Toward a Geo-economic Resolution of the Euro Crisis

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Part I: Greek-Turkish Reconciliation over Cyprus

The Greek debt debacle has opened a hemorrhage throughout the European Union. The bleeding has not yet been stopped. It appears dubious that merely restraining government expenditure and coordinating fiscal policy among other measures—even at an all-European level as advocated by Germany at the December 2011 EU summit—will be sufficient to rescue the Euro if new markets cannot soon be developed and expanded in order to foster strong economic growth.[1] But to develop new markets and foster strong economic growth will require new thinking towards Europe's neighbors—most importantly, Turkey and Russia.

Not generally depicted in the media is the fact that the Greek debt and larger Eurozone crisis (linked to the American-inspired mortgage and "toxic assets" crises as well as post-11 September 2001 US war debts[2]) have been accompanied by geo-economic

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[1] "The European Union desperately needs a growth strategy. Its current bailout schemes only help countries like Greece and Italy to borrow money cheaply in the face of prohibitively high market interest rates, while the schemes' insistence on more budget-deficit reduction in these countries will reduce European purchasing power further. The recipient governments will have to cut their spending; the banks will have to take large losses. In the long run, the eurozone must be recognized as a failed experiment. It should be reconstituted with far fewer members, including only countries that do not run persistent current-account deficits. Everything else that has been proposed to save the eurozone in its current form – a central treasury, a monetary authority that does more than target inflation, fiscal harmonization, a new treaty – is a political pipe dream. Robert Skidelski, "The Wages of Economic Ignorance" http://www.project-syndicate.org/commentary/skidelsky47/English

[2] Joseph Stiglitz, "The Price of 9/11" http://www.project-syndicate.org/commentary/stiglitz142/English

tensions between Greek Cyprus and Turkey over the energy exploration of the American firm, Noble Energy, in offshore Mediterranean waters within the Greek Cypriot Exclusive Economic Zone (EEZ). This energy exploration has raised tensions between Turkey and Greece—with the EU, the United States, Russia and even Israel backing Greek Cyprus. Lebanon, Egypt, and possibly a future Palestine, are also indirectly involved in the dispute over the control and ownership of resources to be found in offshore waters.[3]

The UN has called for a "peace summit" on Cyprus issue to be held in January 2012, to be followed by a conference between Turkey, Britain and Greece, the three states that guarantee Cypriot sovereignty.[4] But the crisis is even deeper than that that of Greek-Turkish conflict over Cyprus.

The fact that Turkey is one of the few states that has not signed the UN Convention on the Law of the Seas, a law which has been in force since 1994, complicates the issue. Here, Turkey has argued that the very concept of EEZ of up to 200 nautical miles is not at all appropriate for the east Mediterranean due to the number and proximity of the claimants in the region.[5] This stance indicates that the Law of the Seas might not be applicable in this region and needs to be revised—which could mean going though the long process of UN ratification of a new or modified Law of the Sea

[3] http://www.defencegreece.com/index.php/2011/10/cyprus-signals-block-on-turkey-eu-energy-chapter/; http://online.wsj.com/article/SB10001424053111903374004576580663037431204.html For a Greek perspective, see http://www.defencegreece.com/index.php/2011/10/eu-to-highlight-turkeys-aggressive-stance/

[4] http://af.reuters.com/article/energyOilNews/idAFLDE79T00N20111031?sp=truehttp://www.cyprus-mail.com/cyprus/turkish-threats-taken-eu-council/20111025

[5] Huge Pope, "Stepping on the gas towards a Cyprus partition » *Sunday's Zaman* (Turkey) *September 25, 2011;* http://acturca.wordpress.com/2011/09/25/gas-cyprus/ (25 September 2011)

regime—unless some form of compromise can be found given the specific circumstances.

The issue is additionally complicated by the fact that EU member Cyprus has stated that it will only support the opening of Turkey's 'Energy chapter' in the complex EU membership application procedure—if Ankara signs the UN Convention on the Law of the Sea and finally normalizes relations with Greece. Both France and Greece have thus far blocked the Turkish application to the EU so that only one EU membership "chapter" has been completed so far. If no compromise is soon found, Turkey has threatened to "freeze" relations with the European Union once Cyprus presides over the European Union in mid-2012.[6] That's not much time, but ironically, a time limit could still impel compromise.

On the positive side, Greek Cypriot authorities have ostensibly provided assurances that Turkish Cypriots will obtain some "share" of any income generated through energy discoveries in the area. In addition, both the Greek and Turkish sides appear to have agreed that the territorial waters should one day be placed under some form of joint authority. As it stands at present, Greek Cypriots hope to define maritime boundaries unilaterally in the effort to drill for oil and gas around Cyprus—as do Turkish Cypriots backed by Ankara.

Both sides continue to dispute whether a bi-zonal federal solution is to be preferred, or else a confederation of two independent states. Questions as to how to elect a Cypriot president on a rotating basis, the nature of parliamentary representation of both sides, coupled with veto power, do not appear entirely resolved. There is also the issue of the use of the Euro versus the use of the Turkish lira for the entire island. Thus

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[6] http://www.defencegreece.com/index.php/2011/10/cyprus-signals-block-on-turkey-eu-energy-chapter/; http://online.wsj.com/article/SB10001424053111903374004576580663037431204.html

far, the Euro is preferred.[7] All these issues need further discussion at the UN Peace Summit in January 2012; but this time, the overall Greek debt and Euro crisis should give a bargaining advantage to the Turkish position.

In the background of the Greek-Turkish dispute is that fact that Turkey has been promised EU membership sometime in the future. As long as Turkey continues to seek entry into the EU as a "full" member, then the EU may have some political and economic leverage over Turkey. Yet complications involving Turkish culture (non-European), religion (Islam), geography (only a tiny slither of Turkey lies in Europe), human rights, the Kurdish question, conflicts along Turkish borders, potential immigration (to EU countries) and Turkey's large population size of over 70 million (which impacts EU voting rights as only Germany has a larger population)—in addition to the Cyprus issue—have so far checked the possibility for Turkey to enter the EU as a "full" member.[8]

Concurrently, the Euro crisis raises questions as to why Ankara would still want to become a "full" EU member given Turkey's stunning economic growth in the past few years (the "fastest" in the world in the first quarter of 2011)—a growth rate

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[7] http://www.euractiv.com/enlargement/un-calls-cyprus-peace-summit-news-508696. See also "A Mediterranean Maelstrom" *The Economist* (10 December 2009) http://www.economist.com/node/15065921

For a criticism of Greek Cypriot policy for its failure to accept a timeline for power sharing as proposed by Turkey, see http://www.cyprusblog.org/2011/12/05/too-late-to-solve-cyprus-problem-says-former-minister/

[8] Only one of the 35 "chapters" for Turkish membership in the EU on research has been completed. On December 8th 2009, the EU agreed to open a new chapter on the environment. At least five chapters have been blocked by a French veto. Eight chapters have been frozen since December 2006 as a means to sanction Turkish Cypriots for not opening their ports and airports to the Greek-Cypriot republic. Here, however, the Cypriot government vetoed an EU promise to reward the Turkish-Cypriots for voting "yes" on the UN Annan plan for unification in April 2004 by ending their trade and travel isolation. In response to the Greek Cypriot veto, Turkey refused to open its ports and airports to the Greek-Cypriots. A settlement should have preceded Greek Cypriot membership in the EU. See "A Mediterranean Maelstrom" *The Economist* (10 December 2009) http://www.economist.com/node/15065921

fuelled by significant foreign investment, but which is nevertheless predicted to slow down in the near future in response to the European and global economic contraction.[9] Popular Turkish enthusiasm for joining the EU as a step toward "modernization" has likewise waned over the last few years.

Nevertheless, from a geo-economic standpoint, stronger European links to Turkey represent a means to open the entire Black Sea area to European commerce with its tremendous market potential. (The Black Sea area possesses roughly 350 million people, a foreign trade capacity of over US $300 billion annually, and the second-largest source of oil and natural gas along with proven reserves of minerals and metals after the Gulf region.) One immediate problem in accessing the energy market is that without Greek/EU normalization of relations with Turkey, followed by European access to Turkey's burgeoning market, the export of any gas discovered by Greek Cyprus would require the development of much more expensive pipelines and liquefaction plants.[10] A deal that links Europe and Turkey and Greece is accordingly in the interest of all sides.

Closer European links to Turkish industry and to its youthful man- and woman-power can additionally help European industry compete with that of China. For its part, China has already planned to enter the growing Black Sea market through the Greek port of Piraeus—which represents China's most important strategic economic investment in Europe. For Beijing, the pier of Piraeus is a strategic-economic gateway to bring Chinese goods into the booming eastern European and Black Sea markets.[11] Greek labor

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[9] http://www.reporternet.com/Turkey-categories/Economy/485-Turkey-will-maintain-the-fastest-economic-growth-in-Europe In 2010, Turkey's growth was close to 9 percent. For 2011; expectations are a rate of around 7 percent year-on-year growth.

[10] Huge Pope, "Stepping on the gas towards a Cyprus partition » *Sunday's Zaman* (Turkey) *September 25, 2011;* http://acturca.wordpress.com/2011/09/25/gas-cyprus/ (25 September 2011)

[11] In June 2010, the Chinese shipping company China Ocean Shipping Co. (Cosco) took full control of its container terminals, leasing it for 35 years for almost $5 billion. The deal is already

unions are already complaining about Chinese business practices—while European recovery risks being further undercut by cheap Chinese products.

Here, however, China, among other developing countries, has appeared to resent European requests for financial assistance. While China might appear to represent the biggest potential source of financial supports for those European countries in debt, it remains reluctant. Beijing does not want to see the Euro collapse, but the leadership also appears to be waiting out the crisis. The Chinese appear to be waiting for the Euro to go down in value; they appear more interested in buying up weak or failing European industries due to their market access, technology and experience than in supporting ostensibly spendthrift governments.

Despite its tremendous foreign exchange surplus of at least 3.2 trillion dollars, all is not necessarily rosy in China either. Beijing has also been confronted with credit and housing bubbles in some regions, heavily indebted local governments as well as significant inter-firm borrowing, plus rising wages that increasingly make it more difficult for China to compete with Vietnam and Indonesia, among other countries. This situation is complicated by the fact that the US and European economies have begun to retract, in large part due to the accumulation of debt, thus reducing potential demand for Chinese products at a time when China and most developing countries have based their economies on export-led growth.

Given its large trade surplus and demands for higher wages, China itself has begun to argue that it must begin to enlarge its domestic consumption. But even increasing Chinese domestic consumption will not be sufficient to reinvigorate the European or

raising tensions with Greek labor unions. Between 2005 and 2010, China has made more than $224 billion in overseas investments and also entered into engineering and construction contracts of more than $94 billion. http://www.npr.org/2011/06/20/137061379/indians-uneasy-as-china-builds-ports-nearby world economy.[12] While the potential collapse of the Eurozone means that China could lose as much as 20% of its overseas market, it would be difficult for the Chinese leadership to explain to its population why China would want to assist Greece and the Europeans—and not invest a significant portion of foreign exchange reserves in China's own infrastructure.[13]

China thus appears more interested in buying weak and failing industries in Europe than in supporting the Euro by buying European state bonds. Concurrently, while it appears willing to expand IMF Special Drawing Rights, Beijing concurrently seeks the reform the IMF quota system in order to obtain greater IMF voting rights in exchange. Beijing's attitude is in part due to continuing uncertainty and lack of confidence in the actual state of European sovereign finances.[14]

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12 China could purchase more European products (as Europe is China's largest source of export demand), but even this would not solve the problem: "The current account surplus in China is about 10 percent of its GDP. Halving it would add 5 percent of China's GDP to world demand. This would add 0.3 percent to world demand, obviously not enough to revive the world economy" Manmohan Agarwal, "Developing Countries – even China – Cannot Rescue the World Economy" http://www.cigionline.org/sites/default/files/Policy_Brief_18.pdf

13 China's government-run companies or private firms could begin to buy up poorly performing European companies. China could also take the risk to buy up European bonds, and diversify away from American holdings, but what would it ask in return? "Official market" status that would permit cheap Chinese goods to enter the EU more easily? A demand to put an end to the European arms embargo that had been imposed after the Tiananmen Square crackdown in June 1989 which the French under Jacques Chirac had previously sought to lift against American opposition?

14 See Yao Ying, "Europe on a Chinese Shoestring" http://www.project-syndicate.org/commentary/yao5/English. China holds euro-denominated assets and are net investors in EU countries, but the priority for Beijing is to finalize the quotas distribution. See "China's senior banker wants IMF reform before EU aid » (November 9, 2011) http://www.euractiv.com/euro-finance/china-senior-banker-wants-imf-reform-eu-aid-news-508845

For their part, Europeans have been worried about the strategic and national security (if not cultural) implications of permitting Chinese sovereign funds to purchase key industries. The more Europe demands, the more China might seek official EU recognition of the country as a "market economy' for the sake of prestige—in addition to a greater voice within the IMF as previously mentioned. While the China bought the Greek pier of Piraeus, a Chinese entrepreneur for example, was blocked from purchasing a large farm in Iceland on national security grounds.[15] The issue of national security still causes European (and American) concern as it relates to China's rise as a regional, if not global, power.

As the China option appears limited as a means to encourage European economic growth, the Black Sea option appears more hopeful as it could open major markets as well as the energy route to Europe from the Caspian Sea and from Russia. But here, the EU needs to forge closer and political-economic and security relations with Russia (see Part II). Moscow has thus far attempted to monopolize energy transport by Gazprom to Europe as much as possible, and play European states against each other for energy deals. Yet the realization that Russia needs European markets for its energy production, that Russian technological capabilities are lagging behind those of Europe and the United States, that new energy producers (in North Africa, Iraqi Kurdistan, North America as well as the Gulf states) will be competing with Russian energy supplies, and that Russia must further diversify its economy in the face of the post-2007 global recession/depression, has helped, to a certain extent, to press Moscow towards a closer relationship with Europe as well as with the United States.[16]

[15] http://euobserver.com/19/114416

[16] Hall Gardner, "Toward a Euro-Atlantic Confederation" *Russia in Global Affairs* http://eng.globalaffairs.ru/person/p_2420

Moreover, the fact that Beijing's accession to the World Trade Organization (WTO) helped boost Chinese trade and foreign investment in China, has, in turn, led Moscow to seek entry into the WTO as well. Here, after negotiations in Geneva which took place in the aftermath of the August 2008 Russia-Georgia war, Georgia dropped demands that Russia withdraw its forces from South Ossetia and Abkhazia in order for Moscow to enter the WTO. Tbilisi has consequently settled for a deal in which a neutral intermediary would handle trade between Georgia and Russia, thus opening the door for Russian WTO membership.[17]

Russia will consequently join the WTO in 2012, after eighteen years of negotiations. Once it becomes a WTO member, Russian efforts to gradually diversify its economy over a 10 year period can open new doors to trade primarily with Europe.[18] WTO membership can also reduce Russian export dependence on energy, primary products and weaponry. Moscow will still need to work on intellectual property rights, among other issues—in addition to permitting more competition in energy transport. It will take time for the Europeans and Russians to build confidence and to develop markets, but it is a step in the right direction.

Closer economic ties with Russia will consequently help open the Russian market to European products and investment and thus help get Europe back on the path of growth (while helping Russia reform). At the same time, closer political economic ties with Turkey could open up the Black Sea region to European trade and investment (while helping Turkey to reform). One possibility to help strengthen and reinforce the political economic relationship

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[17] *International Herald Tribune* (November 11, 2011), p. 18.

[18] "Outside Russia, the biggest beneficiaries of the WTO deal are global companies based in the European Union, by far Russia's biggest trading partner, the U.S. and other countries. Only 27.3% of U.S. businesses currently in Russia say that WTO membership wouldn't bring new opportunities for expansion there, according to a survey by the American Chamber of Commerce."
http://online.wsj.com/article/SB10001424052970204224604577027810930153038.html

with both Russia and Turkey would be to implement a new category of EU "associate membership." Such a membership category could be applied to highly populous states such as Turkey, Russia, as well as countries such as Ukraine, among others.

"Associate membership" status could provide states that want closer ties with the European Union with limited voting rights that would not be based on the size of population. The establishment of an "associate membership" category would make the issues of immigration, population size, human rights and religion less crucial as factors in permitting these states to develop a stronger links with the EU—but this would not necessarily stop the Europeans from continuing to insist upon legal and human rights reforms in all European neighbors through the Council of Europe which already includes both Turkey and Russia. The latter states have begun the reform process, but it is evidently very slow.

It would, for example, be a disaster if Turkey works to resolve the Cyprus question over the next few months in 2012, but is still rejected from "full" EU membership on other grounds. Hence, an "associate membership" represents a fall back option, but the proposal goes beyond the "privileged partnership" offered by France and Germany in that it provides some voting rights to Turkey. France and Germany have both opposed "full" Turkish membership, while the UK has thus far supported it, in seeking a wider, but not deeper, European Union.[19] Yet this approach would mean revising the European Treaty.

This is evidently not an easy proposition given efforts to revise the EU Treaty at the December 2011 European Union summit on the Euro crisis. The December EU summit sought to establish an all-European « fiscal union » that would place binding

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[19] For a general background to the European positions on Turkish membership in the European Union, see "Turkey's Quest for EU membership" *European Union Center of North Carolina* EU Briefings, March 2008 http://www.unc.edu/depts/europe/business_media/mediabriefs/Brief4-0803-turkey's-quest.pdf

limits on country deficits, and establish penalties for those countries that break those limits. All budgets would be handed over to Brussels for approval. The proposed revisions to the EU Treaty also call for a new permanent European Stability Mechanism that will replace the temporary European Financial Stability Facility (which does not appear to be sufficient to handle the present crisis).[20]

So far only the UK has openly opposed revising the Treaty—a stance which could possibly further isolate the UK from the continent. Other countries, such as Sweden and the Czech Republic, might not ratify the Treaty revisions; still other countries need parliamentary approval or need to hold national referendums to change their constitutions. Britain's refusal to accept revisions to the Treaty (as it could not obtain EU concessions for the British financial services sector) means that there will be no official EU treaty and probably no mechanism for effective enforcement by the EU Commission either. This was unfortunately the case for the 1997 Stability and Growth Pact which the EU failed to enforce despite repeated violations by Greece, as well as by France and Germany which refused to adhere to the agreed limits.[21]

From this perspective, it appears that the new rules would apply only to the 17 euro-zone countries and those who intend to

[20] See http://euobserver.com/1016/114566 EU countries are to contribute an extra €200bn to the IMF to be channelled back into troubled eurozone states. Non-euro countries will participate in the contribution with €50bn. Germany is blocking any increase to a €500-bn-cap on the EU's own bail-out funds, the ESM and EFSF, but this does not appear to be enough to bail out Italy with a total debt over 2 trillion, not to overlook «counting Spain, or Portugal, or Ireland, or whatever money Greece might yet still need.” See critique, Felix Salmon « Europe’s disastrous summit ». http://blogs.reuters.com/felix-salmon/2011/12/09/europes-disastrous-summit/

[21] Larry Eaker, *The Debt Crisis and the Legality of Leaving the Eurozone*, JURIST - Forum, Sept. 22, 2011, http://jurist.org/forum/2011/09/larry-eaker-eurozone-exit.php.

join the Euro group.[22] This step could eventually split the European Union between those state who do not use the Euro (including those that might drop out in the future) and those states who do use it, eventually resulting in a two-tiered system.

The potential ramifications of going too rapidly off the Euro are indicated in the fact the 17 states that use the Euro represent more than 300 million Europeans, not to overlook the roughly 150 million people in African countries that peg their currencies to the Euro. In addition, the fact that the Euro has become the second largest reserve currency in the world after the dollar means the possible, but not inevitable, collapse of the Euro has global, and not just European, financial implications—and indirect and destabilizing social and political consequences. On the pessimistic side, it is not at all certain that the EU policy recommendations involving fiscal restraint and greater political-economic integration can be implemented soon enough to save the Euro. Yet it is also not certain that these policies represent the appropriate path in the first place—if economic growth cannot soon be achieved. One option to consider might be to plan for a staged withdrawal from the Euro in the long term.[23]

In conclusion, assuming that the Europeans can more or less gradually reform their financial system, this could result in a more

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[22] Martin Feldstein, "The Euro Zone's Double Failure" *Wall Street Journal* (December 15, 2011) http://online.wsj.com/article/SB10001424052970203893404577098252697593684.html?mod=djemEditorialPage_h

[23] See footnote 1, Robert Skidelski, "The Wages of Economic Ignorance" http://www.project-syndicate.org/commentary/skidelsky47/English. See also, *Gideon Rachman, "*Saving the euro is the wrong goal" *The Financial Times* (November 7, 2011) http://www.ft.com/intl/cms/s/0/9542474a-0937-11e1-a20c-00144feabdc0.html#axzz1dngEoiKe. For differing scenarios, see Raymond J. Ahearn, Coordinator, "The Future of the Eurozone and U.S. Interests" *Congressional Research Service* (September 16, 2011) http://www.fas.org/sgp/crs/row/R41411.pdf. For a more pessimistic view, see Willem Buiter, **"**The terrible consequences of a eurozone collapse**"** (*Financial Times*, 7 December 2011)**.**

variegated and *confederal* European Union (particularly if a number of countries begin to opt out of the Euro) with differing and more flexible political-economic approaches for EU members. Concurrently, a debate on European neighborhood policy could likewise create new forms of "associate" membership in establishing a "wider" EU. Concurrently, given the European financial crisis, European neighbors might find such an approach in their interests—as they would, in effect, have 'one foot in' and 'one foot out' of the European Union. Like the United Kingdom, European neighbors need not accept the Euro nor Schengen controls, but they would not control quite as many votes as the UK does either.

Overall, a new EU "associate membership" status with limited voting rights (the number to be determined by EU "full" member states) would thus seek to achieve a multilayered and variegated European Union with differing societies and religions and more flexible political economies. As opposed to a "one size fits all" approach which has characterized the Brussels bureaucracy so far, this option would envision a larger confederation for the benefit of the entire Euro-Atlantic region that could include states such as Turkey, Russia and Ukraine. Such an approach would set the stage for European recovery in the aftermath of the present global financial crisis—which may prove much longer and deeper than many expect.

Toward a Geo-Economic Resolution of the Euro Crisis

Part II: Toward a New System of Euro-Atlantic Security

By Hall Gardner

In addition to impacting upon the domestic Greek economy and the Euro crisis in general, the Greek debt debacle has opened a hemorrhage throughout the European Union that possesses significant geo-economic and geostrategic implications. The Euro crisis not only requires a re-adjustment in the overall European political economy, but will also require a new EU membership approach to the European neighborhood as argued in Part I of this essay. Dealing with the crisis will also require measures to establish a new system of Euro-Atlantic security that will bring Turkey, Russia and other countries into a closer security relationship with the European Union and NATO. It is absolutely crucial that the January 2012 UN peace summit on the Cyprus question succeed—in that the Cyprus question represents the central stumbling block to the establishment of a new system of Euro-Atlantic security.

As argued in Part I, the Greek debt debacle has been accompanied by a dangerous dispute over energy resources in the Mediterranean— a dispute which has superimposed itself upon Greek-Turkish conflict over Cyprus. The Cyprus dispute already impacts on trade, transport, tourism, among other aspects of the Mediterranean and Black Sea political-economies indirectly—including the extent of military spending for both sides. Greek defense spending has averaged a much higher percentage per capita than either that of the UK or France.[24] By contrast, Ankara's

[24] According to SIPRI, Greek military expenditure in 2000 amounted to 5.921 billion euros. In 2008, this figure had risen to 8.620 billion euros. Whereas military expenditure had accounted for 4.3 percent of Gross Domestic Product (GDP) in 2000, the figure for 2008 according to SIPRI was 3.6 percent of GDP. NATO's figures differ in some areas from those of SIPRI. According to NATO, Greek military expenditure rose from 5.921 billion euros in 2000 to 7.263 billion euros in

high defense spending has had less impact on its economy, at least recently, due to Turkey's strong economic growth rate. The reduction of military spending accordingly represents one means to deal with Greece's sovereign debt crisis: In 2010, Athens was expected to reduce military spending following the 110 billion Euro bail out from the EU and IMF at that time.[25] But deep cuts still require the negotiation of confidence and security building measures between Greece and Turkey. And deep defense cuts cannot take place until the dispute over energy resources is resolved.

Given the fact the Greek-Turkish dispute involves, at least in part, the quest for offshore energy resources, it seems absolutely crucial for the UN (perhaps with help from the G-8 or G-20) to set the ground rules for the *sharing* of the financial benefits of global resources in general—resources which, in reality, belong to the international community. The Greek-Turkish dispute could help set a precedent for other disputes over energy and natural resources—as there are a number of other burgeoning energy and resource disputes/conflicts throughout the world which need adjudication.[26]

If resolved through the UN (with possible G-8 or G-20 financial assistance), conflicts over energy and resources *could*

2009. Jan Grebe and Jerry Sommer, Greece: "High military expenditures despite the financial crisis" *BICC Focus* http://www.bicc.de/uploads/pdf/publications/focus/9-griechenland/BICC%20Focus_Griechenland_engl_fin.pdf

[25] http://www.defpro.com/news/details/15624/ (May 31, 2010)

[26] These energy and resource disputes include: the Spratly Islands (claimed by China, Brunei, Malaysia, Philippines, Taiwan and Vietnam); the Kuril Islands/ northern territories (claimed by Japan and Russia); Falklands/Malvinas (claimed by the UK and Argentina); Diaoyu/ Senkaku Islands (claimed by Japan and China); Dokdo Islands (claimed by South Korea and Japan); Mosul and Kirkuk between Iraqi Kurds, the Iraqi central government, if not Turkey and ongoing disputes over oil fields between Kuwait and Iraq; Abu Musa claimed by Iran and the United Arab Emirates, among others. See my argument in Hall Gardner and Oleg Kobtzeff, co-editors, *Ashgate Companion to War: Origins and Prevention* (Ashgate: forthcoming January 2012), Chapter 29.

eventually provide a tax base for global development. Here, it could also be a UN (along with the G-8 or G-20) responsibility to help to protect the natural environment in the process of exploiting those resources. In terms of the Cyprus dispute in particular, the UN (along with the G-8 or G-20) could additionally find ways to help fund a Cypriot peace settlement—in part through the generation and taxation of energy revenues. Here, a major, and not yet unresolved, issue has been how to raise and provide monetary compensation for property destroyed or lands taken from internally displaced Cypriots.[27] New thinking is essential.

The US, the European Union and Russia need to work together to jointly protect pipelines and sources of energy in the Euro-Mediterranean and throughout the Euro-Atlantic region. Despite the geostrategic importance of the two countries, NATO has done relatively little to help reconcile Greece and Turkey since the 1974 Turkish occupation of northern Cyprus—even if both countries have been NATO members since 1952. Ironically, NATO has not appeared to be overly preoccupied with the economic consequences of security and defense spending at least until recently.[28]

In this regard, it is crucial that NATO begin to find ways to compromise with Russia so as to reduce overall defense costs—particularly given significant tensions over the deployment of US and NATO missile defense systems. In November 2011, Moscow unexpectedly threatened to deploy nuclear weaponry in Kaliningrad in response to US Missile Defense radar systems to be deployed in Turkey—if Russia and NATO eventually fail to reach a deal on the U.S. missile defense plans. Moscow still sees the

[27] On Cyprus and property issues, see "A Mediterranean maelstrom" *The Economist* (10 December 2009) http://www.economist.com/node/15065921

[28] For perspective that NATO is becoming a hollow shell, http://www.cdfai.org/granatsteinarticles/NATOs%20Defence%20Spending%20Cuts.pdf; for perspective that NATO cuts are deceptive, see, http://www.natowatch.org/node/475

fourth phase of NATO's Phased Adaptive Approach as threatening in the long term.[29]

Russia has likewise threatened to drop out of New START and halt other arms control talks, particularly after the Americans dropped out of the adapted Conventional Force in Europe (CFE) treaty in November 2011. Moscow had already dropped out of the adapted CFE in 2007 to protest NATO enlargement and what it considered an enlarged NATO's conventional force advantage—a superiority which Moscow has sought to counter with the deployment of tactical nuclear weaponry. This means that NATO and Russia no longer share information as to the nature and deployment of their conventional forces. If Moscow and Washington cannot reach an agreement in the aftermath of their respective March and November 2012 presidential elections, a new conventional and nuclear arms race could be in the making.

A wider European Union that incorporates both Russia and Turkey (as well as Ukraine among other states) as "associate members" (as argued in Part I) needs to be supplemented by a new approach to Euro-Atlantic security that not only seeks to secure Europe but which also seeks to develop and protect wider markets and energy pipelines and resources for the entire Euro-Atlantic community.[30] A new system of Euro-Atlantic security would

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[29] James Joyner, "Russia on Combat Alert over NATO Missile Defense" *Outside the Beltway* (November 23, 2011) http://www.outsidethebeltway.com/russia-on-combat-alert-over-nato-missile-defense/

[30] Zbigniew Brzezinski has argued: "In the course of the next several decades, Russia could embark on a comprehensive law-based democratic transformation compatible with both EU and NATO standards. The ongoing public demonstrations in Russia signal, already, the emergence of a young middle class that is increasingly internationalist and aware of its civic rights. Turkey, meanwhile, could become a full member of the EU. Both countries would then be on their way to integration with the transatlantic community. But even before that occurs, a deepening geopolitical community of interest could arise among the U.S., Europe (including Turkey) and Russia." Zbigniew Brzezinski, "As China Rises, A New U.S. Strategy" (The Wall Street Journal, 14 December 2011). The question is how this is to be done. It appears dubious that the EU will

consequently seek to stabilize and develop the Euro-Mediterranean and wider Black Sea region by bringing the US, Europe, Turkey and Russia into closer security and political economic and financial cooperation. Such an approach would seek to meet Russian demands for a new Euro-Atlantic security pact (expressed by Russian President Medvedev after the August 2008 Georgia-Russian war) through closer NATO-Russia cooperation and closer Russian ties with the European Union.

The establishment of at least three International Centers for the Coordination of Security, Defense and Conflict Mediation/ Peacekeeping in Sevastopol, Kaliningrad and Cyprus under the auspices of the NATO-Russia Council and in cooperation with the UN, the OSCE and the European Union, among other international organizations (and NGOs) could provide a new security framework for an enlarged Euro-Atlantic confederation that would seek to secure economic benefits for all sides.[31] These three centers could provide security and confidence building measures and joint protection for pipelines and energy production. These International Centers could likewise provide peacekeepers acceptable to all sides for the "frozen conflicts" in the Caucasus—if not between Greek and Turkish Cypriots and between Israelis and Palestines (by working in conjunction with Israeli and Palestinian security forces). These three Centers could additionally confront other

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accept Turkey or Russia) as a "full" member without redefining membership. The same may be true for Russian membership in NATO.

[31] Hall Gardner, "Toward a Euro-Atlantic Confederation Practical Steps for the U.S., Russia and Europe to Coordinate Security, Defense and Peacekeeping Russia in Global Affairs" http://eng.globalaffairs.ru/number/Towards-a-Euro-Atlantic-Confederation-15147 See also Hall Gardner, "Toward a New Strategic Vision for the Euro-Atlantic" NATOWatch http://www.natowatch.org/sites/default/files/NATO_Watch_Briefing_Paper_No.15.pdf; http://www.natowatch.org/node/436

security concerns throughout the Euro-Mediterranean, eastern European and Black Sea regions.

An International Center in Sevastopol would seek to balance European, Russian, American and Ukrainian relations, help protect pipelines from the Caspian to Black Sea, while likewise providing joint NATO, Russian and NATO Partnership for Peace peacekeepers for the “frozen conflicts” in the Caucasus. An International Center in Kaliningrad would help bring Kaliningrad into a more cooperative relationship with the EU, while providing security assurances and protection for energy pipelines throughout the Baltic region and eastern Europe.

An International Center for the Coordination of Security, Defense and Conflict Mediation/ Peacekeeping in Cyprus (ideally implemented in-between the Greek and Turkish Cypriot sectors) would seek to mediate between Greek and Turkish Cypriots, Turkey and Greece, and provide security through the possible deployment of joint Greek, Turkish, and NATO Partnership for Peace peacekeepers. Such as Center could likewise help oversee security throughout the Euro-Mediterranean (including protection of offshore energy sources), as well as throughout the ‘wider Middle East’ (linked to North African and Arab Gulf Security). In political terms, this International Center would seek to bring NATO-member Turkey closer to the European Union and thus work to improve the NATO-European Union-Turkish-Russian defense and security relationship. In addition to securing Greek and Turkish reconciliation, such a Center could also help secure a potential peace settlement between Israel and the Palestinians (as well as between Israel and Syria over the Golan heights, if not between Lebanon and Israel)—assuming diplomatic settlements and forms of compensation can eventually be found to these significant conflicts.

The resolution of the Greek debt debacle and the Euro crisis cannot be achieved without efforts to develop a new and more flexible political-economic relationship with the major states of the European neighborhood, most notably Russia and Turkey—in the quest to unleash the tremendous growth and market potential of the eastern European and Black Sea regions. This proposed approach would involve the implementation of new forms of "associate EU membership" (as outlined in Part I); it would also involve the implementation of new forms of security that would seek to strengthen the links between all members of a new Euro-Atlantic community (as outlined in Part II).

Such an approach, which would involve a plethora of differing international regimes, the UN, the EU, NATO, the NATO-Russia Council, the G-8, if not G-20, plus appropriate NGOs—which could hopefully all act in concert, and not at cross-purposes—would aim at securing European recovery in the aftermath of the global financial crisis— a crisis which, as previously stated, may prove much longer and deeper than many expect.

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