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Eurozone's Debt Crisis and US Strategy: A Return of Geopolitics for Europe

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Trying to conceptualize and determine the future through an insight of present perspectives is most of the times the biggest mistake; yet it is also the greatest challenge.

Abstract

The unveiling of the debt crisis in Europe brings forward a resurgence of the forgotten discipline of geopolitics along with its significance as a credible analytical tool in present transatlantic foreign policy analysis. Up until very recently one of the most unpopular and outdated intellectual concepts in contemporary Europe. The period of uncertainty which started in 2009 has included strategic tensions between European powers which have paved the way for introducing a new geometry of state relations that will continue altering the balance of power among key EU regional groupings. The aim of the paper is to provide a conceptual framework upon which, the predominance of the creditor-debtor divide rather than a consistent European-wide response to the crisis, apart from sustaining systemic ambivalence, structural vulnerability and loss of confidence, above all introduces elements of geopolitical uncertainty. Due to the creditor-debtor relationships and not any other form of geopolitical frictions, a number of core EU balances have been broken down which affect intra-European power correlations and progressively pave the way for the evolution of geopolitical dilemmas impacting both on Europe and the US (indicative examples will include the Franco-German axis, Central and Eastern Europe, Russia and China). On top of that, growing US concerns over the strategic implications of Europe's debt crisis and the geopolitical necessity for maintaining an unbroken and coordinated Atlantic West, increase the need for combining a forward thinking transatlantic analysis. In this regard, the methodology that is followed sheds light on how the Ukraine crisis symbolizes a policy shift and a definite signal of changing geopolitics by the US for: a) effectively address the linkages between economic and security issues in the EU context, b) progressively establish a functional balance of power that keeps Europe united and capable of sustaining its slow but determined pro-integration drive.

Keywords: Eurozone; Geopolitics; US; Germany; Russia

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The schism in Europe: Creditors, debtors and elites

During the 21st century, Europe's environment has become more complex compared to past decades. "With successive rounds of widening and deepening, the European project has become much bigger, more intrusive and less inclusive internally, while external competition intensified in a rapidly globalizing world"². In such a European geography, where the traditional balance of power approach has shifted, the difficulties encountered for searching common grounds on co-administrating European integration's vested interests through a convergence of the complex socio-economic and political processes that are in store, have worryingly increased. The ongoing Eurozone crisis highlights a range of multi-year problems and serves as the absolute test case for addressing the challenges that will irrevocably shape European integration's future prospects.

To begin with, the Eurozone (EZ) project is more than a currency zone. It is a post-modernist construction, akin to the trends of the third industrial revolution, going beyond national interests to engulf collaborative outcomes via a network of nations or regions with ample future benefits. However, from 2009 onwards, the project is facing maximum uncertainty as it has not been sufficiently completed. The issue of highly indebted countries is a product of Europe's incomplete currency zone which allowed severe macroeconomic imbalances between its member-states and consequent divisions over creditor and debtor economies (instead of indebted state entities and citizens). Eurozone's inherent risks relate to the EU's incomplete institutional structure side by side with the conflicting dynamics of the creditor-debtor divide that permeates the European economy and tests its cohesion. What is certainly in crisis is the institutional-set up of the EZ than needs to be completed by banking and fiscal unions plus policy coordination mechanisms. Inevitably, in the course of time, the EZ will continue facing significant challenges that might include setbacks. One can also debate whether the EZ should have been completed first with just a few core members or whether it has paced its expansion beyond its digestive ability. This debate also entails geopolitical aspects and whether European elites were realistic in their strategic vision of Europe.

Predominance of the creditor-debtor divide rather than a consistent European-wide response to the crisis has led to an erroneous outcome: each country believes to be acting rationally from a national point of view by restraining demand and wages to boost net exports while at the same time reducing public deficits to sustain market confidence. However, the resultant of these national rationalities adds up to a collective irrationality since the end result is European wide contraction, heightened default risks and angry reaction from the rest of the world as this collective stance amounts to beggar-thy-neighbor policy. It is no exaggeration to argue that this systemic uncertainty and market failure has dealt a dramatic blow to confidence that has been even more destructive than the actual austerity policies.

A well hidden inconvenient truth is to acknowledge that debtors' consumer-led model is the flip coin of creditors' equally unsustainable export-led model simply because one cannot exist without the other. If you blame Southern politicians for allowing excessive consumption you must equally blame those of the North for making it possible as their choice of growth strategy forced their relatively wealthier but underpaid citizens to

² Loukas Tsoukalis, "Does Europe Need a New Bargain?", Euroforum Conference-KU Leuven, September 16 2014, p. 3, available at <http://www.eliamep.gr/wp-content/uploads/2014/09/Does-Europe-Need-a-New-Grand-Bargain-Leuven.pdf>.

subsidize Southerners' consumption and now at risk of losing their savings. Should that have happened, elites in creditor economies would also have to admit to their general public that the external surpluses of the last decade, by courtesy of wage austerity, had been grossly mismanaged. A quite uncomfortable position similar to that of elites in debtor economies where bailouts allow them to transfer the blame to protestant creditors rather than pronouncing it a natural consequence of their economic model, and that in truth austerity would be more severe had they dared to choose or were left to default. All in all, people and politicians across Europe are embroiled into a blame game that often obscures real issues and becomes a contest in ethics as if economies were heavenly contraptions, when in fact economic positivism and religion rarely go down well together.

In such an environment, the creditor-debtor conflict within the EZ is hard to resolve without populist overtones given Europe's inherent and expanded "democratic deficit"³. The EZ greatly remains an elite driven project lacking broader consensus amongst Europeans⁴. On top of that, the project has now come to entail conflicts of interest between national elites which are themselves divided into creditors and debtors and embroiled in a bargaining game around the debt burden; establishing a persisting leadership problem and a continuous EU leadership crisis. The worrying rise of EU intergovernmentalism explains, to a great extent, the bypassing of European institutions that are largely set aside when it comes to decision-making. Furthermore, the dangerous gap between Europe's institutions and the politics of renationalization⁵ alongside the schism between national elites, underscore the seriousness of the present crisis and how it is different from those of the past. Without undermining the lack of public consent or 'permissive consensus' on behalf of the peoples of Europe, the elites' breach in the high-politics realm is a crucial one since it leaves the EU in a vulnerable position when it comes to decisions taken for advancing or withdrawing their countries from the European project and the EU itself. Vital decisions which will be first taken by national elites and not by the citizens of Europe⁶.

In principle, the Europeans have been distinguished partners in making diversity the servant and not the master of their destiny. European integration is no longer just about peace in Europe. The question is whether the globalization process with its requirements for fast modernization and consequences for income redistribution has rendered the overriding European goal for economic and monetary union insufficient;

³ "Democratic deficit" also implies failure to take responsibility for committed actions on behalf of Europe's political and economic elites. As a result, electorates across Europe have come to accept the rhetoric and bargaining bluffs of their national elites as actual facts. This makes it harder for their politicians to implement policy U-turns. The rhetoric against Europe's South (Greece, Italy, Portugal, Spain) and the initially successful effort to draw a red line against debtors, have now come to constrain politicians in creditor countries to act decisively towards rescuing the EZ.

⁴ Regarding social perceptions, surrounding forces unifying Europe's approach through individual or even collective citizens' subconscious -with the emphasis placed on younger generations- is by no means associated with post-war realities and the Cold War era (fears of war, economic revival, and the Russian threat). More than that, Europe's perceived "democratic deficit" as an elitist project run by an inaccessible bureaucracy poses dangers for bringing forward a break-up risk.

⁵ See Loukas Tsoukalis and Janis A. Emmanouilidis (2011) *The Delphic Oracle on Europe: Is There a Future for the European Union*, Oxford University Press, 1-230 and Charles A. Kupchan (2012) *Centrifugal Europe, Survival: Global Politics and Strategy*, 54:1, 115.

⁶ In this polarized and fragmented environment, European leaders' future consensus over much needed EU reforms will face increased pressure from their electorates. A quite delicate process which will include parliamentary ratifications or even national referenda; leading to political frictions that can potentially block European elites' desire to complete the EU's unfinished construction.

raising the risks for the EU being turned simply into a common market that could face disintegration risks from the contradictory forces of globalization in the future. Meanwhile, Europe's pendulum is still swinging in search of a constructive balance of power among both its institutions and its member-states. An inward looking and uncertain EU, mistrusted by its citizens, cannot hope to undertake this role.

Why all the talk about imbalances versus rebalancing in the Eurozone?

The EZ has a fully balanced external account but it is the internal imbalance that lies at the root of the European crisis. In particular, reference should be made to the decade long (2000-2009) accumulation of massive current account surpluses by the North financing corresponding external deficits in the South, each peaking at around 9% GDP per annum in the run-up to the crisis⁷. Rebalancing is a medium term objective to be resolved in the context of greater EZ integration including sovereign bailouts and banks recapitalizations. These will serve as a prelude to a banking union, including a European deposit guarantees scheme to be followed by forms of debt mutualization in the context of deeper fiscal integration, possibly also including fiscal transfers to weaker economies. Indeed, a long and widening road for EZ member-states.

In the meantime, rebalancing requires that the currently one-sided internal depreciation efforts pursued by debtor economies via contractionary policies should be complemented by creditors' expansionary policies or more accurately internal appreciation ones for boosting domestic demand. This would sustain overall European growth via creditor economies greater reliance on consumption for their growth. In turn, this will allow debtors to sustain their growth by boosting their net exports to creditors, as they inevitably continue to deleverage but now also being able to service their debt. So far, creditors have mostly abstained from such adjustment and in fact reiterated their tight policies even as their economies faced steep declines in the wake of the crisis; in fact significantly more pronounced compared to those of debtors due to their overt export dependence. Initially and up to a point this stance can be rationalized on the grounds that they needed to ensure that debtors should first accept fiscal discipline and that the EZ would gain the time to set-up defense mechanisms while sustaining confidence amongst global investors. Creditors' have established their strong bargaining position by making EZ's weak link (Greece) an example and in turn alarming other debtors into accepting milder austerity versions. This phase has also included creditors' leading role of in shaping the EU's institutional response to the crisis.

Now that this objective has to the most part been achieved the consequent recessionary impact of this collective austerity is hardly seen to be enhancing confidence anymore. More than ever before, the sequence openly favors a change of attitude and a shift of policy. For the time being, there are some tentative signs in the outspoken stance of France and Italy in favor of growth enhancing measures at the expense of austerity. This also makes sense from a global point of view. A strategy to revive European growth by relying exclusively on net exports, which is what austerity (by all) actually does, can only happen at the expense of the rest of the world. Taking into consideration the serious damage to their economies, such a policy will be hardly tolerated for long by the US or China amongst others. So henceforth, it can be assumed that creditor

⁷ Daniel Gros, "Macroeconomic Imbalances in the Euro Area: Symptom or cause of the crisis?", CEPS Policy Brief, No. 266, April 2012, pp. 2-3.

economies in Europe, despite declarations to the opposite, are in fact prepared to accept a more balanced approach providing that it is gradual to allow for defense mechanisms and debtors firmly remain into adjustment mode. If this is case, why the path towards rebalancing remains a long and tough road? In this respect, it needs to be appreciated how difficult the process of adjustment really is for both sides. It is relatively easy to blame Southern politicians but one has to think how hard it is to root out long-lasting political and business vested interests that resist change. This becomes even harder considering the fact that it takes time before businesses that are export focused or less state dependent start gaining the upper hand, sufficiently so as to be able to take up the slack in employment. The above process has been particularly evident in countries like Greece.

Similar issues are at play for creditors as well. In Germany for example, the domestic demand oriented sector of the economy which resides mostly in services has been penalized for so long and so significantly that since 2005 it was responsible for the decline in economy's wide productivity both per se and versus the rest of the EU and the US⁸. In fact, Germany could discover that in future its medium tech exports might be under threat by emerging markets while its services sector, which constitutes the upcoming productivity challenge for Western economies, has been overtly penalized to the country's detriment. This contrasts with manufacturing that makes up the bulk of exports and has vested interests in perpetuating the existing model. Unlike the flexibility of the Anglo-Saxon free market variety, Germany's more coordinated and consensus seeking institutional model often makes it longer and harder to implement far reaching adjustments. Likewise, people in debtor countries seeing their economies being primarily made up of domestic demand do not comprehend how wage and fiscal cuts will revive economic activity and their job prospects. Politicians on both sides, having worked for and thrived under these systems are being asked to work towards their off-stage retirement. Rebalancing, no matter how inevitable, is easier said than done. Socio-politics will not easily yield to market forces until they do. A thorough analysis shows that the growth models of creditor-debtor economies seemed rational too, at least from a national point of view but they added up to collective irrationality all the same. Even now, nations seem unable to adopt a collective rational stance as they are all trying to grow by exporting. The reason for facing a generalized market failure is exactly because individual decisions taken in isolation do seem rational.

The result of actions taken includes a number of interesting questions that one needs to address. Can you blame Germany or China for their export model that elevated them to prime global exporters, enhanced their geopolitical status and at least for China secured strong growth? Even so, can you blame the Club Med (Portugal, Spain, Italy, and Greece) for taking on cheap loans achieving a catch up in living standards? By the same token, can you blame the US for using cheaply offered financial resources to recover from the dot-com crash and finance its geopolitical objectives? Would it have been possible for individual countries to take corrective action or reverse course even if they had wanted to? Spain and Ireland had tightened pre-crisis fiscal policies but to no avail. Even though there are no easy answers, one thing seems certain in all this. The collective global economic model proved unsustainable as the automatic mechanism of the market did not function or took too long to reveal the problem.

⁸ "Germany keeping the Edge: Competitiveness for Inclusive Growth", OECD "Better Policies" Series, February 2014, pp. 22-23.

Illusions and risks for achieving rebalancing

It has always been important to understand causality in a debt crisis to be able to propose sound exit policies. The aforementioned analysis implies that it was not the over-consumption of debtors that triggered the debt crisis but the under-consumption of creditors. Had it been the debtors that were generating an excess demand for loans then interest rates would have been rising but in fact they kept falling throughout the decade⁹. This was because creditors kept pumping liquidity from their massive savings pool. From 2010 onwards, we have been witnessing the unraveling of this decade long cycle. The unfinished business is put on hold until an agreement has been reached on how the burden will be shared between creditor and debtor economies, in the time all together bail out the European banks.

In the past five years, European burden-sharing debates have been dominated by two major misperceptions to reverse the crisis. In particular, a common illusion that needs to be dispelled is that it is far from true that creditors are financially able to rescue the Eurozone single handed or even to guarantee its rescue by offering their sounder financial standing as collateral for EU's financial crisis resolution mechanisms (EFSF/ESM) to borrow bailouts in global markets. Unless debtors and at some point also creditors are seen to conclude making the necessary adjustments, international markets will inevitably continue doubting EZ's overall ability for further integration let alone prospects for debt mutualization. That will not happen as long as the EZ remains an incomplete monetary union in deep internal turmoil. A related illusion is to think that Europe as a whole can adopt a Keynesian policy or resort to generalized money printing. In this case, the Euro would risk losing its reserve currency status thus rendering Europe unable to finance any such expansion. Expansionary policies or more correctly internal appreciation ones can only be pursued by EU creditor economies. Not just because they are the only ones able to finance them but also because it allows Europe to achieve rebalancing via more balanced and sustainable overall growth. The alternative that has already come to observe is generalized austerity in a recessionary race to the bottom which constitutes the other, the so-called "dark path" to rebalancing, that currently seems to predominate. However, other debtors are unlikely to be asked to imitate Greece's severe short-term adjustment. In addition, the European Central Bank (ECB) has been cautiously engaging in quantitative easing by financing EZ's banks, accepting sovereign junk bonds as collateral and continues stating its intention to do more.

In such an environment, the issue of European policy coordination is a difficult equation to be resolved in a short period of time. Unavoidably, what comes next for creditor and debtors alike is to abandon their growth models under the natural dictate of economic forces whether their culture, politicians or electorates prefer it or not. Will debtors be capable of buying exports like they used to? For better or for worse, this is not attainable anymore. Then how will creditors sustain their economic growth? By consuming more, as one would expect. What if instead they continue to inflict austerity upon themselves? In this case, next to universal recession, debtors will be finding it increasingly harder to generate surpluses to ensure debt repayments unless they can

⁹ Vito Polito and Michael R. Wickens, "How the Euro Crisis Evolved and How to Avoid Another: EMU, Fiscal Policy and Credit Ratings", CEPR Discussion Paper No. DP9521, June 2013, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2284611.

keep saving an increasing share of their shrinking income. This is unsustainable for both leading to a downward spiral and potential defaults.

More importantly however, there is the play of market forces. Will creditors and debtors alike place their savings in the toxic assets of Southern Europe or the safer Northern economies? The choice is obvious. Thus, global money will naturally be directed to creditors inevitably boosting their domestic demand and appreciating real exchange rates versus debtors. It has already been happening if one considers that over the period 2009-2012 around \$4tr of private capital inflows have entered the overall under-borrowed emerging markets¹⁰. Similarly, EU creditors have seen significant moderation of their capital inflows and at the same time inflows of deposits from EU debtor economies. The US as the main global debtor has been trying to enforce this natural play of market forces. More importantly, the US has been inflating creditors via quantitative easing. Leading to the erosion of their competitiveness as market forces ensure that the generated dollar liquidity ends up with creditors to spend. However, this is a second best policy entailing protectionist and currency war risks plus other collateral damage via elevated commodity prices or asset bubbles that can derail some key emerging economies with catastrophic results.

Everything being considered, EZ's critical issue for the next few years is whether the rebalancing process will happen through a violent market imposed adjustment entailing the risks of a prolonged global recession and even geopolitical tension or through policy coordination with the least possible cost. In the latter respect, the seeming paradox is that policy coordination requires that creditors follow expansionary policies as debtors inevitably deleverage as in any case no one is prepared to provide them with the financing required to adopt similar fiscal policies. The US is an exception because it holds the global reserve currency and even that has its limitations. Besides, the large public deficit of the US might on the one hand have sustained moderate domestic growth counteracting private sector deleveraging but on the other have also sustained creditors' exports, thus perpetuating the state of global imbalances. This dilemma illustrates why the global economy has been finding it so hard to exit the crisis without global policy coordination.

In view of this analysis, is global coordination likely? Not really. There is no strong precedence of countries persisting long enough and at such scale as the globalized market might be too complex for the task. A market imposed resolution with combined efforts to patch-up crisis areas as they surface is more likely. This is an overall risky scenario with stop-go global growth circles in the hope that time will cure the ills of economies and banking systems. This is what has actually ruled so far as the recovery from the global financial crisis (2008-2009) relied on refueling imbalances and as a result proved unsustainable leading to renewed global weakness, even despite China's policy shift towards expanding domestic credit. All in all, the rebalancing process for both creditors and debtors might prove tough and long as it also seems to require structural reforms next to macroeconomic action. Ironically, it would be quit easier to implement policy coordination within the EZ.

¹⁰ Lei Sandy Ye. "Corporate Investment and Liquidity Management in Emerging Markets during Capital Flow Waves.", November 2014, p. 49, available at <http://static1.squarespace.com/static/54232c49e4b0c972497287a6/t/5474076de4b07bc063451f6e/1416890221985/SandyYe-JMP-Nov.pdf>. See also Erlend Nier, Tahsin Saadi Sedik, and Tomas Mondino, "Gross Private Capital Flows to Emerging Markets: Can the Global Financial Cycle Be Tamed?", IMF Working Paper, October 2014, available at <http://www.imf.org/external/pubs/ft/wp/2014/wp14196.pdf>.

The risk at this moment is that the Eurozone might be taking too long and doing too little, thus wasting ammunition in light of the fact that policy options and relevant tools might not be available for ever. For example, if creditors lose their rating they might think twice about introducing expansionary domestic policies. Even worst, if they need to devote resources to their banks in the face of elevated default risks by debtors as recession becomes entrenched because the external demand needed by debtors to generate sufficient surpluses is simply not present. To avoid such a situation, a more balanced political consensus for achieving an acceptable degree of symmetrical adjustment between deficit and surplus countries across Europe has to come forward. Before a greater deepening of the current crisis evolves and a further weakening of globalization occurs or -due to time lag- available policy instruments run out. Since global risks elevate the importance of geopolitical issues the unfinished business should not be put on hold. Within this context, the fact that core EU balances have been broken down as a result of Europe's schism between creditors and debtors, the evolution of geopolitical dilemmas impacting both on Europe and the US has to be thoroughly examined. The methodology to be introduced provides a transatlantic analytical framework for preventing the strategic implications of Europe's debt crisis and overcome the current stalemate in the European integration process.

A return of geopolitics in Europe: The role of the US

At present, Europe's economic and financial problems epitomize the mother of all risks for avoiding a further weakening of globalization and the international order as a whole. The EU will either have to implement long run policies or to choose default. If the EZ doesn't gather economic momentum, Europe will find itself trapped in development rates like Japan in the past. With Europe facing low economic growth and poverty, developed countries will also be affected -including the US- and a protectionist rally will begin in countries outside of Europe. In other words, a major economic and security concern for Eurasia. From an American perspective which stresses its role as the gatekeeper of liberal international order, "at a time when fiscal austerity conversely demands a more disciplined and focused grand strategy for the United States"¹¹, the need for increased policy coordination to avoid risks and fall back scenarios between the power centers of a multipolar world becomes more than evident. A pressing reality which involves the desire of emerging regional powers to gain more authority and leadership within the liberal international order where the US will continue to engage itself as the leading power. Taking into consideration ongoing power transitions and its dominant role for shaping global governance, Washington has decided to preserve international peace and prosperity through an update of the multilateral security and economic order; thereby avoid experiencing a competing transition in the ideas, principles and practices that govern the multipolar balance-of-power system. The existing risk factor of a declining EU, in both absolute and relative terms, will irreversibly harm the Atlantic West's combined capabilities to accomplish such global task and achieve the desired outcomes.

¹¹ Nick Bisley and Andrew Phillips (2013) Rebalance To Where? US Strategic Geography in Asia, Survival: Global Politics and Strategy, 55:1, 96-97.

The road ahead: More or less Europe?

“An international system in the midst of profound change sorely needs the resources and leadership of a strong and collective Europe”¹² which remains the cornerstone of US’s engagement with the rest of the world. The American belief that a breakdown of the Franco-German axis will signal the end of a unified Europe and Western expansion to the East, implies that Washington can’t choose between Paris or Berlin to lead and prefers to engage with the EU as a whole for maintaining a Franco-German balance; exercising pressures on both Germany and France to persist the current path as Europe remains anchored in the wider notion of an unbroken and coordinated Atlantic West. Issues amongst others, entail the pursuit of continuing drawing a post-Putin Russia towards resolving its Eurasian identity problem and eventually accepting a pro-European orientation along the side of the need for establishing an enduring geopolitical understanding with China over regional security settings with global implications. The US strategy for all this to happen is through a united and integrated Europe which sustains its vast geopolitical importance and becomes a global actor. In addition, the US has to accept a peer-to-peer (P2P) relationship with the EU whereby the Europeans show willingness to take on greater responsibility in committing resources to global security. By sharing responsibilities, the EU acts as US bridgehead in Eurasia which consists of an indivisible space in the era of globalization. In view of that, the linkages between security and economic issues rank very high for setting forward the transatlantic agenda.

As has already been mentioned, the unquestioned fact that the fluidity of the ongoing economic crisis introduces elements of geopolitical uncertainty further indicates the necessity for evaluating shifts in EU politics regarding to power balancing and provide an insight on strategies of particular countries. Elites of both Germany and France want a unified Europe but have different and rather ethnocentric visions of it. At the same time, each of them alone is neither capable nor willing enough to pursue it. Since no single country is strong enough to lead the EU, ensuring the unity of Europe remains depended on the existence -even with its asymmetric and unbalanced present nature- of the Franco-German axis. Despite their divergent views on the future course of the project itself. Nevertheless, since in political terms a unified Europe does not yet exist, US security commitments continue to be required. Besides, the war in former Yugoslavia has showed that although the EU moans about US hegemony in the high politics realm, it also profits from its protection. Even if the Franco-German axis has not been broken, a unified Germany that also became the main creditor has sharply shifted the power balance and now relegated France to second-in-command. Germany’s vision has been the expansion of the EU to Central and Eastern Europe (CEE) under its leadership thus also reviving its traditional “*Mitteleuropa-Middle Europe*” sphere of influence. Berlin’s vision coincides with Washington’s views that draw from the belief that any increase of European influence is also a spread of US interests since it facilitates America’s grand strategy in Eurasia; in return for the US guarantying European security making any such expansion possible.

In a diverse European environment, the art of geopolitics involves obeying the rules of a medium-term game strategy. A prolonged period of the debt crisis in Europe concerns the comparative examination of two case-studies. The first one addresses the geopolitical consequences unfolding for Europe and the US if European integration

¹² Kupchan *op. cit.*, p. 117.

stalls, spills-back or even breaks apart. In this case, European risks involve heterogeneity conflicts and different EU visions pursued by France and Germany which will pave the way for derailing the European project. At best, German focus on national interests and less identification with European objectives result in a smaller EU or even relegated to a free trade zone. Needless to say, that the EU will not disintegrate overnight. If it goes that way it will progressively evolve rather than just happen. If the EU does break up, geopolitical controversies will surround Europe's core with the emphasis placed on CEE's strategic vulnerability. In all these cases, the fact that Europe ceases to be placed as America's privileged Eurasian ally and turns into a weak link with no single EU presence brings about a series of stormy scenarios that can even include the US risk of losing ground in the West. The wild card will focus on Germany's role for gaining Middle Europe dominance; pursuing an alliance with Russia at the expense of EU integration and in conflict with US and NATO. As Europe's alignment cannot be taken for granted, America will have to struggle maintaining the region in its geopolitical sphere of influence. Simultaneously, France could try a similar policy option to antagonize Germany. In both cases, during the time that Germany and France tread their own paths separate from the US, Russia gains an elevated role in EU affairs, leaving Europe in a state of conflict and uncertainty.

Inevitably, foreign policy analysis would then involve an examination of the new geometry of state relations and how the key players would each focus on their respective sphere of interest. All of the above in an environment presenting similarities and centrifugal forces with post-war Europe. This will result in a fragmented Europe with multiple power centers and smaller countries in the role of buffers. The broader geopolitical map will include Russia and Turkey in elevated roles and the US tying up resources in an effort to secure the 1990s free market gains of eastward enlargement. With Germany focusing on its Middle Europe vision and the US accepting that set of circumstances as inevitable, fears of a potential German-Russian alliance will push America towards maintaining its security and political cover over Germany. Such a development presumes a pretty dire situation in Southern Europe, forcing Germany to risk such an external orientation leap and the US resigned into accepting it.

Regarding the rest of the world, the US would be forced to seek a quick but less favorable geopolitical arrangement with China in order to realign the balance of power in Eurasia; now at risk from the massive US retreat on account of a disintegrating Europe. No one will argue that the US has for long now been in need of a closer geopolitical understanding with China since its traditional reliance on Japan is clearly insufficient to establish the regional power balance. However, in such circumstances, China would try to upgrade its vision towards becoming a global rather than regional player and demanding power sharing arrangements with the US. Although one can argue that in terms of geopolitics the interests of US and China do not entail serious conflicts -at least under China's current regional power status- , the weak democratic advance in China along with its nationalistic tendencies are bound to prove problematic for the US. The alternative or simultaneous option of seeking a deal with Russia would necessitate compromises in Central Asia (e.g. the Caspian Sea's large energy reserves) and even the Middle East while Russia's undecided geopolitical status and its profound democracy issues will make it a hard sell.

Last but not least, with Europe performing less or even minimal of a role in upholding international norms, values and rules, the role of democratic culture in safeguarding America's ideological hegemony in the implementation of its Asia strategy will be seriously affected. Essentially the West, in the case of EU's progressive and evolving disintegration, apart from lacking resources and capabilities adding to and complementing US power in their geopolitical division of labor (including Europe's core competence of economic reconstruction and transforming economies into a free market capitalist system), will face the absence of a powerful symbolism for sustaining its ideological hegemony of liberalism. In a period of imperative geopolitical challenges, putting an end to the European project which served as a model for others to follow in institutions of global governance would consist a great setback for the West. Analysis would then focus on how badly will America's core competence and 'imperial flagship' for leaping forward and sustaining its role as a global player, particularly its ideological strength of democratic culture be traumatized. A scenario which will include the risk of even less global policy coordination in the future; including compromises and less fitting geopolitical positioning in order to hold the balance of power in Eurasia. All of the above, with upgraded or on an equal footing state actors suffering from democracy issues, ambivalent geopolitical orientation and nationalistic inclinations. At all events, unless the situation becomes hopeless, the US will seriously try to avert an EU disintegration process and even loss of commitment towards further integration.

On a more realistic note, Germany has decided to take the leading role in averting EZ collapse and will pursue it with serious chances of success despite problems arising from its lack of experience often reflected in displays of provincial mentality; a one which harms its geopolitical interests over close-minded economic ones taking precedence. In the meantime, EU debtors are coming to accept that this constitutes the only viable offer considering that Spain and Italy do not seem interested to forge some kind of debtors' alliance with the weaker players preferring instead to deal directly with Germany or through France. For all the austerity talk the fact is that (outside Greece) no other debtors have been required to seriously jeopardize their social and economic cohesion. In the event that the EU sustains its drive and moves forward, it has to be examined how the affected core balances in Europe and the political tensions that have emerged between European powers (Germany, France, and Southern Europe) will be eventually restored through a patching up of relations that will entail mutual concessions. With no single country strong enough to lead alone, the existence of the Franco-German axis will continue remaining vital for the unity of Europe. Sure enough, in the course of establishing a working balance of power, Germany will make certain that Eastern Europe takes higher priority on the EU agenda¹³. Such variable geometry will take the form of a triangular pattern to include Poland as a rising European power and the core representative of the Visegrad Group.

Despite of the fact that the first case-study is not the dominant one, its swiping nature in a geopolitical environment dynamic in character and subject to constant change, forces Europe's key actors to display careful consideration along with readiness. When it comes to setting their agendas, leading EU member-states (including Germany and

¹³ Suggestive examples have already included: a) the distribution of EU resources within the Cohesion policy allocation for the programming period 2014-2020, b) the appointment of the Polish Prime Minister Donald Tusk as President of the European Council, c) the allocation of upgraded policy areas in the portfolio structure of the new European Commission (2014-2019).

France) combine the two scenarios in order to design and implement policies that serve multiple goals. As a result, foreign policy analysis through the examination of both case-studies is required.

Rejecting Eurozone's rebalancing: What happens next?

As long as Europe doesn't escape from its crisis, neither can the global economy. What comes next is confessing an inconvenient truth about the dominant economic paradigm in the EZ and expose the shortcomings of creditors' economic thinking over the past five years. In other words, creditors' export-led model cannot survive without debtors' consumer-led model. Following debtor's acceptance for fiscal discipline (Club Med, Eastern Europe), Germany's growth model in Europe's present economic environment is simply unattainable. However, strong vested interests that have shaped Germany's long lasting one-sided export oriented economy, have prevented a shift of strategy and kicking-off such a promising leap forward policy. As such, the outlook for economic growth in the EZ continues to remain worryingly bleak¹⁴. At the same time, even if a further escalation of Europe's debt crisis has been avoided, a lack of German rebalancing paves the way for introducing a 'muddling-through'¹⁵ baseline scenario that describes a period of persistent low growth and prolonged stagnation in the EU. Effectively encompassing all the risks involved for Europe, the global economy and world geopolitics.

How does the US react in such an alarming situation? German policy is literally opposite to that of the Americans about what needs to be done so as to prevent a new economic crisis in Europe, as well as to enhance global economy's recovery through a revival of EU's economic growth. As a non-member of the EU, US leverage in Europe's economic and financial affairs is clearly limited. However, quick enough, Washington approached Berlin to underline the stakes involved for both the transatlantic and the global economy; exercising its influence over the pressing need for a revision of Germany's growth model to address the wider issue of macroeconomic imbalances in the euro area. America's recognition of Germany's privileged role as the lead actor to stabilize the EZ, unlock Europe's economy and restart its economic growth, goes hand in hand with Germany's acceptance for a more balanced approach to address the root causes of EU's debt crisis and avoid the next round of a sharper global economic crisis.

However, if the choice of a more diverse and expanded burden sharing does not gain ground, a crucial point of no return will inevitably come out. At that critical moment, even if the largest creditor (Germany) is willing enough to follow policy U-turns under the umbrella of an expansionary strategy for reviving EZ's stagnant economy, Germany's financial capabilities will be insufficient to implement such a mega-plan. Having established a prolonged period of entrenched recession in Europe's South with debtor countries being trapped in anemic growth and unable to sustain manageable surpluses for repaying their debt to creditors, Germany by itself will no longer be able to pull its economic weight and devote outstanding resources to calm global markets' increasing fears due to elevated default risks posed by exhausted debtors. The amounts

¹⁴ Economic forecasts indicate little to no growth in 2015-2016. See IMF projections January 20 2015, available at <http://www.imf.org/external/pubs/ft/weo/2015/update/01/pdf/0115.pdf>.

¹⁵ Thomas Wright (2013) Europe's Lost Decade, *Survival: Global Politics and Strategy*, 55:6, 11, and Aaron L. Friedberg (2012) The Euro Crisis and US Strategy, *Survival: Global Politics and Strategy*, 54:6, 14.

required for such provisions will simply be not present. Last but not least, when it comes to the economy, expectations are the ones shaping the environment. If the policy shift doesn't flourish in Southern Europe, their governments will face immense difficulties to remain anchored in the EZ or the EU and they will opt to default. They will escape from Berlin's inflicted austerity but they will pull together all the others. Security issues will then become essential and the path to protectionist policies will be more than open (as one would expect the Single European Market will collapse).

With geopolitics working as a medium-long run strategy, considering that the large creditor is aware of such an unavoidable scenario, is there any alternative strategy for Berlin? What if Germany, a prudent and risk-averted country by definition, considers a fall back option? Still in time to act ahead of unprecedented events, Berlin decides the country's withdrawal from the euro area; allowing it to pull up resources for unfolding its Middle Europe geopolitical vision and Germany's single dominance in CEE. In the event that Germany refuses to go through such a dangerous path full of security driven concerns, the only available policy instrument for sustaining its export-dependent growth model would involve the pursuit of a greater strategic approach and the establishment of an enhanced partnership with Russia. Bearing in mind that "Germany's policy toward Russia has long been based on political engagement and economic interdependence"¹⁶, a purely economic perspective based on commercial realism would recognize the benefits of promoting a German-Russian axis; enabling a further boost of German exports due to the structural weaknesses of Russia's economy and the evident insufficiencies in a wide range of its sectors. Nonetheless, the US would decisively act to minimize such risk factor which poses a series of strategic implications for its policy in Eurasia.

Taking into account the methodology that has been followed, Europe's economic and financial rebalancing is approached as a medium-term objective associated with the geopolitical implications for all actors involved (EU, US, Germany, Russia, China). More specifically, it is of high value to shed light on how far the crisis in Ukraine and the strategic importance of wider Europe represent a definite signal of changing geopolitical tactics followed by the US. On the way to progressively establish a functional balance of power that keeps Europe united and capable of sustaining its slow but determined pro-integration drive. In effect, lay the foundations for creating a win-win cooperative model that fits the strategic interests of all transatlantic community's key players. As a result of Germany's central role and risk factor status in Europe's present economic and security environment, Berlin's policy planning is being viewed as the cornerstone of the above indicated medium-term strategy.

Current US strategy: From single superpower to balance of forces

Historically the United States has been developing, almost by default, a tactic of indirect engagement. However, over 1990-2008, the US has been using military power as the default for dealing with foreign issues leading as the single superpower. From Panama to Somalia, Kosovo, Afghanistan and Iraq, US followed a policy of direct and early involvement of its military capacity. Not the case over the period 1914-1989, when the strategy was to provide political support to allies, followed by economic and military aid which have included advisers and limited forces. The US kept its main

¹⁶ Hans Kundnani (2015) Leaving the West Behind: Germany Looks East, Foreign Affairs, 94:1, available at <http://www.foreignaffairs.com/articles/142492/hans-kundnani/leaving-the-west-behind>.

force in reserve for circumstances in which (WWI, WWII, Korea, Vietnam) allies could not contain a new potential hegemon. Basically, military force was perceived as last resort. This was primarily a tactic of maintaining a global balance of power. The containment of the Soviet Union involved creating an alliance system incorporating countries at risk of Soviet attack. In this framework, containment was a balance of power strategy that did not seek the capitulation of the Soviet Union as much as increasing the risks of offensive action using allied countries as the first barrier. The threat of full US intervention and the potential of including nuclear weapons, put together with NATO's alliance structure, constrained Soviet risk-taking. A review of the policies undertaken by the current US administration suggests the return of the balance of forces strategy and its adjustment in the modern global context.

At this moment in time, the role of the US for managing global security and matching shifting regional power relationships in a liberal economic order is increasingly linked to the Asia - Pacific Region¹⁷. The need for establishing a closer and more favorable geopolitical understanding -in the context of a strategic alliance- with China over regional security settings with global implications is firmly recognized in the United States. By reducing its military presence in Europe and the Middle East, the US administration continues to pave the way for pivoting its strategic gaze to Asia with the aim of becoming the central broker in China's external relations¹⁸. Through this strategy, Washington seeks to maintain its network of key alliances in the region, project its capacity for military intervention and above all avoid facing unfavorable trends in the Asian balance of power leading to "a less cooperative order built on spheres of influence"¹⁹. While cementing Beijing's "peaceful rise"²⁰ through its deeper integration into the international order, the US maximizes its leverage to ensure effective global cooperation and policy coordination with China being offered the status of regional and not the one of global player.

On the whole, there is a close link between, on the one hand, the US's global role, its capacity to deliver on concrete policies, and, on the other hand, its inner strength and ability to take swift decisions in areas that matter. Indisputably, "European unity is a potent force for influence in Asia, and national strategies alone will not succeed in dealing with countries like China whose economic, military, and population weighs are multiples of those of even the biggest European states."²¹ Moreover, an unbroken West is a necessary prerequisite which ensures gradual disengagement and pulling of resources towards serving the need for capacity building with respect to the US's strategic rebalancing to Asia-Pacific. The crisis in Ukraine and the future of Europe's order in the post-Soviet space, demonstrate the interconnections between economic and

¹⁷ "Well before the announcement of the Obama administration's 'pivot', the United States had already begun to shift its strategic focus from Europe towards Asia. The process of what has since come to be referred to as 'rebalancing' started to get under way at the turn of the century but was delayed for almost a decade by the terrorist attacks of 9/11 and the subsequent wars in Afghanistan and Iraq. With the winding down of those conflicts, American strategists have begun to lift their eyes from the Middle East and Southwest Asia and to concentrate more intently on East Asia and the Indian Ocean". See Friedberg, *op. cit.*, p. 20.

¹⁸ Stephen Brooks, John G. Ikenberry and William C. Wohlforth (2013) *Lean Forward: In Defense of American Engagement*, *Foreign Affairs*, 92:1, 77.

¹⁹ John Ikenberry (2011) *Liberal World Order: Internationalism After America*, *Foreign Affairs*, 90:3, 30.

²⁰ *Ibid*, p. 27.

²¹ Ideas for Europe's New Leadership: A Transatlantic Perspective, GMF Paper Series, October 2014, p.45, available at http://www.gmfus.org/wp-content/blogs.dir/1/files/mf/1412618308EULeadership_Sept14_web.pdf.

security issues at the EU level and explain America's keen interest in setting up a forward-driven European balance of power. In the course of time, such a strategy will successively allow US military presence in Europe to be further reduced while the administration will continue leading from behind to defend its strategic interests on the ground. At that point, giving rise to, as Brzezinski notes, a period when the United States becomes more of a "balancer, influencer, but not direct participant in mainland conflicts²²".

Europe's security environment

The study of both history and international relations reveals that geopolitical matters take precedence over macroeconomic issues. The US strategy for successfully managing EU's debt crisis in a far from straightforward deteriorating security environment underscore the beginning of a new era in Europe's economic and security affairs. That being said, as a consequence of the Ukraine crisis, Europe finds itself well positioned as a meeting point between: a) the US quest for developing a solid and durable rebalancing strategy to Asia and all that goes with it for progressively allowing America's measured disengagement from Europe to take off, b) the necessity of establishing a functional balance of power in Europe to preserve EU's integration process and deter Russia's new assertiveness, c) the importance of Germany's regional containment through the emergence of a tripartite partnership with France and Poland under the US security umbrella.

In this regional setting, the US, by designing a dual strategy of Germany's both empowerment and containment that does not entail Washington's direct engagement, exercises its influence over EU's primary risk factor while ensuring the strategic significance of maintaining a working balance of power in Europe. Washington's attempts to rebalance Europe's security system are linked to Germany's more active engagement in the region's affairs, with the US providing security guarantees but also setting limits over its contradicting policies for enhanced regional influence; thus contributing to transatlantic policy convergence. By both promoting Germany's leadership role in EU affairs and contain Germany's efforts for setting forward a potential fall back scenario with less Europe and more Russia. Above all, the successful linkage of Europe's security and economic issues, serve the interests of a medium term US strategy for establishing a well ordered and resource-effective European balance of power that leaves the region more -and not less- secure.

Russia's helpless imperialism

Following the collapse of the Soviet Union, former USSR has faced a demise of 40% loss of territorial influence in Caucasus, Central Asia and Europe. The defeat of Great Russia vision that had been sustained for decades via USSR was replaced by increased concerns over Russia's containment by the US. Even more, Russia's failure to modernize its economy which remains dominated by oil and gas alongside the key constraints of its poor socioeconomic status related to chronic problems of extensive corruption and grim demography, do not allow for the empire vision to flourish. On the

²² "The West and Turkey: Their Role in Shaping a Wider Global Architecture", Brookings Institution Proceedings – The 2012 Sakip Sabanci Discussion with Zbigniew Brzezinski, 2 May 2012, p. 9, available at http://www.brookings.edu/~media/events/2012/5/02%20turkey%20west/20120502_turkey_west.pdf.

contrary, as a result of its structural weaknesses and deep-rooted pathologies, Russia faces all the symptoms of a sliding economy and a declining power.

In particular, Russia's one-dimensional economic model based on natural-resources results in ephemeral geopolitical upgrade and threatens to harm its fragile economy by risking a backfire. This is due to the striking reality of being exposed to the instability and volatility that regulate commodity trading prices for oil and natural gas. In this way, the modernization of the Russian economy is further undermined. The West responds against the Russian policy through its turn to alternative energy sources, which will slowly but steadily traumatize Russia's position even further while enabling Europe to increase its energy security. "By coordinating energy security strategies with their transatlantic partners, European states will come to integrate and reform their energy systems to accommodate new resources".²³ This policy is strongly supported and promoted by Germany and its energy politics strategy to breakthrough into a complete competitive model of economic production. What is more, over the next ten years, US exports of liquefied natural gas will additionally strengthen Europe's bargaining position with Russia.

In exchange for this unfavorable medium-term development, Russian President Putin chooses to play the nationalist card and pull the trigger to lift Russia's national pride and restore its lost splendor. The content of his counter-policy is applied in a dictatorial fashion that lets the strategic dilemma of Russia's geopolitical orientation between West and East to keep hanging on. The dangerous and unpredicted side effects of Kremlin's policy amply reveal the lack of any vision in terms of policy planning about Russia's future prospects and the course the country will take²⁴. The unvarnished truth is that President Putin established an authoritarian political regime to lead a dysfunctional state and a weak country. The fact that it remains in isolation from the large part of Russian society perpetuates the crying need for presenting a brand-new Euro-Asiatic country vision and a prominent national status to the descendants of the former Russian empire and the Soviet Union. As Liik notes, "Russia wants to think of itself as a great power, and its definition of great power includes having "a sphere of influence" around its borders. Great power status and the ability to control vast areas also legitimize the oppressive nature of the regime at home. Moreover, it would be wrong to think of great power rhetoric merely as a propaganda tool of the Kremlin. No - the idea of other countries being afraid of Russia enjoys true popularity among large parts of the population, who are happy to sacrifice certain freedoms for the sake of this national status"²⁵. On this matter, Armenia's (September 2013) and foremost Ukraine's last minute refusal to sign Association Agreements with the EU during the Eastern Partnership Summit in Vilnius (November 2013), are indicative examples related with Russia's assertive role and bargaining capacity for limiting EU's influence and presence in South Caucasus and keeping Ukraine in Moscow's sphere of influence; in the end, adopting a protectionist pattern through a set of destabilizing policies over its

²³ GMF Paper Series, *op. cit.*, p. 52.

²⁴ To put it bluntly, as the pundit Stanislav Belkovsky points out, "the search for Russia's national idea, which began after the dissolution of the Soviet Union, is finally over. Now, it is evident that Russia's national idea is Vladimir Vladimirovich Putin." See Stephen Kotkin (2015) *The Resistible Rise of Vladimir Putin*, Foreign Affairs, 94:2, available at <http://www.foreignaffairs.com/articles/143037/stephen-kotkin/the-resistible-rise-of-vladimir-putin>.

²⁵ Kadri Liik, "The Real Problem with Mogherini's Russia Paper", European Council on Foreign Relations, January 20 2014, available at http://www.ecfr.eu/article/commentary_the_real_problem_with_mogherinis_russia_paper402.

wider borders (Georgia, Moldova, Romania, Baltic states) to secure Russia's dominant role against the West as the undisputed regional power broker.

Kremlin's strategy obeys the rules of a rather defensive but still unpredictable game and not a confident revisionist one; portraying Russia's last resort for sustaining a *modus vivendi* with the West. As an opportunistic policy in the urge to attract short-term gains, it vividly presents the example of a declining power striving to unsuccessfully reverse its medium to long run worsening geopolitical outlook. As a pivotal state by definition, in both geopolitical and cultural terms, Ukraine matters most for Putin's regime. Above all, putting Russian views into perspective, Ukraine's independence from Kremlin's control would imply loss of: a) European space and bargaining power, b) Black Sea dominance c) Russian claim to act for a pan-Slavic identity which coupled with loss of the Baltics negate the vision for a Euro-Asiatic empire. As for the US, with the crisis in Ukraine serving as a distinctive point where geopolitics and geoeconomics brightly intersect, it has provided all the input required for coordinating a system of alliances to steadily set up a new balance of forces in Europe.

US policy in Ukraine: A story of success

Russia's hard line against the signing of Ukraine's Association Agreement with the EU brings about a policy U-turn on behalf of Ukrainian President Yanukovich; choosing Kremlin's deal and derailing Kiev's European orientation. The profound disillusionment among Ukraine's pro-Western forces quickly turns into "mass demonstrations in central Kiev and other cities, and the occupation of government buildings"²⁶. Escalation of conflict between government and opposition forces generates diplomatic activities, including a broker's role on the part of EU's revived Weimar Triangle (Germany, France, and Poland) which comes to mediate "an agreement allowing for early elections and Yanukovich's removal."²⁷ Be that as it may, it was too late for Europe and Russia, to avoid President Yanukovich's overthrow and the installation of a pro-Western transitional government in Ukraine. Apparently, Russia clearly undermined the pro-Western dynamics that had been developed by Americans and Europeans in Ukraine over the last decade. On top of that, Ukraine's resurgent far-right-wing nationalists significantly escalated the crisis on the ground and sent a red alert signal to Kremlin; underlying that there will be unavoidable bloodshed if Moscow's regime initiates a multi-level pro-Russian insurrection across Eastern Ukraine.

With the US first in line to put Russia in a tight corner, Washington was now anticipating President's Putin next move and another round of wrong tactics to be followed. Facing the risk of losing Ukraine as a whole and accepting a huge geopolitical defeat of its core strategic interests over the crown jewel of the former Russian empire, "it was soon evident that only Crimea, where there was already a substantial Russian military presence, was in any sense under Moscow's control".²⁸

²⁶ Neil MacFarlane and Anand Menon (2014) *The EU and Ukraine, Survival: Global Politics and Strategy*, 56:3, 99.

²⁷ *Ibid.*

²⁸ Lawrence Freedman (2014) *Ukraine and the Art of Crisis Management, Survival: Global Politics and Strategy*, 56:3, 21.

Indeed, through the use of hybrid warfare²⁹ and more conventional military methods to exercise a low-level war, the Russian Federation invaded and annexed Crimea in March 2014. “By annexing Crimea, on the basis of its military significance and ethnic composition, Russia revived some of the classic concerns of European security”³⁰ and fell into the US’s well-managed but still of high risk trap. In essence, allowing Washington to start working on the coordination of an enduring alliance system that places Moscow in a tactical confrontation game of medium-term character which is far too difficult for Russia to win. Very quickly, Crimea’s invasion “resulted in the expulsion of Russia from the G8, the breakdown of relations between Russia and the United States, a significant cooling of relations between Russia and Western Europe, and the use of economic sanctions by the West against Russia.”³¹

Based on the present situation, a primary alternative policy for Russia would be to turn to Asia, with the visible risk of an alliance to be formed between US and China to contain Russian influence. After all, Russia and China constitute geopolitical rivalries with conflicting interests, both in Central Asia over Russian efforts for continuing monopolizing its energy resources, and Eastern Siberia which is traditionally eyed by China. In essence, China’s rise in the East coupled with empty Russian territories of Siberia adds another risk for loss of influence possibly more serious than Ukraine. Beyond that, as a result of the new set of control rules that will regulate Europe’s balance of power system, Russia has also lost its second best policy to enter into a future economic and political alliance with Germany³². That kind of shaky prospect would undermine both the future of the EU and the broader American strategy in Europe. Because of the crisis in Ukraine, it is now perceived as a more than downside scenario, clearly not within the realms of a medium term or even long run possibility. Thus, Russia can’t believably threaten the West with a potential anti-US alliance with either China or Germany. More likely, Russia can find itself strategically squeezed between an expanding Europe and China, a development that highlights the burdensome position in which Kremlin is going to move into soon.

To draw a conclusion, as Russia faces all the symptoms of a retreating power, “this is in the end far more a Russian crisis than a western one.”³³ As such, Europe and the US should be more confident to deal with Russia’s decline. Currently, Russia’s upshot

²⁹ President Putin “has used such hybrid tactics for nearly eight years against Georgia, Ukraine, Moldova, the Baltic States, Poland, and others. They include fomenting political insurrection, cyber attacks, energy cutoffs, nuclear intimidation, provocative military exercises and deployments, incursions using special operations forces, direct military invasion, and annexation”. See Hans Binnendijk, “Deterring Putin’s Russia”, Center for Transatlantic Relations, February 5 2015, p. 2, available at http://transatlantic.sais-jhu.edu/transatlantic-topics/Articles/wider-europe/Deterring_Putin.pdf.

³⁰ Freedman, *op. cit.*, p. 8.

³¹ Thomas Wright (2015) The Rise and Fall of the Unipolar Concert, The Washington Quarterly, 37:4, 19.

³² With Germany defining its interests in primarily economic terms while also obeying the rules of a *dove* foreign policy, “a strategy of binding Russia through socializing the country into European values (‘Einbindung’)” had been chosen by Berlin as the most suitable pattern of cooperation. See Henrik Boesen Lindbo Larsen (2012) The Russo-Georgian war and beyond: towards a European great power concert, *European Security*, 21:1, 103. However, despite Berlin’s good intentions, engaging Russia by following a strategy of ‘rapprochement through economic interlocking’ undoubtedly failed. *Ibid*, p. 111. See also Patrick Keller (2012) Germany in NATO: The Status Quo Ally, *Survival: Global Politics and Strategy*, 54:3, 104. What is more, Russia’s annexation of Crimea and the deepening of the Ukraine crisis have produced a shift in German political establishment and public sentiment for a more active involvement in Europe’s security affairs.

³³ Freedman, *op. cit.*, p. 29.

portrays a Eurasian power with its western part considerably weakened; being still in transition and swinging between European and Asian orientations. With this in mind, European option can breathe new life into Russia providing that Russians accept the real and accurate dimensions of their power. If Russia wishes to move forward and turn to the West, this course of action will have to be compatible with the terms and conditions set by the EU and the US and will include Kremlin's recognition to give consent for the long-term American policy in Europe. Noting that a backsliding regional actor does not meet the required standards for a global power position, it is preferable for Russia to accept the West's political platform for closer mutual cooperation. In the interim, "with Russia and Ukraine, what continues to be required is a mixture of efforts designed to shore up Ukraine economically and militarily, strengthen NATO, and sanction Russia."³⁴

The role of Germany: Opportunities and threats for matching US interests

Taking into account that between Russia and China perceptions of fears and mutual suspicion towards one another will prevail, it is difficult for Russia to carry out this policy with success. With Russians being the ones that face the highest risk, they sense their weakness for embarking on such a long-term strategic approach to the Chinese. If this is the case then the Russian pendulum swings in Germany's favor. The size of the Russian market to accommodate German exports side by side with Germany's (medium-term) energy dependence on Russia, are evidences of Moscow's strong bargaining position vis-à-vis Berlin's weaker status. With the European project still suffering at risk, it is more than evident that -via Ukraine- President Putin has engaged Russia in a wider "divide-and-rule strategy". By anticipating and investing on Europe's step by step spill-back process due to the deconstructing impact of EU's debt crisis, Kremlin's longer-term geopolitical strategy would entail the course of a less united and more fragmented Europe. With the EU suffering a schism from which it might never recover, Russia would try to gain ground via a Franco-Russia relation to contain US influence combined with a German-Russian axis that would allow Germany to pursue its influential role in Middle Europe. To avoid a dangerous escalation of Europe's security dilemmas due to intensified competition, Germany's pivotal role in addressing Europe's security and economic concerns can by no means be neglected and consists a major risk factor for the long term objectives of US's strategy in Eurasia. If European integration stalls, the US will need to contain German power and avoid an alliance with Russia. With the root of the problem clearly lying in Germany, the crisis in Ukraine signifies the overturn of such a possibility, with Germany remaining locked within EU's framework.

Germany's European policy

Germany's foreign agenda is embodied in a more confident and autonomous policy stance that leverages on the country's upgraded economic and geopolitical position. Its increasing weight in global economy and influence in international organizations have elevated it to a partial global power. In the economic domain, as the second largest exporter in the world and EU's pivotal power, Germany is increasingly being viewed as one of the leading geo-economic powers. With respect to the latter, Germany's foreign policy is steadily injecting dosages of commercial realism. Consequently, defining

³⁴ Richard N. Haas (2015) The Unraveling: How to Respond to a Disordered, Foreign Affairs, 93:6, available at <http://www.foreignaffairs.com/articles/142202/richard-n-haass/the-unraveling>.

German interests in economic terms and lifting economic interests over more traditional strategic concerns³⁵. Furthermore, Germany's external geopolitical stance on a number of issues has displayed the desire for a more autonomous foreign policy, aiming to improve the country's geopolitical position as a player in its own right. In this regard, Germany's European policy is to be shaped increasingly by the country itself and less through a paternalistic direction from its Western partners and the traditional power centers of Washington and Paris.

By focusing on Germany's policy within EZ's framework and its debt crisis management, its growing confidence to diverge on economic issues produced serious tensions with the rest of the euro area's member-states and undermined Germany's domestic economy excluding exports. As far as the global economy is concerned, the continuous dependence of the German economy on the sustainability of its exports model, leads it to apply a basically hostile policy against other economies (China, US, Japan), on which Germany keeps taking advantage due to the euro's competitive exchange rate³⁶. Germany's insistence to raise narrow economic interests above all with the risk of jeopardizing its geopolitical ones, reveal the lack of strategic culture in its foreign policy approach. As a result, when it comes to policy-making, Berlin finds itself unable to assess with clear and open criteria its long-term interest, and how to better serve it at present. The unbalance of the Franco-German axis and the absence of geopolitical culture, led to major mistakes on behalf of Germany, which had to learn in a very short time how to exercise its power. This was a development that became particularly difficult for the Germans to handle, taking into account their country's historical 'leadership avoidance reflex'³⁷ parallel to their risk-aversion economic concept. As any other political organization in the act of facing an urgent need to respond to a crisis, Germany reproduced its own culture management and the political norms that go with it. In light of absolute necessity, the Germans were pushed to lead alone and not at all comfortable with the idea of a solo German leadership in Europe. At that point, due to time constraints, without being able to promptly catch all the know-how required for delicately applying the combined impact of their country's economic strength, political clout and diplomatic prowess in leading Europe. Still, confirming the view that Germans neither wished nor could rapidly undertake such heavy-handed responsibility. "Germany's reluctant and contested"³⁸ leadership style was imprinted in the way they drew the red borderline against debtor countries. Due to strict cultural constraints related with protestant ethics, Germans isolated EZ's debtors and demonstrated characteristics of arrogant behavior on EU's institutions by overriding them. The aforementioned are wounds for Europe that will have to be healed in the near future.

US strategy for rebalancing Germany

The geopolitical events that take place in Europe as a consequence of the crisis in Ukraine enable the US to pursue a balancing strategy over Germany's power. In order

³⁵ Stephen F. Szabo (2014) Germany's Commercial Realism and the Russia Problem, *Survival: Global Politics and Strategy*, 56:5, 117-128.

³⁶ In a condition outside the Eurozone, the Deutsche Mark would have been overvalued by 40% compared to the Euro.

³⁷ Simon Bulmer and William E. Paterson (2013) Germany as the EU's reluctant hegemon? Of economic strength and political constraints, *Journal of European Public Policy*, 20:10, 1396.

³⁸ *Ibid*, p. 1401.

for Germany to contribute actively and in a more constructive manner towards securing EU's future and enhancing the new landscape of European security. Furthermore, the Ukraine crisis creates favorable conditions for the reactivation of the Franco-German axis which restarts the process of a more functional and coherent EU. Russia's decision to escalate the conflict in Ukraine and move to forcefully annex Crimea symbolizes the end of Germany's neutral arbiter role between Russia and the West (in exchange for Russian acceptance of German strategy in CEE).³⁹ Undeniably, Russia's counterattack in Crimea caused a serious security issue in Germany thereby activating its reflexes and forcing Berlin to shift its policy and strongly participate in the western front against the Russian threat. Hence, the Germans were now compelled to play a leading role in a precarious state of affairs with Russia. As a result of the security dilemmas placed by the US, Berlin joins forces with Washington to face Russia's aggressiveness. Indisputably, without US support and the guarantees it provides for Europe's security concerns, the geopolitical role of Germany in CEE is in doubt. The second factor responsible for putting extra pressure on Germany's Russia policy, associates with the strong reactions to counter Russia's aggression on behalf of CEE countries with Poland being the most prominent one⁴⁰. Fail to do so would indicate the obvious risk for Berlin's Middle Europe vision being dismissed. After all, the group of CEE countries remained suspicious and never consented to be put under Germany's absolute dominance (prevailing national security views embrace the role of the Atlantic West and the US in particular as the regional 'security guarantor'). Because of Russia's growing assertiveness and the heightened security stakes involved, Germany would be unable to defend them on its own. Finally, CEE countries do not wish to be excluded from a series of critical political negotiations that will follow between Germany and the United States on the regional security outlook⁴¹ and assign this role exclusively to Germany.

With Poland to be set now as an interlocutor between Germany and Russia, the crisis in Ukraine serves as the driving force for an active French-Polish engagement and stimulates the role of the European tripartite partnership (the Weimar Triangle) which has been supported by the US. In a period when France's economic status continues to weaken, an upgrade of its role in Europe's political and strategic affairs enhances French influence and contributes to a more efficient foreign policy-oriented EU⁴². Likewise, it further facilitates German efforts for the joint exercise of a geopolitical role

³⁹ It is no coincidence that "when it comes to Germany's *Russlandpolitik*, the bottom line for most German leaders is that the isolation of Russia is unacceptable and must be avoided at all costs." See Christopher S. Chivvis and Thomas Rid (2009) *The Roots of Germany's Russia Policy*, *Survival: Global Politics and Strategy*, 51:2, 118.

⁴⁰ "Connected with Poland's threat perception roles are its use of force roles as a 'reliable ally' and using force pro-actively. Despite the centrality of NATO and the United States in Polish security, highlighting the country's Atlanticist' role conception." Laura Chappell (2010) *Poland in Transition: Implications for European Security and Defence Policy*, *Contemporary Security Policy*, 31:2, 229.

⁴¹ Regarding Polish strategic culture in particular, "the betrayal of the Poles by their allies at Yalta in 1945 is especially significant and has led to the Polish belief that the country should be a dependable ally, that it should support the principle of self-determination, and that Poland should always participate in decisions concerning its interests [...] Essentially, Poland's European allies failed at every point to support and protect the country against invasion in 1939, and scepticism regarding the European's security and defence competence has remained." *Ibid.*

⁴² Henrik Boesen Lindbo Larsen, *op. cit.*, p. 107.

compatible with the transatlantic views expressed⁴³. The above have set in motion a significant diplomatic victory for Washington; pointing to a decisive reason and indicating a strong motive for US policy in Ukraine to take off. Despite of all the risks involved from an escalating crisis. By choosing a balance of power policy, US strategy prevents a potential future opening of Germany to Russia and locks Germany in the transatlantic framework. As the risk of an accident always lurks, one should bear in mind that the US unfolds its policy in a remote context. With regards to Russia, it is obvious that in a next stage, the issue of Russia's pro-European orientation and "its progressive integration into the rule-based European order" will raise again, however on more favorable terms and conditions for the West as this is often seen in the context of added Russian weakness.

Furthermore, concerning Germany's policy over Russia in terms of sanctions imposed by the West, it is true that Germans cannot step away from this context anymore; beyond trying to play a conciliatory-bridge builder role and being involved in diplomatic maneuvers as a means of avoiding another round of escalation surrounding the Ukraine conflict. If Berlin decides to break the transatlantic front, it will pay a high price with the obvious risk of losing ground in CEE. That being said, it is not a coincidence that in the end, the Germans went beyond against the Russians. At the same time, neither Russia has exerted strong pressure on Germany, presenting it with a dilemma which, at least currently, it does not wish to set. If it makes such a move, Russia is at risk of losing again. Besides, President Putin will have to opt for breaking up the western alliance at a hopefully more appropriate future date. In addition, despite any reactions, there is no sign of strong pressure within Germany itself for withdrawing its support over sanctioning Russia. Although some form of 'special relationship' between Berlin and Moscow will continue to exist the real issue has always been to devalue its future prospects. In any case, the sequence of events surrounding Russia's deteriorating outlook are likely to force President Putin to conduct internal defense and face the risk of being challenged by a rising rival center of power. Still and all, as long as Putin's regime preserves its dominant position it will be very difficult for the West to reset its relationship with Russia and find a *modus vivendi*. In the end, the Russian President has exposed himself to an ill-fated policy from which it is hard to concede without losing face.

On the whole, the American strategy concerns an endorsement of Europe's rebalancing through a reset of its security architecture. The outlined strategy sets forward a new balance of forces where US allies participate in a framework which contains strong dilemmas in terms of their security, without, at the same, being able to distance themselves from this policy. Over and above, it boosts Washington's efforts to achieve broader consent in supporting its policy against Moscow while effectively constraining Germany's room for maneuver toward Russia. Therefore, it substantially contributes to consolidating two equally important pillars of the European edifice (peace and prosperity). Unlike the Cold War era, the European context in which the current balance of forces evolves encourages the progress of a win-win cooperation scheme and a positive-sum game for all parties involved. The locking mechanisms that have been set in place are demonstrative examples of US strategy for supporting an integrated Europe along with exerting its pressure on both France and Germany to

⁴³ "French 'reintegration' into NATO is another important factor. Albeit more than of practical significance, French reintegration has often been interpreted as a major strategic reorientation towards a new Atlanticist-oriented France." *Ibid*, p. 109.

continue taking steps in this direction. The area covered by Germany, France, Poland and Ukraine is now acknowledged as a key security zone for Europe and bounded by the US for its security. Ultimately, preserving Europe's vast geopolitical significance and maintaining an unbroken and coordinated Atlantic West, signify operational prerequisites for advancing US strategy in Eurasia. Needless to say, that the above strategy indicates a stepwise process for being implemented to the full extent.

The way forward

At present, the US has a window of opportunity in which to develop the necessary security arrangements for improved defence capacity building that have to be set in key-countries of the targeted area (Poland, Romania-Moldova, and the Baltic States). So that the new European balance of power can be established with success, allowing outreach policies towards strategically important regions and setting forth an up to date comprehensive strategy for the Black Sea basin. As expected, the above strategy will demand the expedition of US financial resources. In essence, the success of this policy will be to bind the US geopolitically to Europe more actively while a higher-degree of burden sharing of the security responsibilities among allies comes forward. "That means that EU member states will have to step forward on the defense front, doing more to pool their assets and coordinate their policies - especially in an era of enduring constraints on defense spending"⁴⁴. In view of this fact, decisions taken at NATO's Wales Summit in September 2014 to address the growing imbalances between its members military capabilities include the undertaking of political commitments on behalf of the Europeans for participating with increased resources in the reviewed strategic planning; unambiguously agreeing "to strengthen long term NATO defense capabilities and set higher defense spending goals"⁴⁵.

On this matter, the Wales Summit "took important steps in the direction of amplifying NATO's deterrent capability against a Russian conventional attack on its eastern flank"⁴⁶. It is clear that, on a bilateral level, the US will also have to contribute resources for strengthening Eastern Europe's defence and security sector. As such, financial aid through soft loans to countries engaged, for upgrading and bolstering their naval and air forces will be provided (e.g. Poland, Romania-Moldova, Bulgaria, and Baltic States). However, US economic assistance works together with a political agenda of less future military presence in the area. Taking into account the dynamics produced as a result of US's redefined balance of power strategy, Germany will also be required to commit increased financial resources to modernize and improve the capacity of its armed forces. By enhancing and advancing its military capabilities, Germany will prevent facing an unpleasant situation i.e., the possibility for the US to be the actor undertaking the sole accomplishment of Europe's new security architecture. A corresponding policy will also be carried forward by France⁴⁷, with the result, overall, being one that favors the two primary medium-term goals of US policy planning for: a)

⁴⁴ Charles A. Kupchan, "The Geopolitical Implications of the Transatlantic Trade and Investment Partnership", Transatlantic Academy Paper Series, June 2014, p. 7. The US spends 4.6% of its GDP on defence, whereas its European NATO allies collectively spend 1.6%.

⁴⁵ Binnendijk, *op. cit.*, p. 5.

⁴⁶ *Ibid*, p.1.

⁴⁷ France has been "at the vanguard of European states in developing and implementing an expeditionary capability since the mid-1990s." Michel Fortmann, David Haglund and Stéfanie von Hlatky (2010) INTRODUCTION: France's 'return' to NATO: implications for transatlantic relations, *European Security*, 19:1, 6.

winning the successful linkage of Europe's security and economic issues by establishing a better ordered and resource-effective European balance of power that leaves the region more -and not less- secure, b) allowing the US to embark on a gradual disengagement and pulling of resources process that facilitates its strategic rebalancing and capacity-building to Asia-Pacific.

The role of the Transatlantic Trade and Investment Partnership (TTIP)

On another level, as a case-study helping to understand the analysis of geopolitical correlations, US policy towards Germany holds the process of developing centrifugal forces in the EU and contributes to stabilizing the European integration process. More specifically, globalization can't stand on one anchor (US), it also needs the EU and China. With Europe entrapped in a period of prolonged recession, the risks of global stagnation increase and a further weakening of globalization will not be avoided; "suggesting that the liberal order erected after World War II will suffer from lack of enforcement and maintenance."⁴⁸ To reverse such highly unfavorable trends, the successful conclusion of TTIP negotiations between the EU and the US is a more than useful example for setting the way forward and to help revitalize the West economically and politically. The opening of the US to Europe through TTIP designates an additional area of cooperation for the transatlantic community which further demonstrates Americans' efforts to strengthen their relationship with the Europeans and reinforce their commitment to the European project. The fact that EU member-states will come to adopt a common trade policy with the US is a positive sign and a win-win strategy which stimulates European integration by setting higher standards for globalization cum trade liberalization. The United States and Germany have joined forces for reaching an agreement by the end of 2015. Thus, revealing US readiness in applying all appropriate policy tools for facing EU's future prospects.

"TTIP, however, is about more than trade. It is about creating a more strategic, dynamic and holistic U.S.-EU relationship that is more confident, more effective at engaging third countries and addressing regional and global challenges and better able to strengthen the ground rules of the international order."⁴⁹ During a transitional period in the international system, just like corporations, the more evolved states are gradually making the transition from vertical to virtual states. A strategy which includes less emphasis placed on state ownership and social control, greater focus on building infrastructures and coordinating socio-economic outcomes that flow naturally from country's comparative advantages while also being able to reshape them. "Given the size and scope of the transatlantic economy, standards negotiated by the U.S. and EU can quickly become the benchmark for global models, reducing the likelihood that others will impose more stringent, protectionist requirements for either products or

⁴⁸ Kupchan, *The Geopolitical Implications of the Transatlantic Trade and Investment Partnership*, *op. cit.*, p.1.

⁴⁹ Daniel S. Hamilton, "TTIP's Geostrategic Implications", Transatlantic Partnership Forum Working Paper Series, September 2014, p.4, available at http://europe.unc.edu/wp-content/uploads/2014/08/hamilton_TTIP-geopolitics.pdf. See also Peter Van Ham, "The Geopolitics of TTIP", Clingendael Policy Brief, No. 23, October 2013, pp. 1-7, available at <http://www.clingendael.nl/sites/default/files/The%20Geopolitics%20of%20TTIP%20-%20Clingendael%20Policy%20Brief.pdf>.

services”⁵⁰. As a forward-looking geopolitical indicator, TTIP will ultimately serve as “a powerful instrument to ensure that standards informed by basic values shared across the Atlantic can advance globally. The stronger the bonds among democratic market economies, the better their chances of including rising partners as responsible stakeholders in the international system. The weaker those bonds, the greater the likelihood that rising powers will challenge this order. TTIP is less about containing such powers than about the terms and principles guiding their integration and participation in the global economy”⁵¹. If the course of action proves to be a successful one, in effect it will be the West (US and Europe) as the strategic actor establishing principles and setting limits for emerging regional players on how to properly manage their growing power and assist them accordingly.

Conclusion

The methodology that was followed analyzed the dynamic interconnections between economic and security issues which pose fundamental challenges for the future of the EU. The role of the US is proved to be of crucial importance in order for the risk to subside and avert symptoms of a deconstructing Europe. In the context of these one-sided growth models that have been reviewed, both debtor and creditor countries have been entrapped into a partnership-in-debt that is very difficult to break apart without inflicting mutual damage. The geopolitical balance of forces spearheaded by the US in Europe tilts the balance further, perpetuating a partnership rather than allowing it to succumb to its cracks. According to this logic, Europe’s pivotal player (Germany) will be required to play its leading role for the stabilization and development of the euro area. Simultaneously, as a result of the dilemmas placed by the US in the field of European security, the constraints that will regulate Germany’s European policy will involve lesser degrees of freedom over Russia, Central and Eastern Europe and the European South. Although the economic problem with regard to EZ’s debt crisis is not going to be definitively resolved, unless over time, the period that comes after, will involve compromises and reciprocal concessions, sustaining even in a form of stand-by mode, the momentum of Europe’s integration process. The leadership role of creditors will find its outlet in taking further steps towards European supranationalism, promoting the monetary union (elevated role for the ECB) and the fiscal union (set a European budget). These developments would introduce true partnership, true risk-sharing and the only feasible way to resolve Europe’s growing democratic deficit and reverse the damaging effects of rising Euro-skepticism and poisonous nationalism. When all is said and done, the core value of the balance of power strategy that is being established in Europe is that it includes a win-win scenario and a positive outlook for all transatlantic community’s key actors.

⁵⁰ Dan Hamilton, “Create a New Transatlantic Partnership That Is More Than Free Trade”, December 2 2013, The World Post, available at http://www.huffingtonpost.com/dan-hamilton/create-a-new-transatlanti_b_2669700.html.

⁵¹ Daniel Hamilton (2014) TTIP: What are the implications for emerging powers and the international order?, Bridges Africa, 3:10, available at <http://www.ictsd.org/bridges-news/bridges-africa/news/ttip-what-are-the-implications-for-emerging-powers-and-the>.