitous decline in European defense budgets and the continuing growth of NATO partnerships may change the character of the alliance. Many NATO partners in Europe, the Gulf, and Asia can provide resources to address the primary security challenges outside the transatlantic area. To the degree that its new

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<sup>13</sup> See John Gordon, Stuart Johnson, F. Stephen Larrabee & Peter A. Wilson, "NATO and the Challenge of Austerity," *Survival*: vol. 54 no.4 August-September 2012; pp. 121-142.





partners prove willing and able to collaborate institutionally and operationally, NATO may complement its traditional approach to its member states by essentially enabling NATO to become the hub of a broad, international security network.<sup>14</sup> However, there are risks to such an approach. It could lead to dilemmas over potential contingencies, with some members and partners diverging from others. If taken too far, a hub-and-spoke system could transform NATO into a different type of global security actor and risk undermining the cohesion of the alliance.

Nonetheless, as a practical matter, over the coming generation, all of this points to a minimal European military role beyond its periphery. If the EU continues to punch below its weight as a military power, Europe may better conceive itself more as a geo-economic and diplomatic actor, with its security role concentrated more in the nonmilitary realm, namely in foreign assistance, conflict prevention, and democracy promotion. If the European Union solidifies and restores the power of attraction, Europe will wield a modicum of soft power in other regions.

To the degree that it projects a common approach to the world, the transatlantic partnership can exert greater global influence. The transatlantic economy accounts for some 50 percent of global GDP and nearly 40 percent of global trade. Shared democratic values and habits of military cooperation underscore the continued importance of the transatlantic partnership as a force multiplier for both US and EU foreign policy objectives. This is evidenced in European participation in Afghanistan, the EU's support for tough sanctions against Iran, and pressure on the Assad regime in Syria.

In regard to emerging challenges, the EU's proposed Code of Conduct for Outer Space is an important contribution to the debate over how to manage the global commons. US-EU and NATO collaboration will be critical to defining new rules for a stable and open cyberspace domain as well. The EU can also play a significant role in East Asia: It has an ongoing dialogue with Beijing and is China's largest trading partner, with more than \$500 billion in two-way trade in 2011. The EU has also established the Asia-Europe Meeting, an annual high-level dialogue with Asian nations, and though that mechanism leaves much to be desired, it demonstrates the EU's desire to enhance its ties with Asia writ large.

<sup>14</sup> See Franklin D. Kramer, *NATO Global Partnerships: Strategic Opportunities and Imperatives in a Globalized World*, Atlantic Council, Washington, DC, 2013 for a detailed discussion of this topic.



Leaders of some of the world's most powerful emerging economies gathered at the 2012 BRICS Summit. Photo credit: Wikipedia.

EU engagement with Asia reflects the reality that challenges to global security and prosperity in the generation ahead lay beyond geography and, more often than not, outside the realm of military force. Though the EU and the United States differ on a range of issues, from climate change to agricultural policy, they have ample opportunities to cooperate in the Asia-Pacific, including coping with China's rise and dealing with North Korea.

One difficult challenge for Europe is adapting its role in international institutions to new power realities. From the UN system—particularly the UN Security Council—to the Bretton Woods institutions, Europe tends to be overrepresented. In the coming decades, the EU and the United States both confront the challenge of how and when to reshape the international system to reflect the growing weight of China, India, and other emerging G-20 economies while preserving the values, principles, and norms that have led to the successful expansion of the global system since 1945.

The crucible in which this is most clearly occurring is the International Monetary Fund's reallocation of voting shares, but the same process will play out in other international institutions in the period ahead. With less of a direct stake in the IMF, Europe's smaller actors such as the Nordic

countries may be able to play a facilitating or mediating role. To the degree that the G-20 can become a venue for global consensus-building, it may be a forum to test the waters on revising rules and formulating new ones.

### ***The Russia Question***

One big uncertainty is Russia's future role. That may turn on the longstanding question of whether or not Russia seeks to become more integrated into Europe and the global system or whether, as its current trajectory suggests, it moves toward a Eurasian future.

As highlighted by periodic protests and the prevalence of online social networks, "Putin 2.0" now faces a very different Russia than he did in his first twelve years. Russia has a new middle class that has more than doubled in size since 2000, and by some estimates now consists of up to 25 percent of Russia's dwindling population. Since then, Russia's per capita GDP has doubled to roughly \$16,000, in large measure as a result of booming oil and commodity prices.<sup>15</sup>

Since 2000, new car registrations in Russia have risen by 300 percent. Roughly 60 percent of Russians now use the internet (a 500 percent increase), 78 percent of children

<sup>15</sup> See *Economist*, Daily Chart, June 18, 2012.

between nine and sixteen use social networks, 42 percent read foreign media, and the number of Russian tourists who travel abroad has more than doubled.<sup>16</sup> However much Putin may have stifled reform, he faces growing pressure from below.

Though the Russian economy has experienced pockets of change, on the whole, it has yet to diversify. In the wake of Russia's ascension to the World Trade Organization in August 2012, Moscow has also shown a tendency to backslide on its WTO commitments, unlike China, which used its WTO ascension as a catalyst for change. Russia's entry into the WTO coincides with Putin's proclamation of ambitious new economic goals and promises of a range of political reforms. The Russian president has given large salary increases to teachers, civil servants, and engineers. He promises to create 25 million highly-skilled jobs. He calls for increasing investment from 20 to 27 percent of GDP by 2018. He aims to move Russia up to 20th from 120th on the World Bank's ease of doing business index. And he plans to move Russia beyond its dependence on oil and gas.

According to the World Bank, the share of oil and gas as a portion of Russia's total exports rose from less than one-half in 2000 to two-thirds in recent years. Oil, gas, and other extractive industries now account for more than 60 percent of Russian GDP.<sup>17</sup> However, Russia's oil output is projected to plateau in the middle of the decade.<sup>18</sup> To avoid deficits, Moscow pegs its budget to oil at a price \$115 per barrel, but many analysts project a softening oil market, with a price range of \$70-\$100/bbl through 2014, and by some estimates to 2030.

No one knows whether Russia will remain a declining petro-state or use its ascension to the WTO as an opportunity to diversify its economy and catalyze political reform. But the overwhelming pattern of behavior, from charges of rigged Duma elections, to new laws to penalize protestors, crackdowns on NGOs that receive foreign funds, efforts to censor websites and social networks, and an ongoing failure to implement key reforms, has deepened skepticism about Russia's ability to change.

Absent concerted moves toward economic modernization, an independent judiciary, and reform of its business environment, it is difficult to envision Russia becoming more than an eclectic, issue-specific partner with both the United States and Europe in a future that would have elements of cooperation and competition. While Russia is unlikely to become a security threat to Europe in the way that it was during the Cold War, if it fails to alter its current political and economic trajectory, it promises to be a difficult and troubling neighbor. The two factors that may impact Moscow's mindset toward the West are the direction of the EU and its receptivity to Russian ambitions, and an increasingly powerful China along its borders.

What direction Ukraine takes vis-à-vis Europe may also have an impact on Russia's strategic trajectory. For Ukraine and other prospective partners in Putin's nascent "Eurasian Union" scheme, closer ties to a recovering and more coherent EU would likely have far greater appeal. A westward-looking Ukraine, particularly one with less dependence on Russian energy, could, in turn, affect Russia's approach to Europe as well. The United States and the EU will both seek to create an environment most conducive for Russia to move in a direction of modernization and greater integration with Europe and the West.

Short of Russia making the type of strategic choices that Deng Xiaoping made in opening China, or more recently, the Myanmar government's moves to open up its country to globalization, it is difficult to envision what the United States and EU can do to foster Russian efforts to join the 21st century knowledge economy, qualitatively thicken its economic relationship with the EU, and/or develop a more robust partnership with NATO so long as it continues on its current economic and political trajectory.

To the extent cooperation on missile defense can be realized, that could be a stepping stone toward a broader Russian collaboration with NATO. Similarly, if efforts at a diplomatic resolution of the Syrian crisis prove successful and counterterrorism cooperation deepens, these might have a catalytic effect on Russia's broader relations with the United States and EU.

<sup>16</sup> *Economist*. Prev. cited; See also Russian Institute of Contemporary Development, presentation at the Center for the National Interest, February 28, 2013.

<sup>17</sup> See Kathy Lally, *Washington Post*, p. A16, July 22, 2012.

<sup>18</sup> See World Bank, <http://www.worldbank.org/en/country/russia/overview>.

## Policy Priorities

Looking to 2030, where are the most significant opportunities for shaping Europe's future? The greatest near- to medium-term opportunity for Europe and transatlantic relations is the proposed Transatlantic Trade and Investment Partnership (TTIP). TTIP holds great economic and geostrategic potential on both sides of the Atlantic, and leaders should view it not in narrow terms of the trade issues it addresses, but in light of its potential long-term strategic benefits. Achieving a comprehensive agreement that creates the basis for the world's largest single market would:

- Enhance US and EU economic dynamism and hasten a return to growth, adding by some estimates as much as 0.5 percent to their respective annual GDPs, creating tens of thousands of jobs, and boosting economic synergies;
- Reinvigorate the transatlantic partnership and US-EU relationship;
- Foster a more coordinated approach that could increase US and EU leverage in shaping the future of the global trade system. An accord could shape new global standards in areas such as intellectual property rights, investment, and emerging new sectors such as industries based on nanotechnology, biotechnology, nonfood biofuels, 3-D printing, and electric vehicles;
- Enhance prospects for US energy exports to Europe;
- Bring new momentum to the Trans-Pacific Partnership (TPP), the Obama administration's effort to forge a new high-standards trade accord with Pacific Rim economies that could bolster the global trade system after the breakdown of the Doha Round of WTO accords in 2008;
- Sharpen the strategic choices facing Russia; and
- Broadly, serve as a source of leverage for the transatlantic community at a historic moment when power is diffusing to emerging G-20 economies.

## The Middle East Challenge

One high-priority strategic issue that is both an imminent challenge and long-term opportunity for the transatlantic community now and in the years approaching 2030 is helping to shape the outcomes of the transformation of MENA countries. As is already evident in the struggles of Egypt and Libya, this process will vary from country to country, and will be protracted, erratic, and nonlinear. At a time of fiscal constraints and diminished western influence, sustained, active coordination at both the top political levels and at working levels is especially critical. It will be important to think through lessons learned from the EU's previous Mediterranean initiative and from US failures of nation building in Iraq and Afghanistan.<sup>19</sup>

For the EU, economic integration of both sides of the Mediterranean is an important strategic objective, as underscored in the European Neighborhood Program. The process will necessarily be gradual, and shaped by the internal dynamics of each MENA country.

Providing incentives and resources to foster rule of law, civil society, education, and participation of women in society, as well as encouraging small and medium-size business and an entrepreneurial culture should remain focal points of both US and EU bilateral initiatives. The principles of "more for more" and "less for less" guiding both US and EU programs need to be carefully applied.

It will no doubt be challenging for European capitals and the United States to coordinate outside assistance at both the strategic and tactical levels over a long period. The Deauville Partnership established at the 2011 G-8 meeting can be an important mechanism for coordinating and galvanizing the international community to assist the Arab countries in transition. The partnership includes the G-8 countries, but also Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, and Turkey and major international financial institutions, including the World Bank, the International Monetary Fund, and regional financial bodies. The partnership extends to the transitioning states of Egypt, Tunisia, Libya, and also to Morocco and Jordan, which might be termed "adapting" Arab monarchies. US and EU

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<sup>19</sup> For a detailed assessment and recommendations on the Western response to the Arab transformation, see Danya Greenfield and Rosa Balfour, *Arab Awakening: Are the US and EU Missing the Challenge?*, Atlantic Council, June 2012.



leadership will also prove essential in delivering the \$38 billion in multiyear pledges which bilateral donors and international financial institutions have promised.

Lastly, while the timing is uncertain, the United States and EU—and perhaps NATO—should gear up for what will unavoidably be a major humanitarian, security, and economic exercise in damage control in post-Assad Syria.

### ***EU/Global Opportunities***

In regard to energy, the EU might benefit from having an independent commission take a fresh look at the shale revolution, and its potential risks and rewards in Europe. Could European countries produce appreciable quantities of shale gas and oil at an acceptable risk? Another aspect worth examining anew is shale's impact on the pace of commercialization of renewable energy sources. A successful US-EU Transatlantic Trade and Investment Partnership permitting American energy exports amid a growing global LNG market could greatly benefit European energy security.

One area where greater US-EU dialogue could result in greater leverage for both is in regard to the global commons. There is an urgency to design new rules, norms and codes of conduct in the realms of the future of cyberspace, the Arctic, and outer space.

In particular, the gradual thawing of the Arctic resulting from climate change is beginning to raise a whole set of issues—both environmental and economic—that will require shaping new international rules and norms over the coming generation and beyond. Transatlantic collaboration on the Arctic will be critical. The Arctic Council, with a relevant set of actors, may be an important venue to begin a coordinated effort to shape a global consensus. Here, too, the Nordic countries may have an opportunity to shape a common transatlantic approach that could pay dividends. In any case, the Arctic should increasingly be a focus of US-EU dialogue.

Within Europe, there are a number of areas where both the EU and particular European states outside the Eurozone and NATO could carve distinct or niche roles:

- The Nordic countries and the Baltic states could have an impact on economic modernization in northwest Russia through interactions that incentivize best practices in business and finance;
- The Nordic countries may also be able to play a mediating role in Russia's relations with the West; and
- Lastly, non-NATO states may enhance bilateral military-to-military ties with the United States, building on, for example, Sweden's experience in Afghanistan.

*MAY 2013*

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