

per Concordiam

Journal of European Security and Defense Issues

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Prosperity through interdependence

■ **EASTERN PARTNERSHIP**

The EU reaches beyond the Dniester

■ **GATEWAY TO THE EU**

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and Reform
Build Stability



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GEORGE C. MARSHALL
EUROPEAN CENTER FOR SECURITY STUDIES

Welcome to the 16th issue of *per Concordiam*. This issue is focused on economic security and its impact on countries, regions and beyond. Although the concept of economic security has existed for a long time, the speed of globalization has redefined it. The success of free nations, open markets and social progress has accelerated globalization on an unprecedented scale and continues to open doors of opportunity throughout the world. This process has lifted many from poverty, extended democratic freedoms and established international marketplaces for goods and services. But, globalization has a dark side — it can intensify international terrorism, the proliferation of drugs and illegal munitions, cyber threats, economic upheavals and climate change.

Economies have become more integrated as a result of globalization. The United States is emerging from a harsh recession, and the U.S. national security strategy has been largely focused on growing the economy and reducing the deficit. Europe has made significant progress throughout the past decades, accomplishing milestones such as the creation of a common currency and the European Union, assisting several nations through economic downturns and building the foundations of sustainable common economic policies. However, the recent eurozone crisis has been devastating for some southern European countries. These crises have demonstrated that all European countries are interconnected economically. As evidenced by the financial crisis of 2008, which caused a global recession, economic stability is a transnational issue. In today's age, nations must not only consider internal economic policies, but the policies and practices of trade partners and neighbors.

In light of the challenges of globalization, new partnerships have formed to increase economic development between nations. Social and economic security should be the foundation of reconciliation and development in these regions. An example is the Transatlantic Trade and Investment Partnership (TTIP), a political, economic and cultural partnership between the U.S. and the EU. It will boost world economic development, strengthen the natural partnership within the West and create an international level playing field for fair competition. Although other important economic initiatives are starting to make headway, several countries remain challenged with economic transition. The former communist countries of Southeast and Eastern Europe and Central Asia are deeply affected. Many have made little progress toward convergence with more economically advanced countries, and efforts to spur economic growth have often been ineffective.

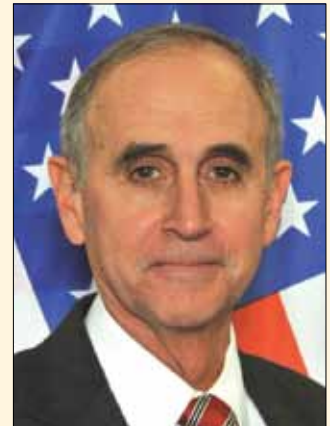
National institutions continue to be essential providers of economic security to citizens. However, open markets, transparent business environments and proactive fiscal policies are not enough to sustain economic growth and security. Innovation and technological progress, the main source of growth and job creation, rely on human capital and institutions that create the necessary conditions for the market system to function freely and properly. Economic development should be built on people and knowledge. This is how the George C. Marshall European Center for Security Studies helps create the conditions for better international security, through building capacity among young leaders throughout Europe and Eurasia.

At the Marshall Center, we strive to inculcate the importance of economic understanding through our curriculum. For example, students participating in this year's Program in Applied Security Studies-Capacity Building course conducted a case study evaluating the stringent economic policies of a notional country and the internal and regional effects of those policies.

We welcome your comments and perspectives on these topics and will include your responses in future editions of the journal. Please feel free to contact us at editor@perconcordiam.org

Sincerely,

Keith W. Dayton
Director



Keith W. Dayton

Director, George C. Marshall European
Center for Security Studies

Keith W. Dayton retired as a Lieutenant General from the U.S. Army in late 2010 after more than 40 years of service. His last assignment on active duty was as U.S. Security Coordinator to Israel and the Palestinian Authority in Jerusalem. An artillery officer by training, he also has served as politico-military staff officer for the Army in Washington, D.C., and U.S. defense attaché in Russia. He worked as director of the Iraqi Survey Group for Operation Iraqi Freedom in Iraq. He earned a Senior Service College Fellowship to Harvard University and served as the Senior Army Fellow on the Council on Foreign Relations in New York. Gen. Dayton has a bachelor's degree in history from the College of William and Mary, a master's degree in history from Cambridge University and another in international relations from the University of Southern California.



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Dr. Michael Dauderstädt was director of the Division for Economic and Social Policy of the Friedrich Ebert Foundation (FES), a nonprofit think tank, until September 2013. He has worked with the German Foundation for International Development, served as head of the International Policy Analysis Unit and was director of the Division for Economic and Social Policy of the FES. Dr. Dauderstädt studied mathematics, economics and development policy in Paris, Berlin and Aachen, Germany. His research focus is international political economy, European integration and German economic policy.



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Atifete Jahjaga is president of the Republic of Kosovo. She was elected by the Parliament of Kosovo on April 7, 2011, as the first female head of state in the history of the modern Balkans and is a member of the Council of Women World Leaders. Before assuming the presidency, she embarked on a law enforcement career with the Kosovo Police, rising to the position of deputy general director in 2009. She completed her studies at the Faculty of Law of the University of Pristina in 2000 and earned postgraduate certifications from the University of Leicester in the United Kingdom and the University of Virginia in the United States. She is a 2006 graduate of the Marshall Center's senior executive seminar.



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Dr. Valbona Zeneli is a professor of national security studies at the Marshall Center. Her research and teaching interests include international economics and security issues, globalization and foreign direct investment, institutional reforms and development in transitional economies and corruption and security sector reform. She holds a Ph.D. in Political Economy from the University of Bari, Italy, a postgraduate diploma in international marketing from Georgetown University, Washington, D.C., and graduated with honors in business administration from the University of Bologna, Italy. Dr. Zeneli has published widely on these topics.

Economic Security

Volume 4, Issue 4

George C. Marshall European Center for Security Studies

Leadership

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The George C. Marshall European Center for Security Studies is a German-American partnership founded in 1993. The center promotes dialogue and understanding between European, Eurasian, North American and other nations. The theme of its resident courses and outreach events: Most 21st century security challenges require international, interagency and interdisciplinary response and cooperation.

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per Concordiam is a professional journal published quarterly by the George C. Marshall European Center for Security Studies that addresses defense and security issues in Europe and Eurasia for military and security practitioners and experts. Opinions expressed in this journal do not necessarily represent the policies or points of view of this institution or of any other agency of the German or United States governments. All articles are written by *per Concordiam* staff unless otherwise noted. Opinions expressed in articles written by contributors represent those of the author only. The secretary of defense determined that publication of this journal is necessary for conducting public business as required of the U.S. Department of Defense by law.

ISSN 2166-322X (print)
ISSN 2166-3238 (online)



per Concordiam magazine addresses security issues relevant to Europe and Eurasia and aims to elicit thoughts and feedback from readers. We hope our previous issues accomplished this and helped stimulate debate and an exchange of ideas. Please continue to share your thoughts with us in the form of letters to the editor that will be published in this section. Please keep letters as brief as possible and specifically note the article, author and magazine edition to which you are referring. We reserve the right to edit all letters for language, civility, accuracy, brevity and clarity.

Send feedback via email to: editor@perconcordiam.org

ARTICLE SUBMISSIONS

per Concordiam is a moderated journal with the best and most thoughtful articles and papers published each quarter. We welcome articles from readers on security and defense issues in Europe and Eurasia.

First, email your story idea to editor@perconcordiam.org in an outline form or as a short description. If we like the idea, we can offer feedback before you start writing. We accept articles as original contributions. If your article or similar version is under consideration by another publication or was published elsewhere, please tell us when submitting the article. If you have a manuscript to submit but are not sure it's right for the quarterly, email us to see if we're interested.

As you're writing your article, please remember:

- **Offer fresh ideas.** We are looking for articles with a unique perspective from the region. We likely will not publish articles on topics already heavily covered in other security and foreign policy journals.
- **Connect the dots.** We'll publish an article on a single country if the subject is relevant to the region or the world.
- **Do not assume a U.S. audience.** The vast majority of *per Concordiam* readers are from Europe and Eurasia. We're less likely to publish articles that cater to a U.S. audience. Our mission is to generate candid discussion of relevant security and defense topics, not to strictly reiterate U.S. foreign policy.
- **Steer clear of technical language.** Not everyone is a specialist in a certain field. Ideas should be accessible to the widest audience.
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COUNTERING NARCOTICS AND ILLICIT TRAFFICKING:

Transnational Approaches to Transnational Threats

By JOSEPH W. VANN, professor of National Security Studies, Marshall Center

The George C. Marshall European Center for Security Studies will soon offer a new two-week course on countering narcotics and illicit trafficking. The course, sponsored by U.S. European Command, U.S. Central Command and U.S. Africa Command, was created in direct response to the growing alarm and realization among partner nations that transnational criminal organizations pose a serious threat to national security interests.

The resident course, designed for 60 participants, is scheduled for March 31-April 11, 2014, at the Marshall Center in Garmisch-Partenkirchen, Germany. The Countering Narcotics and Illicit Trafficking (CNIT) course is tailored to policymakers and senior law enforcement practitioners responsible for countering illicit trafficking.

Although illicit trafficking has long existed, the threat it poses to the national security posture of all states, but especially fragile and developing states, has grown. Illicit trafficking has changed dramatically since the end of the Cold War, as restrictions were relaxed on the global movement of people, goods and services. Traffickers have adopted technologies that emerged to assist legitimate international, including instant online money transfers, global positioning systems and containerized shipping.

The key difference between legitimate businesses and illicit traffickers is that legitimate businesses are purposely public and accountable, whereas illicit traffickers hide activities and profits. The result is that governments and societies are less able to assess the extent of illicit trafficking and the harm it poses to national security.

Illicit narcotics trafficking is one of the largest money-making enterprises for transnational criminal organizations, which have become increasingly networked around the globe. Many drug traffickers have dispensed with traditional hierarchal, mafia-type structures in favor of a modern, flat business structure that focuses on product lines. As the reach and power of transnational criminal organizations expand, so does their ability to infiltrate existing businesses or establish new legitimate businesses with

the proceeds of their illicit trafficking.

The Marshall Center's CNIT course is designed to reach beyond the tactical and procedural study of illicit activities and examine how illicit trafficking threatens state institutions and, ultimately, the stability of the state itself. The agility of illicit traffickers contrasts with the slower response of governments encumbered by bureaucratic delays. The cash-heavy business model of transnational criminal organizations also presents challenges when it comes to investing the proceeds of illicit activities. One of the key objectives is to launder enormous amounts of money through elaborate schemes that allow them to invest in real estate and legitimate companies.

As this criminal investment activity grows, it creates a climate for legitimizing criminals, who can then use sizable cash resources to corrupt officials and finance political campaigns. It's a phenomenon known as "state capture." As transnational organized criminal elements succeed in corrupting the government and the political process, they directly challenge and threaten the national security of a state.

CNIT is designed to examine illicit trafficking from a comprehensive, whole-of-government perspective. The aim of the course is to understand the totality of illicit trafficking. Participants will gain an appreciation for the networks, trade patterns and smuggling routes preferred by transnational criminals. The course examines the relationships between illicit traffickers involved in smuggling cocaine, heroin, weapons, people and counterfeit goods and the methods of laundering criminal proceeds into legitimate businesses. Participants will learn how corruption tied to illicit trafficking degrades good governance and the rule of law and ultimately diminishes a state's ability to provide traditional services to its population. The course concludes with details on how state capture presents a real national security threat.

Ideal participants for this course are parliamentarians, ministers, senior law enforcement officials and other government professionals engaged in activities to counter narcotics and illicit trafficking.

ECONOMIC REFORM IN KOSOVO

An Interview with

ATIFETE JAHJAGA

President of the Republic of Kosovo

What reforms is Kosovo instituting in pursuit of eventual European Union membership?

In recent years, Kosovo has made considerable progress toward overall EU reform. In this context, we are making important progress in meeting the political criteria for membership, implementing important reforms to establish a fully functioning market economy and promoting good neighborly relations.

The year 2013 has been very good for Kosovo's path to the EU. In October, we launched negotiations for the Stabilization and Association Agreement with the EU and expect to conclude these negotiations by the spring of 2014. This agreement marks a new phase in Kosovo's relations with the EU that we hope will strengthen social and economic development and encourage much-needed foreign investment.

In the framework of the Stabilization and Association Agreement, Kosovo is focused on addressing key priorities such as the rule of law, the judiciary, public administration, electoral reform, protection of minorities and trade. This year we have started to implement a thorough judicial reform, the purpose of which is to strengthen institutional capacities in the rule of law.

We are also committed to make progress in the Visa Liberalization Dialogue with the EU. With the substantial reforms being implemented in key areas such as rule of law, document security, migration and public order and security, our aim is to advance toward lifting visa obligations for Kosovo citizens to travel to the EU.

Since the end of the war in 1999, we have worked hard with our international friends and partners to create an inclusive and democratic country.

How important is the 2013 agreement between the European Union Rule of Law Mission in Kosovo (EULEX) and the Kosovo Police to thwart organized crime and high-level corruption? How successful has it been?

Kosovo is committed to consolidate the rule of law and increase its efforts in fighting organized crime and corrup-

tion, and we have made some structural and institutional gains in laying out the infrastructure to combat these phenomena that unfortunately do not spare any country and are especially a threat to countries in transition. These efforts are being conducted in close partnership and cooperation with EULEX. As president of Kosovo, I invited the EU's rule of law mission to the country in 2011, and this invitation was accepted by the EU — a sign that both parties' focus is to seriously engage in the war against organized crime and corruption.

Because we are in the process of building these capacities, and to facilitate Kosovo's communication with specialized international agencies, Kosovo has delegated part of its sovereignty to EULEX by vesting this mission with reserved competencies in dealing with sensitive crimes. We are determined not to allow any institutional vacuum that could exacerbate the threats posed by organized crime and corruption, and we are grateful that the EU mission has stepped in to share the burden and its expertise to assist Kosovo.

Specifically, the agreement between EULEX and the Kosovo Police aims to facilitate the sharing of information between these two institutions to prevent, detect and reduce crime with a focus on organized crime, trafficking of human beings, weapons and narcotics, financial crime, high-level corruption and civil unrest. This agreement has led to an increase in the number of cases investigated jointly by the two organizations. It has enabled better prevention, detection and investigation of complex cases through securing reliable and efficient exchange of strategic and operational information and criminal intelligence.

This is especially important since Kosovo is still not a member of Interpol, Europol and other security and safety international organizations, and access to information, intelligence and trans-national cooperation mechanisms is limited. This limitation presents an obstacle for the Kosovo Police and state prosecutor to deal with complex crimes that

President Atifete Jahjaga of Kosovo joins then-U.S. Secretary of State Hillary Clinton, left, and High Representative for EU Foreign Policy Catherine Ashton, right, at a 2012 meeting in Pristina to encourage greater EU and NATO integration.



often have regional and sometimes international dimensions. The gradual transfer of responsibilities in the field of rule of law to the institutions of the Republic of Kosovo is closely linked with the building of our full capacities in cooperation with EULEX.

How will recent dialogue and agreements between Serbia and Kosovo help strengthen regional economic cooperation and development?

Kosovo entered the recent dialogue with Serbia on the basis of a resolution approved by the Parliament of Kosovo in October 2012. The dialogue is intended to set foundations for the normalization of relations between two independent and sovereign states in the interest of solving problems, improving the lives of citizens and advancing the European agenda for both countries and for the region. In April 2013 the negotiations resulted in an EU-brokered accord that is considered to be one of the last milestones on Kosovo's political and economic stabilization path.

Since the declaration of independence in 2008, Kosovo did not have full control over four northern municipalities. Even EULEX faced serious obstacles establishing control over this part of our country. As a result, the northern municipalities became a lawless space, a paradise for smugglers and criminals that caused a lot of damage to Kosovo's economy and painted Kosovo as an unstable country to foreign investors.

The dialogue, however, has paved the way for the settlement of a number of important issues of an economic nature. For example, in September 2012, an agreement on customs stamps was reached through which Kosovo goods are allowed to enter Serbia. A solution to telecommunication and energy is also expected to be achieved. And in late 2013, Kosovo customs started receiving revenue for goods imported from Serbia that enter the country through the border crossing with Serbia in the north.

The dialogue has also led to an agreement on the representation of Kosovo in regional organizations, including groups that aim at economic cooperation and development. Since the deal was signed, Kosovo has applied for membership in more than 40 regional organizations, and representatives of our government have attended a significant number of regional meetings and events. In general, this has created opportunities for strengthened economic cooperation in the region. However, there are multiple implementation obstacles that still need to be removed.

How important is Balkan economic integration for Kosovo's economic security and development? What steps can the country take to achieve this?

European integration is the most important mechanism to motivate Balkan countries to carry out reforms in state building, rule of law, regional cooperation, development and economics. I see the EU integration of the Balkans, especially its economic integration, as a long-term mechanism supporting peace, stability, reconciliation and

prosperity that will help the entire region overcome resentments of the past and look towards a brighter future.

Kosovo remains committed to the EU integration agenda and the necessary reforms. In terms of regional economic integration, Kosovo is a member of the Central European Free Trade Agreement and has recently signed a free trade agreement with Turkey. Our aim is to enhance regional cooperation by continuous investments in infrastructure and other common projects that will benefit citizens of the entire region. Kosovo has just completed the construction of a motorway that links it to Albania in the south, giving the country access to the sea, and Serbia in the northeast. Soon, we will start construction of a second motorway linking Pristina with Skopje, Macedonia, and further on to Greece. An energy transmission line of 400 kilovolts is in the process of construction with Albania, enabling electricity exchange and trade and increasing energy security. Recently, we also have shown interest in connecting to the Trans Adriatic gas pipeline in Albania, which will help Kosovo diversify energy supplies.

And we have taken bold political steps, such as the dialogue with Serbia, to restart the inter-state relationship in the Balkans and reemerge as a market that is politically stable, economically viable, coordinating and pooling resources to the benefit of the region with the aim of becoming an added value to investors from Europe and beyond.

What lessons, if any, has Kosovo gleaned from recent financial instability in Europe? What internal economic policies will Kosovo pursue to ensure economic growth and financial stability for its population?

First of all, I would like to stress that the independence declaration in 2008 has proven to be a stabilizing factor, not only for Kosovo. The region has never been as calm and stable as in the past five years. This has also played an important role in the economic development of the country. Despite the world economic downturn, Kosovo has managed to sustain economic growth, which is hovering around 4 percent. The country continues to have strong macroeconomic stability, a healthy banking sector and a growing private sector. Small- and medium-size enterprises are increasingly playing an important role in job creation and growth.

However, current growth rates are still not sufficient to deal successfully with our main challenges, such as unemployment, a trade imbalance and lack of productivity. Kosovo needs to change its growth model toward the private sector and small- and medium-size businesses. The state needs to focus more on the rule of law and providing the necessary legal and institutional protection for the economic system, but also on enabling economic freedom, maintaining macroeconomic stability, fiscal policy and taking care of income redistribution. This is the only way to unlock our huge economic potential for the benefit of the entire Kosovo population.

An economically developed Kosovo means a stable Kosovo. A stable Kosovo means a stable Balkans. □


Building a Better

BALKANS

By DR. VALBONA ZENELI, Marshall Center faculty



VEER

An aerial photograph of a historic city, likely Dubrovnik, showing a dense cluster of buildings with red-tiled roofs. Two prominent large domes are visible: one on the left with a dark, ribbed dome and a cross on top, and another in the foreground with a lighter, ribbed dome. The sky is clear and blue.

Economic integration and investment in human capital are needed to raise living standards in Southeast Europe

Economic security is not a new concern of governments. The concept has long existed, although the speed of globalization has redefined it. Security used to be judged by threats to a country's borders, a historical concern in the troubled region of the Balkans. However, for most people in the region, security is much more personal and immediate. The main challenges threatening the everyday security of average citizens in Southeast Europe are poverty, unemployment and corruption. People are concerned about threats to incomes, health and their children's education.

Southeast Europe economies lag behind developed Western economies. Living standards and incomes are relatively low, with average per capita GDP only 36 percent of the European Union average in 2010. The region reports the highest unemployment rates in Europe, averaging 24 percent in 2012, and in some countries exceeding 30 percent.

The past two decades have been especially challenging for people in Southeast Europe. The fall of the Iron Curtain resulted in drastic policy and economic change for former communist countries. Since the beginning of the transition process, the countries of Southeast Europe have made great strides in their transformation. The common objective has been integration into the EU and inclusion into the global economy. However, the transition to efficient market economies remains unfinished, and despite the indisputable achievements of the past two decades, challenges remain formidable.

Many have studied the successful transformation strategies and the EU enlargement process in Eastern and Central Europe and tried to

ed trade, worsening the economic and welfare situation. Economic growth in the region only resurged during the 2000s and brought with it rising economic and social welfare. During the past decade, average gross domestic product (GDP) growth in the region was 3.4 percent, and some countries managed growth rates higher than 7 percent. This economic expansion resulted in an increase of 40 percent in aggregate regional GDP, helping residents of the Balkans to narrow their income gap with the EU.

ECONOMIC RECESSION IN SOUTHEAST EUROPE

But after a decade of macroeconomic growth, the boom came to an abrupt end in 2009. Southeast Europe suffered from a lagged reaction to the eurozone economic crisis through declining trade, investment, finance and remittances. Real GDP contracted 5.9 percent in 2009 and, following a double-dip recession in 2012, shrunk another 1.2 percent. The consumer and investment markets registered even deeper declines.

The most significant of the contagion channels in Southeast Europe has been a 30 percent drop in foreign direct investment (FDI), the worst decline experienced in any other emerging market. Another important negative spillover effect that harmed the region's balance of payments was a decline in trade with the EU, especially with neighboring Italy and Greece.

The decrease of remittances from EU countries had dire consequences for these small economies,

exacerbating social tensions and suppressing consumption among people who relied on the financial support of expatriate workers.

The ongoing Greek crisis has hurt the regional economy. Greece had been a major strategic partner and big investor in Southeast Europe, and Athens' troubles have delayed EU integration with the Western Balkans. As late as the Thessaloniki summit in 2003, Greece had pledged to integrate the region into the EU. One of the main consequences of the eurozone crisis is a credit crunch that has deprived businesses of money needed for operations and investment, impeding economic growth.

The ongoing Greek crisis has hurt the regional economy. Greece had been a major strategic partner and big investor in Southeast Europe, and Athens' troubles have delayed EU integration with the Western Balkans.

replicate it. Although a broad consensus for change exists within society, Southeast Europe has been beset by problems. Its industrial base was obsolete, and governments failed to develop comprehensive strategies for reforming their economies and societies. Neo-liberal reforms and the privatization process have been largely short-term and ineffective; favoring insiders and shadowed by corruption. These problems kept serious foreign investors away from the region.

Regional disputes, including the wars of the 1990s, have distracted governments from reforms, destroyed industrial capacity and disrupt-

STRUCTURAL DEFICIENCIES

The crisis has exposed regional vulnerabilities. Southeast Europe faces challenges and opportunities that are common to Europe as a whole, as well as challenges that are specific to itself. The global crisis is an important explanation for the stagnation of Southeast Europe economies, but that explanation only goes so far. More importantly, the underperformance is a direct result of structural problems in the Balkan economies. Some are a consequence of decades of conflict, and others stem from a still-unfulfilled reform agenda meant to transform planned economies into democratic market economies.

Many regional problems are chronic and reflect suboptimal patterns of growth, creating significant imbalances, both macroeconomic and structural. The high growth of the last decade was made possible by domestic-led demand nourished by large inflows of foreign capital. Reliance on this consumption-led growth has resulted in widespread unsustainable deficits with rising foreign debt.

Worsening this picture, credit capital inflows were misallocated and neglected productive investment in favor of consumption. Southeast Europe suffers a serious lack of competitiveness and productivity, reducing the region's appeal to foreign investors.

The stall of GDP growth in the region is alarming for these weak emerging economies. Brief growth spurts followed by stagnation simply lower average growth and prolong the process of catching up to advanced economies.

SUSTAINABLE GROWTH MODEL

The old economic model in Southeast Europe is challenged. That development was driven by the accumulation of physical and financial capital that has fueled sovereign debt rather than build human resources. With global liquidity shrinking, the region needs to change gears. Regaining one's economic stride is more complicated when structural changes must occur in a time of financial austerity.

So future economic development should rely on increased regional cooperation and deeper integration with the EU. This is the first and best option for the small but not yet competitive economies of Southeast Europe.



A worker cleans the facade of the Bank of Greece in Athens. Greece once served as a model and patron for nations of the Western Balkans aspiring to EU membership, but financial woes have weakened that role. GETTY IMAGES

Fiscal and economic security cannot be guaranteed unless there is a clear, long-term strategy for growth and development aimed at the well-being of society. A new growth model is needed to accelerate socioeconomic reform and modernize and reindustrialize the economy. That will create more jobs and deliver better living standards to the population.

Economic remodeling should be done by changing the drivers of growth toward greater exports and foreign investment. That will require a focus on stimulating innovation, acquiring skills and integrating regional trade. This is also in line with the EU 2020 growth strategy that talks about smart growth built on knowledge, education and innovation.

Sustainable growth and wealth creation is built on people, human capital and knowledge for a continuous structural change in an economy. Governance is crucially important. Open markets are necessary but not sufficient. Innovation and technological progress — the main sources and factors of growth and job creation in this century — increase productivity. But that progress is founded on human capital and institutions that create the necessary conditions for the market system to function freely and properly.

ATTRACTING INVESTMENT

The countries of Southeast Europe are not considered to be innovation-driven economies, ranking very poorly in the World Economic Forum's Global Competitiveness Report 2013, especially when it comes to innovation and business sophistication.

One of the easiest ways to acquire innovation and knowledge in Southeast Europe is through interaction with the global economy and the attraction of FDI. But to achieve this, countries should have the necessary absorptive capacity to take the greatest advantage of the positive spillovers of FDI. Foreign investors are still reluctant to invest in the region — most of the actual investments relate mainly to the privatization process — for various political and economic concerns. They include weak growth rates, relatively small markets, pervasive corruption, insufficient labor skills and weak institutions. The poor performance of institutions and high levels of corruption are what worry most foreign investors.

FDI is an important indicator of economic health in a country and a strong channel for direct growth, employment and increased income. It provides the main source of untainted private capital, a vehicle of modernization and a driving force for sustainable development.

The establishment of a competitive economic environment in the whole region is a key precondition for attracting FDI. The region should realize that its individual nations are too small and noncompetitive in the global market. Each lacks resources and the capacity to compete and generate sufficient scale to attract quality investment.

Regional cooperation and interoperability are imperative for the economic future of Southeast Europe. Further integration in the global economy can be achieved only by improving competitiveness. Regional integrated growth can only be achieved through complete liberalization of trade and investment and harmonization of regulations, procedures and institutions. Creating a regional strategy will be vital for promoting a friendly business environment for the “pooled” attraction of FDI toward sectors that augment domestic investment and improve productivity.

The Central European Free Trade Agreement (CEFTA) is a regional cooperation agreement strongly supported by the EU. It has been

instrumental in fostering open and accessible regional markets, leading to complete trade liberalization. CEFTA is a good framework for cooperation, but the challenge lies in its effective implementation and the removal of burdensome nontariff barriers. A better framework of cooperation would increase the very low intra-trade levels between members and lead to higher productivity.

JOB CREATION

High unemployment is putting a significant strain on fiscal balances and on all forms of social and economic security. Work-related security has several dimensions related to incomes, representation, labor opportunities and productive employment. One of the main problems in the region is the mismatch between the aspirations of people to find decent jobs and their ability to obtain them.

Key to reducing unemployment will be more robust growth. To achieve this, countries need to continue their fiscal adjustments and improve their investment climate and competitiveness. More aggressive policies are needed to foster entrepreneurship and small business development, invest in skills and remove barriers to mobility. That would help the region escape the vicious cycle of low growth and high unemployment.

International development institutions argue that policymakers should focus not just on economic growth but on human development, making people both the means and the ends of this process. The success of a government should be measured in terms of human development, a process of enlarging people's choices and expanding their capabilities.

Human and economic security should also be the foundation of reconciliation and development in the region. The role of the government is to create an environment where private sector investment is profitable. The principal investments that are needed to support growth are education and infrastructure. Both positively impact growth by raising returns in the private sector, domestic and foreign.

National institutions will continue to be the essential providers of economic security to their citizens. However, under the conditions of globalization, these institutions must evolve. The recent crises have boosted the role of the govern-



James Hogan, right, president and CEO of Abu Dhabi-based Etihad Airways, Serbian Deputy Prime Minister Aleksandar Vučić, center, and Dane Kondić, general manager of Air Serbia, celebrate Etihad's purchase of 49 percent of the Serbian national airline. Balkan businesses have struggled to find well-heeled foreign partners. GETTY IMAGES

ment in the economy. An effective public sector is a prerequisite for overall productivity gains. The establishment of a transparent and effective environment free of corruption would radically improve the business and investment climate.

A REGIONAL VISION

Some time ago, many people in Southeast Europe viewed regional integration more as a risk than an opportunity. This provincial mentality has definitely changed. The regional reconstruction vision, with its roots in the Marshall Plan after World War II, sees underdevelopment and economic instability as major sources of regional instability. The way to achieve stability is to transform economic conditions. This would make disputes and conflicts extremely expensive for everyone.

The enticement of a common future under the EU motivates countries to develop. However, regional cooperation is a precondition for EU integration. It is extremely important that people in the region have linked their future to the EU. They regard Europeanization as a desirable and modernizing change, even though the road

to EU integration has been bumpy for some of the countries, with corruption and organized crime as the main impediments. But working with the EU through the accession process has been crucial to building institutional capacity in these countries.

Economic security and prosperity are critical for bridging barriers between states and easing mistrust among neighbors. Cooperation stimulates economic prosperity and decreases the chances for conflict. Regional leaders should be visionary in recognizing the advantages of economic cooperation. Trade and investment interdependence has the power to reduce and eliminate nationalistic confrontation.

Better regional cooperation would reduce instability in Southeast Europe, one of the main concerns of foreign investors. Strong political will is needed to meet challenges. Rebuilding the region on a strong and sustainable foundation will require, above all, investment in education and knowledge as a gateway to economic development and regional integration. To do otherwise would be to squander a valuable opportunity. □





The European Union's

EASTERN PARTNERSHIP

From Vilnius to Riga

By AMBASSADOR JURIS POIKĀNS,
Marshall Center alumnus, Latvian Ministry of Foreign Affairs

The Ukrainian government's abrupt decision in November 2013 to postpone the long-awaited signing of its European Union Association Agreement brought hundreds of thousands of Ukrainians into the streets. The massive demonstrations indicate that vast change has taken place in this part of the world. The Ukrainian decision to delay economic integration with Europe may cause some to label the 2013 Eastern Partnership Summit in Vilnius, Lithuania, as a failure, but the Ukrainian people have shown that the "European perspective" is still attractive to millions of people in Eastern Europe. What can be done before the 2015 summit in Riga, Latvia, to facilitate this change?

The Eastern Partnership is not necessarily about EU enlargement. Rather, it is a platform creating closer links with the six partner nations — Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The ultimate goal of the Eastern Partnership has never been clearly de-

Eastern Partnership countries improve their prospects for future membership, provided they complete the required reforms — a process some partners are undertaking. The Baltic states—Estonia, Latvia and Lithuania—are integral members of the EU. Their experiences vividly show that the hard work and commitment to become a member will pay off in the end. Since joining in 2004, all three countries experienced unprecedented economic growth, reaching as high as 12 percent annually before 2008. Estonia and Latvia have joined the eurozone, and Lithuania should join them in 2015.

From the beginning of the Eastern Partnership, the EU recognized that every partner state may have different ambitions regarding EU membership and, therefore, remains open to various levels of engagement, as demonstrated at the 2013 Vilnius summit. Georgia and Moldova initialed their respective EU association agreements and have stated their intent to proceed with the ratification process in 2014. In addition, visa-free travel in the EU should soon be a reality for ordinary Moldovans because they have made noteworthy progress in meeting EU requirements.

At the same time, as a result of domestic political conflicts and Russian economic pressure, Ukraine unexpectedly declined to sign an association agreement. The proposal remains on the table. In September 2013, Armenia dropped its plans to sign an association agreement and declared its intention to join the Russian-led Customs Union, joining Kazakhstan and Eastern Partnership member Belarus. Azerbaijan is seeking its own unique relationship with the EU, with separate trade and travel agreements. The EU has met these different levels of ambition with understanding.

The next Eastern Partnership Summit will be in Riga in the first half of 2015, when Latvia holds the presidency in the Council of the European Union. Several areas of common interest for the EU and the six Eastern partners, including energy, environment, transportation, and justice and home affairs,

defined; it is more a process with horizons yet to be determined. Through the Eastern Partnership, the EU seeks to enhance stability along its eastern borders and improve political and economic engagement with the partner nations by strengthening the rule of law, the business environment and people-to-people contacts. To achieve these goals, the EU offers closer political association and economic integration via association agreements that include comprehensive trade accords and dialogues that can lead to visa-free travel throughout the EU.

Participants in the European Union's Eastern Partnership Summit gather in November 2013 in Vilnius, Lithuania, where association agreements with Georgia and Moldova were initialed.



AFP/GETTY IMAGES



Ukrainian pro-EU demonstrators gather in front of the Russian Embassy in December 2013 to support closer trading ties with EU members.



AFP/GETTY IMAGES

Moldovans buy flowers in Chisinau in October 2013. Eastern Partnership member Moldova, the poorest country in Europe, initialed an association agreement with the European Union that is expected to greatly improve the country's economic situation.



Wine in barrels await bottling in Tbilisi in February 2013. Georgia, well-known in Eastern Europe for its wine and mineral water, initialed an association agreement with the European Union that should open new markets for the country's signature exports.

await discussion in Riga. Because each partner nation has defined its level of engagement with the EU differently, it is important that the Eastern Partnership remains a joint platform of cooperation.

However, the principle of differentiation should be applied. Partner nations that want a closer relationship with the EU should not be hostages to the Eastern Partnership. Implementing the association agreements, which envisage creating a deep and comprehensive trade area between the signatories and the EU, will require immense efforts by the partners to meet EU requirements. Technical assistance from the EU and its member states to overcome these challenges will be of utmost importance. Latvia stands ready to share its experience with the partners.

The EU strongly supports the sovereign foreign and trade policy choices of every partner state and believes that no pressure should be applied to influence these choices. The Eastern Partnership is not about geopolitical competition with the Russian Federation. Russia is an important EU partner in a wide range of fields, such as energy, topical foreign policy issues, trade and people-to-people relations. And the EU suggested a new EU-Russia agreement with a view of creating closer ties, demonstrating a readiness to deepen partnership with Russia.

The EU needs to work harder to explain the benefits of the Eastern Partnership to the people of partner states. The events in Ukraine demonstrate the growing maturity and influence of civil society. Issues such as the rule

of law or an open and predictable business environment are pertinent to every partner state to some extent, but civil society serves as an important catalyst for change, and these efforts deserve the support of the EU and its member states.

The EU needs a strategically oriented and long-term policy for both its eastern and southern neighborhoods. It is important to develop an Eastern Partnership policy that is embraced by all EU member states. Furthermore, it is essential to ensure the continuity of Eastern Partnership policy during the upcoming Greek and Italian EU presidencies.

The gradual global shift in economic and political influence away from the EU and the West, in general, dictates the ever increasing necessity to deepen integration within the EU itself. The remaining barriers that impede competition and growth must be abolished and the process of creating Europe “whole and free,” without dividing lines, based on the same understanding of values, completed. Every European state, regardless of its size and its geopolitical importance, has a role to play in this process.

Previous EU enlargements have brought unprecedented growth and stability to central and eastern Europe, greatly benefiting these societies. The Eastern Partnership might potentially serve as a motor to duplicate this success in the six partner states, but they will need to work hard. The EU must remain open to any efforts to facilitate this change; it is in our common interests. □

PROMOTING FREE TRADE

by per Concordiam Staff

*The Central European
Free Trade Agreement
acts as a springboard
to EU membership*

In December 1992, representatives of the new democratic governments of Hungary, Poland and Czechoslovakia met in Krakow, Poland, to sign the Central European Free Trade Agreement (CEFTA). Those were exciting times for nations that had suffered nearly a half century of Soviet rule. But they were also times fraught with economic uncertainty and the inherent dangers of societal unrest and instability. CEFTA was implemented to facilitate integration of the three countries into Western European institutions and consolidate democratic government and free market economic reforms.

The agreement was an early centerpiece of the Visegrád Group, an alliance formed by Hungary, Poland and Czechoslovakia at a historic February 1991 meeting on the banks of the Danube River in Budapest. In 1335, at another historic meeting 50 kilometers north in Visegrád, Hungary, Hungarian King Charles I of Anjou, Bohemian King John of Luxembourg and Polish King Casimir III resolved territorial disputes and forged a 50-year alliance at the Congress of Visegrád. The medieval rulers established Visegrád as a center of regional diplomacy where the rulers and their successors gathered for decades to discuss matters of state.

Hungarian Prime Minister József Antall, Polish President Lech Wałęsa and Czech President Václav Havel — democratic successors to those kings — shared a conviction about the benefits of liberal democracy and free trade. They believed that achieving economic reform and social transformation, with the goal of European integration and eventual European Union (EU) accession, would be easier through joint efforts. The desire to overcome historic animosities and move forward in a spirit of cooperation led them to adopt Visegrád as a symbol.

Membership has evolved during its 20-year history. The original Visegrád Group members left CEFTA in 2004 when they joined the EU. Later members — Slovenia, Romania, Bulgaria and Croatia — also left the organization upon achieving EU membership. Current member states are Albania, Bosnia-Herzegovina, Kosovo, Macedonia, Moldova, Montenegro and Serbia.

With all of its former members in the EU and most of its current members on their way to EU accession, the question has arisen whether the agreement is redundant. Before the adoption of the latest manifestation, CEFTA 2006, the organization appeared to be nearing the end of its usefulness. Bulgaria and Romania were about to join the EU and withdrew, leaving Croatia as the sole remaining member.

The EU proposed the alternative of a “Balkan Free Trade Zone” primarily composed of former Yugoslav states. Croatia objected, according to the *SouthEast European Times*, “complaining that it was reminiscent of the former Yugoslavia and would slow Croatia’s road to EU accession by lumping it together with other states that are not as far along in the process.” As an alternative, CEFTA was expanded with the addition of Albania, Moldova and

the other countries. Croatia withdrew in 2013 with its admission to the EU.

The agreement has evolved to meet the emerging challenges of its member states, but the central premise of the agreement remains — to facilitate economic development in the region by expanding trade and encouraging investment. CEFTA 2006 was ratified by the current member states in 2007 with a promise to “expand trade in goods and services and foster investment by means of fair, stable and predictable rules, eliminate barriers to trade between the parties, provide appropriate protection of intellectual property rights in accordance with international standards and harmonize provisions on modern trade policy issues such as competition rules and state aid.”

To reach CEFTA objectives, prospective member states must meet specific criteria set forth in the Poznan Declaration of 1994. These criteria are: 1) membership in the World Trade Organization (WTO); 2) an EU Association Agreement with provisions for full membership; and 3) consent from all member states in the form of bilateral free trade agreements with each other. However, the criteria have grown more flexible: Kosovo was allowed accession absent WTO membership to avoid economic isolation, and the EU Association Agreement provision was downgraded to no longer require “full membership.”

The agreement can be most useful in encouraging greater economic cooperation in the strife-torn Balkans, home to all but one of its current members, by upholding the principles of free trade and the rule of law. Its structures include subcommittees on agriculture and sanitary issues, customs and technical and nontariff barriers to trade. There are also working groups on technical barriers to trade, trade in services and customs risk management.

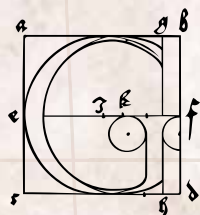
Some have questioned the continuing relevance of CEFTA. But according to a 2012 EU Center for Economic Development report, it has “played a significant role in goods and services trade expansion, and in investment influx increase. That was made possible on the grounds of commonly accepted fair, stable and predictable rules, elimination of barriers, and introduction of international standards and harmonization of national trade policy elements. Even more, thanks to the involvement and support of a number of European institutions in agreements drafting, these documents turned out to be an essential pre-accession tool for the countries in the region.”

That so many former members have achieved the goal of EU accession is the best proof of the agreement’s relevance. Further expansion to include Georgia is possible after that country signed an EU Association Agreement in November 2013. Ukraine, which backed out of signing its own association agreement just days before the meeting, is another potential member when it resolves internal political and foreign policy issues. CEFTA may have a limited shelf life, but it likely won’t expire until all Central European countries have made the structural and economic reforms necessary to meet the stringent demands of EU membership. □





REUTERS



THE ERMAN MODEL

OVEREXPOSED TO AN UNDERREGULATED GLOBAL ECONOMY

By Dr. Michael Dauderstädt

Economic security, understood as the continuous fulfillment of the conditions required to sustain economic welfare, is crucial to stability and prosperity in Germany. Welfare should not be confused with growth of the gross domestic product (GDP) alone, but encompasses wealth distribution and external effects not measured by GDP, such as a healthy environment. However, at its core, economic welfare is the production and consumption of goods and services, either via market-oriented commercial activities, to a large extent private business or by households, and the public sector provision of public goods and services. In a modern capitalist system with a monetized economy, wealth includes not only physical and human capital, but also financial wealth, making a stable financial system a core part of economic security.

Economic activity depends on many conditions for sustainable execution:

- Politically, it depends on a reliable legal and institutional framework such as property rights or contractual law;
- Ecologically, it depends on the absence of environmental catastrophes such as floods or droughts;
- Economically, it depends on access to crucial inputs such as raw materials, capital, labor and knowledge;
- Financially, it depends on a stable monetary and financial system preventing inflation and reducing the risks of capital loss.

To some extent, these conditions will be met within each nation's economy, depending on the size of the country and its policy regarding economic openness. Huge countries, such as the United States and Russia, may find most inputs and markets within their own borders. The communist bloc (and North Korea today) adopted autarkic economic policies to reduce dependency on unfriendly capitalist states. But today, economic security depends on the safe maintenance and management of foreign economic relations. This is certainly the case for Germany: Though a relatively large economy, it is deeply integrated into the European and global economy.

GERMAN RELIANCE ON EXPORTS

For a country of its size (82 million people, GDP of 2.4 trillion euros), Germany's share of foreign trade is very high. Annual German exports amount to almost 1 trillion euros, or about 38 percent of GDP. Imports are somewhat lower, about 32 percent of GDP, leading to a trade surplus of about 150 billion euros. This surplus is somewhat reduced by a deficit in the services trade, particularly tourism (Germany has a negative balance on tourism of about 1.5 percent of GDP).

The country's capital account is, as it must be, the mirror image of the current account, making Germany a net capital exporter with a growing net investment position as a global creditor. Germany exports capital in various forms, such as transfers (contributions to the European Union or foreign aid), foreign direct investment and lending (buying financial products or government bonds). Germany also imports labor, albeit at a much lower level than in the 1960s. There are almost 2 million foreigners employed in Germany.

Germany's primary industrial exports — machinery, electrical equipment and cars — leave German industry well-placed to benefit from the unequal growth in the world economy, which has spurred demand for investment goods and luxury cars. German imports also consist mainly (60 percent) of manufactured goods. This pattern shows strong intra-industry trade. Nonetheless, the German economy's comparative advantage is revealed by the composition of imports relative to exports. Raw materials and food consti-

tute 10 percent and 9 percent, respectively, of all imports, while their share of exports is much smaller (1 percent and 6 percent).

Germany's integration into global markets for capital and labor is somewhat less pronounced than for trade. Germany is not a major target country for foreign direct investment (FDI) and its investments abroad are much higher than foreign investments in Germany. In most years, incoming FDI does not exceed 50 billion euros. German FDI has often focused on establishing production networks in Central and Eastern Europe.

As a net exporter of goods and services, Germany must be a net exporter of capital. Nonetheless, it receives substantial inflows of portfolio investment that are overcompensated for by strong outflows. Foreigners like to buy German government bonds, and they hold a large portion (about 40 percent) of Germany's substantial public debt (about 2 billion euros, or more than 80 percent of GDP). Overall, Germany is a net creditor to the rest of the world. In 2010, German banks had claims against foreign debtors of 2.4 billion euros, of which a third was owned by foreign banks, about half by private enterprises and the remaining share by governments.

Germany's international integration is based on a complex structure of international agreements and institutions. Germany is a member of many global bodies that manage global economic governance (the World Trade Organization, the International Monetary Fund, the World Bank, etc.). But Germany's membership in the EU, which constrains national economic policy, is much more important. There is no sovereign national monetary and exchange rate policy, because this is the prerogative of the European Central Bank (ECB); fiscal policy must follow European rules regarding deficits and debts; trade policy, such as tariffs, are set by Brussels; and subsidies are subject to approval by the EU Commission.

Many other policy fields are coordinated and/or subject to majority rule within the EU. This integration has immediate economic and financial repercussions. Germany is the largest net contributor to the EU budget, a "shareholder" in the ECB, and, as the ongoing eurozone economic crisis unfolds, a major contributor and guarantor of the diverse funds and schemes to "save the euro."

RISKS AND CHALLENGES

Risks to basic market functions are currently limited. There is no apparent danger that Germany will not be able to buy necessary inputs (in particular, natural resources) abroad, or sell its output. Risks include potentially higher prices for inputs and declining revenues from stagnating demand or increased competition. Either could lead to declining terms of trade, which hurts GDP.

However, concerns about its trade position have strongly influenced Germany's economic policy. Pride in its exports, on the one hand, and concern about supposedly declining international competitiveness, on the other, have dominated German economic policy discourse since the late 1970s.

German financial wealth was hit by the 2009 financial



A customs officer inspects German-made Volkswagens and Audis to be loaded on ships in Emden for export. German industrial competitiveness, combined with a single European currency, has brought benefits to the continent. But it has also contributed to disharmony in the eurozone.

GETTY IMAGES

crisis but mostly recovered in 2010. Nonetheless, recent studies have shown that German savers/investors lost 10 to 20 percent of funds invested abroad, if accumulated current account surpluses are compared to the actual increase in the net asset position.

The financial crisis of 2008/2009 revealed risks and opportunities. Although the crisis emerged initially in the U.S. mortgage market, Germany realized its own banking system had been seriously affected, too. Germany has benefited substantially from the stimulus packages adopted by other governments, notably in the U.S. and China.

More recently, two developments have fed skepticism of the wisdom of Germany's export-led model. First is the eurozone crisis, which is partly fueled by growing trade imbalances. While Germany runs large surpluses, Greece, Spain, Italy and France have corresponding deficits. These imbalances are caused by a divergence of unit labor costs, which declined in Germany and increased strongly in the southern EU states. In 2009, then-French Finance Minister Christine Lagarde voiced concerns about Germany's "beggar-thy-neighbor" policies, triggering a fervid debate in Germany that continues today.

The second development is rising inequality within

Germany. Besides being a problem itself, it has strong links to Germany's world market integration. Wage restraints, labor market reforms and welfare cuts have often been justified in the name of international competitiveness. Globalization and the need to maintain competitiveness allegedly require a leaner welfare state and lower wages. However, inequality and poverty continued to grow even when the economy picked up with increased exports.

Advocates of the traditional export-led growth model like to stress that Germany owes its recent growth to exports, and this successful model should not be disrupted. They argue that Germany's strong exports help balance the eurozone's external accounts, given the weaker members' preponderance of imports. The rise of emerging economies, in particular China and India, is considered a threat to Europe's and Germany's prosperity — a threat that can only be deflected by a strong focus on competitiveness. Christoph Schmidt, a prominent German economist and member of the government's economic advisory board, put it this way: "We cannot draw ourselves out of the morass," implying that growth only results from exports (surpluses). Through this logic, one wonders how the world economy can grow without exports to Mars, let alone export surpluses.



Germany has run trade surpluses throughout most of its history (the years immediately following reunification being the exception), which suggests its recurrent concern with competitiveness is an obsession rather than a true problem. More risky are the consequences of economic imbalances, because these endanger the purchasing power of — and thus demand by — trading partners, and the value of the accumulated German surpluses, which constitute its net foreign investment position. Germany has become a major creditor in the world economy.

Changes in Germany's growth model will be triggered by external challenges rather than domestic reforms. A deepening of the eurozone crisis and a decline in emerging market growth are more important, because both will harm the prospects of German export industries. The introduction of a legal minimum wage and increased taxation of higher-income households might help equalize income distribution and lead to higher imports and/or demand for goods and services.

The eurozone crisis remains crucial. Germany is largely responsible for the duration and depth of the crisis. If the German government had endorsed mutual responsibility of all eurozone governments, a common European bond and

an active role for the ECB in the bond markets and as lender-of-last-resort, the crisis would have ended immediately in May 2009. Germany's reluctance to save Greece and other highly indebted euro countries (Ireland, Portugal, and Spain) increased panic in the financial markets and raised the cost of additional rescue packages. Germany's — and the EU's and IMF's — insistence on austerity policies in Greece, Ireland, Portugal and Spain exacerbated the crisis. The ensuing recessions in those countries aggravated their capacity to service their debt and increased the crucial debt/GDP ratio (by lowering GDP).

Recession, or even depression, still looms as a possibility in the eurozone. Banks that relied on government bonds as assets and collateral have been close to losing creditworthiness. Ratings agencies first downgraded eurozone states and then eurozone banks. Only massive injections of liquidity by the ECB and other central banks could have averted that crisis. The corporate sector and households are affected by the credit crunch. Growth forecasts for the EU and the global economy have been

revised lower. For an export junkie such as Germany, this foreshadows a painful decline in sales.

As a global creditor, Germany has to worry not only about the European economy and financial system, but also global capital markets. The value of German assets invested abroad depends on their stability. Supervising banks, regulating capital markets and macroprudential supervision by various national and supranational entities will all have an impact on the long-term safety of German wealth.

Apart from these narrow economic risks, other risks exist, such as global ecology and the security of global trade infrastructure and communication. Although international efforts have reduced the recent danger posed to sea transport by piracy, new concerns about the safety of the Internet have arisen. As the Internet's importance has grown, its vulnerability to piracy and spying endangers businesses and the privacy of individuals and institutions.

Planetary ecology is a major increasing risk. Global warming theory predicts that growing emissions of greenhouse gases such as carbon dioxide will increase the risk of flooding, both on the seacoast (because of rising sea levels) and away from the coasts (because of strong rainfall of the type that occurred in 2013 in East and South Germany). Although Germany is in a relatively safe geographic location and climate zone, recent meteorological events highlight its vulnerability. In addition, catastrophes abroad could harm Germany's trading partners. The country is also home to a major global reinsurance company (Munich Re) that is exposed to these costs.

COPING WITH ECONOMIC SECURITY RISKS

National and international efforts are both needed to cope with the risks. Germany has adopted many policies to deal with these challenges. But during the present eurozone crisis, its policy response has often been too little, too late. In particular, Germany has barely begun to tackle the underlying imbalances caused by its export mania and weak domestic demand. Critical analysts (often close to trade unions) believe that the two problems are intertwined and require higher wage growth in Germany, in accordance with long-term productivity growth and the ECB's target inflation rate of 2 percent.

Given the crucial role of the banking sector in the economy and in the financial crisis, a European banking union, including centralized regulation and a single supervisory and resolution mechanism, must be created to restore credit and confidence in the weaker eurozone countries. Germany has been a hesitant partner focused on narrow domestic concerns rather than systemic stability.

The problems in the global financial system, dangerous economic imbalances, the threat of recession, climate change — all these issues can be addressed only through strong cooperation within the EU or at the global level through the major economic powers represented in the G20. Overall, Germany's economic security depends on the readiness of other nation states to join cooperative efforts to mitigate risks that will affect all, at some level or another. □



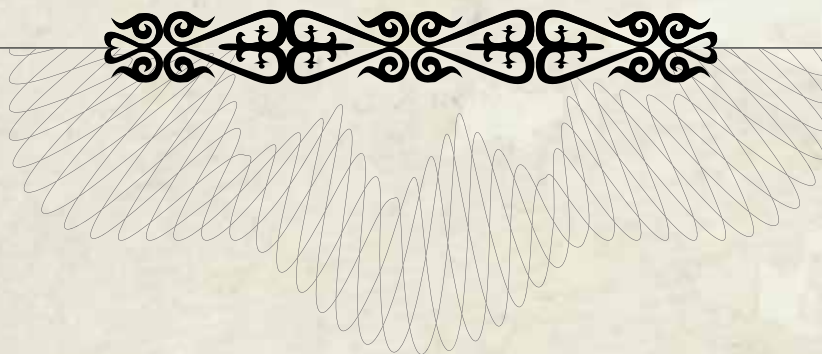
A view of the European Central Bank in Frankfurt in 2013. Some argue that Germany's export-oriented model of growth has inadvertently helped destabilize the economies of its less productive EU partners.

REUTERS



KAZAKHSTAN

G O E S G L O B A L



WTO MEMBERSHIP COULD REDUCE RUSSIA'S
ECONOMIC INFLUENCE IN THE CENTRAL ASIA NATION

By ALEKSEY IKONNIKOV, *Tsentr Azii*, Kazakhstan



Since Russia's recent accession to the World Trade Organization (WTO), the business community in Kazakhstan has carefully followed changes in the markets of our neighbor to the north. As Kazakhstan advances toward membership in the global trade club in 2014, the business world has begun to ask questions. How the country will manage simultaneous membership in the WTO and the Russian-led Eurasian Customs Union (CU) is of particular interest. Will we see an "overlap effect" that doubles competitive pressure on businesses in Kazakhstan forced to compete with both Western and Russian firms? Or will there be an "exclusion effect" in which the realities of the WTO nullify some of the advantages enjoyed by Russian companies under the CU?

COMPETITIVE ALARM

The alarm in Kazakhstan's business circles over entering the WTO is understandable. As members of the Common Economic Space (CES), Kazakh companies have found themselves hard-pressed by Russian competitors. Russian businesses enjoy lower taxes by locating factories in our country, and a robust expansion of such business into Kazakhstan has been underway since 2011. According to data published by business associations, Russians participate in 500 to 800 large- and medium-size enterprises. Russian producers of food, technology and chemicals have branch offices in Kazakhstan, and Russian and Belarusian imports have ballooned. This trend is particularly noticeable in food products, home appliances and certain other goods markets, where our partners in the CU and the CES have recently been exhibiting an undisguised strategy of price squeezing that has been difficult to counter.

This gives rise in Kazakhstan to fears that, after WTO accession, expansion of foreign companies will add to the competitive pressures already exerted by Russian and Belarusian goods in local markets. The country's business community is not just sounding off about difficulties it faces under the CU and CES. Some are speaking of bankruptcy and asking for help. We are seeing serious tension

in Kazakhstan's business world. Many projects are on the verge of bankruptcy as a result of an influx of duty-free Russian and Belarusian goods.

For example, in early October, the press reported that a new vegetable oil plant, opened by LLP Sabyr and K. in Kyzylorda, closed shortly after producing its first lot of product. Building and equipping the plant cost 44 million tenge (about \$283,542), with the bulk of the funds — 30 million tenge (about \$193,324) — provided by the government through the Kyzylorda agricultural production cooperative's regional project as part of a public-private partnership. The plant was supposed to satisfy more than 60 percent of the Priaralya region's needs for vegetable oil at prices geared to the purchasing public. The retail price of a 4.5-liter canister of Nesibe purified oil was expected to be no more than 1200-1300 tenge (about \$7 to \$8). However, the first lot was sold within days and a second lot has yet to be produced.

The problem, as reported by the media, turned out to be a lack of raw materials in the region, raising the question of why a plant was built in such an unfavorable location. "The simple reason for the commercial failure of this project is poor marketing by the company that took it on," Ardager Akzhigitov, head of the regional office for entrepreneurship and industry, explained to the newspaper *Karavan*. "The market must be studied. The state sponsored the opening of the enterprise, but it clearly will not maintain it. Anything further they'll have to do themselves. Grow or buy the raw materials, get production and sales going." Other publications reporting on the failure of the Kyzylorda project joined Akzhigitov in criticizing Sabyr and K.'s resource planning.

However, no one looked beyond the simple conclusion that poor business decisions were to blame. Even at a cursory glance, this conclusion seems tenuous. It is doubtful that a competitive business project supported by the regional administration — a project for which substantial budget allocations had been made — would be done so incompetently. Even allowing for provincial backwardness — the infamous "local" business relationships, a certain



“We understand that a number of producers of domestic products are being squeezed out of the market.”

— Nikolai Radostovets

amount of corruption and so forth — the agricultural cooperative would hardly finance a project that was doomed to failure. It's unlikely they were willing to bury 30 million tenge of government funds and damage their reputations on such a risky venture.

TRADE PRESSURES

The root of the problem seems to lie elsewhere. Statistical data from the Republic of Kazakhstan Ministry of Agriculture show that two years ago, when the project was being planned, the region provided more than ample sources of raw materials for such a plant. In Kyzylorda Oblast alone, more than 10 farms were cultivating more than 1,000 hectares of sunflowers.

A great deal of sunflowers and safflowers were being grown in the neighboring South Kazakhstan and Zhambyl districts. But much changed in two years.

Beginning in the second half of 2011, when the CU agreement took effect, a huge amount of cheap vegetable oil from Russia entered the country's markets. As of August 2012, the importation of vegetable oil had increased by nearly 45 percent, compared to August 2010. It's no surprise that, by late 2011, sales of the local products began to fall, oil-producing facilities reduced purchases of raw material and the wholesale price of sunflowers plummeted, discouraging farmers from growing the crops. As a result, the region's farmers' associations virtually abandoned



A driver unloads wheat at an Aktyk farm outside Astana in September 2013. Kazakhstan is Central Asia's largest grain producer.

REUTERS

oil-producing crops. Farms that had traditionally supplied oil plants began a massive shift to watermelons and cantaloupes. The 2013 season in south Kazakhstan has produced a record crop of melons and gourds.

"We know about the Sabyr and K. project," said Sergei Pyankov, a marketing specialist for the Spectrum-Trade trading company. "Not too long ago, we saw some offerings on the Internet from that company. They weren't bad at all. The project itself was quite solid; naturally they had contacts with growers, they had the support of the APC and Akimat [local administration], and they were planning to expand production and sell their products in various

regions. They wanted to develop a type of product that was new for Kazakhstan — safflower oil. Everything was fine. But in our view, Sabyr and its colleagues became a victim of the opening of markets in the Customs Union. Growing imports from Russia have now made such projects not only unprofitable, but pointless. The Russians are winning with a strong brand and low price. Of the available oil brands, commercial networks now prefer Zolotaya semechka [Golden Seed]. Unfortunately, the Sabyr case is not the only example."

That conviction is reinforced at the business association level. Nikolai Radostovets, executive director of the

Association of Mining and Metallurgy Enterprises of Kazakhstan, accused Russian companies of "serious dumping" by charging prices in Kazakhstan 20 to 40 percent below those in Russia. "We understand that a number of producers of domestic products are being squeezed out of the market," Radostovets said during a Moscow-Astana video bridge organized by Russian News Agency RIA Novosti in late August. "And here we are focused on immediately forcing a harmonization of anti-monopoly legislation within the common space in order to be able to act upon requests by Kazakhstan producers to investigate the activities of Russian companies in Kazakhstan. Statistics show that the importation of Russian products in Kazakhstan has grown by 30 percent." Radostovets suggested Russia was using "nontariff actions" to boost imports to Kazakhstan without a counterbalancing increase in exports from Kazakhstan.

These plain-spoken and blunt comments by the head of a major trade association vividly reflect the tension giant Russian companies have created in the domestic market. In that same video bridge, Georgii Petrov, vice president of the Russian Chamber of Commerce and Industry, placed the burden of proof on Kazakhstan businessmen as to whether dumping is occurring. "You see, if a seller is making a profit and it's also to the buyer's benefit to sell or buy at a given price, the government cannot regulate these matters," Petrov remarked. "When competitive terms and conditions are violated, then I agree with you, but it has to be proved."

DISADVANTAGES OF SMALL BUSINESSES

Life in the CU looks pretty tough for Kazakhstani business. Russian companies are continuing their active expansion in Kazakhstan's markets. Under these conditions, small- and medium-size businesses — the bulk of domestic business — find themselves in an unenviable position of competing against larger and more efficient Russian firms. Timur Nazkhanov, vice president of the Independent Association of Entrepreneurs of Kazakhstan

(IAE), succinctly stated their core concerns: “Our small and medium businesses are not competitive, even within the framework of the Customs Union with Russia and Belarus. And now you’re talking about the WTO. Look, the bulk of the products we consume are now being imported. Russia has now nearly completely taken over the domestic market. As time passes, this will lead to a rise in prices for products, including the most essential ones.”

Nazkhanov also expressed concerns about WTO membership and the prospect of competition from Western firms. “When goods from the West pour into Kazakhstan, it will be absolutely impossible for our producers to compete with European quality and assortment,” Nazkhanov said.

Nurlan Erasyl, a businessman from IAE’s Almaty office, made comparisons with Latvia’s entry into the WTO. That country was forced to halt sugar production and reduce the amount of herring it fished. “We were in Latvia on business recently, and we were shaken by what we saw,” Erasyl said. “Some areas had seemingly become extinct, people were abandoning their houses, villages stood empty, schools in ruins. The fishing industry is in decline.”

WTO VERSUS THE CUSTOMS UNION

Tensions are high and the mood is pessimistic in the business community. But for the time being, integration of the business environment within the CU and CES is a political given that Kazakhstan cannot avoid. Since Moscow is clearly not keen on protecting Kazakh markets from powerful Russian companies, judging by the position of Petrov and the leadership of the Russian Federation Ministry of Economic Development, it is obvious that Kazakhstani businesses will have to develop in a tough environment. Whether Kazakhstan’s entry into the WTO will create added pressure on business is another question. There is an alternative point of view: Joining the global trade club will minimize — if not completely nullify — the economic advantages Russia gained under Eurasian economic integration.

The WTO’s destructive potential toward the CU might be judged based on the repercussions for Russia after it joined the world trade club. Russia’s economic elites appear to view the WTO with the same misgivings as Kazakhs view the CU and CES. Many in Moscow consider its 19-year pursuit of WTO membership to be more about political image grooming than economic growth. For Russia, it is crucially important that the world see it as a country with a full-fledged market economy.

But a lot has changed since 1993, when Moscow started negotiations with the WTO. The Russian leadership at that time, consisting of “democratic

romantics,” was in many ways susceptible to Western ideas and values. Now Russia has entirely different geopolitical and regional economic interests. For Russia, membership in the WTO is now more a question of policy and diplomacy than of economic benefit. Indeed, Moscow’s economic interests may contradict its political interests.

Some Russian economists believe that Russia, Kazakhstan and Belarus entering the WTO not only runs counter to the interests of the CU, but undermines the very idea behind it. In the opinion of Yevgeni Korchevoy, director of the Analytical Center of WTO-Inform, Russia’s obligations under the WTO greatly limit the CU’s possibilities. In a recent interview with *Regions of Russia*, Korchevoy noted that, because of customs regulations within the CU, its member states will ultimately be unable to protect the common market from external competition, though that was the very aim of creating the union.

“A huge void appears in the form of Russia, where, for example, one can ship goods with low customs tariffs,” Korchevoy said. “And from there, those goods continue on unimpeded to our partners in the CU. If that’s the case, what’s the point in having a union? We get a paradoxical situation where the duty on many goods in Russia is lower than in Belarus or Kazakhstan, even though we have a common customs space. Thus, the WTO today is destroying the very idea of the Customs Union.”

Korchevoy believes that the WTO is an organization aimed at furthering the interests of global companies. If that were the case, he is convinced that the CU would be an alternative to the WTO for Russia, protecting it from expansion by global “heavyweights.”

Vyacheslav Pronin, also from the WTO-Inform Analytical Center, agrees that WTO membership will largely nullify Russia’s benefit from being in the CU and CES, but he is even more categorical. Pronin believes that from the time Russia committed to significant trade liberalization, offering 155 countries preferential status to trade within its territory, the CU became “pointless.”

“As an example, Ukraine, without entering the Customs Union, received the very same terms and conditions on the Russian market as Belarus and Kazakhstan. Moreover, by the end of this year, Kazakhstan plans to join the WTO on its own terms, different from Russia’s terms and conditions. That means the CU customs tariff will again be revised in light of Kazakhstan’s obligations. And considering the variance of interests among the CU members with respect to importation of industrial goods [including, for example, agricultural products, the conditions for Russian producers



EPA

will worsen acutely after our colleagues in the Customs Union join the WTO,” Pronin said.

CONCLUSION

Of course, Moscow’s economic arguments in favor of Russia joining the WTO largely coincide with what is being said these days in our country about Kazakhstan’s membership in the same organization. The Russian Ministry of Economic Development is projecting the acquisition of new markets for Russian goods and an intensification of competition, which should accelerate modernization of its economy. And critics of Russia’s WTO entry are essentially repeating what we are hearing at home about the problems experienced by Kazakhstan business within the CU, that inexpensive foreign goods have flooded the market. The quality of these goods is better, which hits Russian producers hard. Data on budgetary losses are also being published. By entering the WTO, Russia has reduced some import duties under the framework of the Common Customs Tariff. In particular, the duty on the automobile imports has been cut in half. The official projection is that budget revenues in 2013 will fall by 310 billion rubles, or about \$10 billion.

Our northern neighbor’s worries lead to one important conclusion: By entering the WTO, Kazakhstan’s economy will have reduced dependence on Russian influence in the Customs Union. Only time will tell whether this will harm or benefit Kazakh businesses. Of course, as in the past, nothing will prevent expansion of those Russian companies in Kazakhstan. That said, we can expect a leveling out of the investment environment to include other competitors such as Germans and Indians.

For instance, Pyankov thinks that the Kyzylorda vegetable oil producers will have more opportunities to find suppliers of cheaper raw materials, if not in their own region, then in Ukraine, Moldova or neighboring China. He is confident that “commercial opportunities for cooperatives will increase, the selection of suppliers and partners will widen, and we will not be restricted to the Russian and Belarusian market.” For our Russian neighbor, this is a definite minus, from the standpoint of its economic interests in the region and the political prospects of the integration process. But for now, it is difficult to say whether such a leveling of Customs Union influence in the midst of a general opening of markets will be a big plus for Kazakhstan. □

Belarusian Prime Minister Mikhail Myasnikov, from right, Russian Prime Minister Dmitry Medvedev and then-Kazakhstan Prime Minister Karim Massimov visit the Power Machines plant in St. Petersburg, Russia, in June 2012. Russia agreed to assist Belarus and Kazakhstan in their World Trade Organization accession.



Crowds gather
and fireworks
light the sky
in Bregana to
celebrate Croatia's
entry into the
European Union
on July 1, 2013.



Croatia Advances

Western Balkan nations can look to Croatia for a path into the EU

By Davor Božinović, Ph.D., Marshall Center alumnus, member of Croatian Parliament

On July 1, 2013, less than two decades after a bloody war for independence killed tens of thousands and destroyed substantial infrastructure and much of its economy, Croatia joined the European Union. Few countries have experienced such a dynamic recent history. One might compare Croatia's path to that followed by most Western European nations after World War II. It is marked by the struggle for freedom, institution building and the application of democratic standards in society. It is also marked by adjustment to a new political, economic and security environment.

Croatia's path began with a period in which it strove for independence and international recognition. Unfortunately, to achieve these noble goals, Croatia had to fight a war imposed upon it. The nation organized a defense against external aggression while its diplomats strived to show the world the real reasons for the wars in the former Yugoslavia. This was no simple task during a time of historical change to the maps of Europe and the world.

These changes were largely peaceful elsewhere, but in the former Yugoslavia two concepts clashed: liberal-democratic transformation, represented by Slovenia and Croatia, and the unitarian-socialist status quo supported by Serbia. The West advocated changes to the communist matrix but also the preservation of Yugoslavia, a contradiction in itself. Over time, to maintain their credibility in accordance with their core values, the Western powers abandoned their advocacy for a single state. That Slovenia and Croatia are the only former Yugoslav states to join NATO and the EU clearly negates Western attitudes from the early 1990s on the separatist nature of the war. If Belgrade's policies had had any democratic potential, Serbia would today be at the end, rather than the beginning, of the demanding process of European integration.¹

The struggle claimed many victims. Tens of thousands of people lost their lives, and even more were wounded. Multitudes lost or abandoned their homes. However, through successful defense and international recognition, Croatia achieved its goals and emerged a free state with internationally recognized borders and membership in the United Nations and other major international organizations.

The next period in Croatia's evolution was marked by efforts to define its place within the international community. This was facilitated by a consensus in Croatian society that the country's future lay within the framework of NATO and the EU. However, years of hard work were required to develop state institutions to meet the requirements imposed on candidate countries by both bodies.

THE ASSOCIATED PRESS



A comprehensive reform process started with the aim of establishing standards for functioning institutions, and society as a whole, compatible with the basic principles of Euro-Atlantic integration. It was also necessary to gain sufficient support from the Croatian public, because at the time of Croatian accession, NATO and the EU were enduring the most serious internal crises in their respective histories. NATO was divided over Iraq, and the EU suffered its worst financial and economic crisis. Despite these adversities, a substantial majority of Croatia's citizens endorsed membership.

The EU negotiation and accession process was particularly demanding and stressful. Shortcomings recognized from previous accessions, combined with waning enthusiasm for EU expansion and the increasing complexity of its internal difficulties, led EU leaders to take an extremely rigorous position in negotiations with Croatia. But after years of talks, Croatia became a member of both NATO

and the EU, achieving its goals at the completion of the second decade of its recent history.

With accession to the EU, Croatia has entered a new period in its post-independence history. Croatia no longer struggles for basic survival, but faces the tedious process of positioning itself within NATO and EU structures and politics. EU membership will undoubtedly mark development for years to come. Now, at the beginning, it is necessary to ask: What are Croatia's priorities within the EU? What kind of strategy does Croatia need to develop in relation to the EU?

Croatia is one of the smaller member states, which in itself represents a special challenge. Thucydides, the 5th century Greek historian and Athenian general, once said, "In international relations the strong do what they have the power to do, and the weak accept what they have to accept." Yielding national sovereignty, inherent in EU membership, is a sensitive issue even for much larger states. For those countries that joined before, this issue was easier to manage



LEFT: Eurocorps soldiers raise the Croatian flag during Croatia's European Union accession ceremony at the European Parliament in Strasbourg, France, on July 1, 2013.

RIGHT: A border police officer patrols the Croatia-Serbia border in Tovarnik in 2013. Croatia became the European Union's 28th member and shares a 1,400-kilometer land border with non-EU neighbors Bosnia, Serbia and Montenegro.

REUTERS

because economic and other indicators seemed to justify the creation of supranational European structures. But the political backdrop to the economic and financial crisis of 2009 included growing displeasure seen on the streets of European cities, resulting in a strengthening of radical, xenophobic and essentially anti-European political forces. Croatia, a relatively small country, has joined the Union at a most crucial point in its history. However, Croatia could and should try to play an active role because there is always a place for smaller states in international decision-making.

William Wallace, a British international affairs academic, would say that smaller states have traditionally pursued two strategies when coping with this weakness: hiding and binding.² States following a hiding strategy aim to stay out of trouble by staying out of sight. They quietly conduct their own affairs, hoping not to get entangled in the quarrels of the great powers. The vulnerability of the hiding strategy became apparent during the two world wars, and growing

interdependence during the Cold War made it increasingly costly to follow this strategy.

The binding strategy is more ambitious. Whereas the primary aim of the hiding strategy is to stay out of trouble, the binding strategy seeks to prevent trouble from occurring by creating and strengthening international rules and institutions. This has been the fundamental strategy of small European states since the end of the Cold War, and the EU may be seen as the most significant example of its success.

Still, power asymmetry and its effects do not end with institutionalization. In the EU, small states are still more dependent on European integration than great powers are. Their limited domestic markets make their economies more trade dependent, so lowering trade barriers and, more broadly, cooperating on economic and security affairs within the EU, is highly beneficial. According to international relations experts Robert Steinmetz and Anders Wivel, small states' efforts should be focused on issues in which traditional



The European Parliament honors Croatia during a ceremony marking the country's joining the EU in July 2013.

material power plays only a secondary role. In so doing, “they can directly enhance their status as legitimate and reliable partners to the extent that they become indispensable ‘pieces of the puzzle.’ Their expertise and actions will become increasingly relied upon in the future.”³

History and geography allow Croatia to develop a multidimensional foreign policy that could make it an indispensable contributor to the EU’s Central European and Mediterranean policies. Croatia is also well-placed, through membership in the Southeast European neighborhood, to work with countries of the Western Balkans to aid their integration into European structures as a part of a wider NATO and EU strategy for the region.

Here are three ways for Croatia to maximize its impact:

- Croatia is already using its experience in EU accession to benefit its neighbors, symbolically represented by passing on the Croatian translation of the EU’s *acquis communautaire*. Numerous meetings continue between Croatian officials, experts and former negotiators, with inside knowledge of all 35 chapters, and their regional counterparts. The Ministry of Foreign Affairs established a Centre for Excellence to pool available knowledge to help new EU candidate countries.
- Croatia is geographically and culturally the closest EU member state to the Western Balkans. This grants it the deepest knowledge of the traditions, history, habits and the actual situation in the region. As an EU member state, Croatia is positioned to bring regional issues, expectations, concerns and complaints to various EU forums and institutions. And vice versa, Croatia can serve as a facilitator for transferring European expectations, demands, conditions and concerns to the Balkans.
- Croatia exemplifies to its European partners what is possible in the region. This is at least as important as the previous two examples. Croatia has transitioned through

war and Yugoslav communist rule and is now well along in developing advanced democratic institutions and a genuine free-trade economy based on the rule of law and the protection

of minorities. Croatia’s fine performance as a new EU member state could increase the readiness among other member states to accelerate accession for Western Balkan countries. This is especially relevant now, given the generally negative mood in Europe regarding enlargement. Poor performance by Croatia in such unfavorable circumstances, however, could have adverse effects.

Croatia can most positively influence the countries of the Western Balkans by acting as a reliable EU member, a country that precisely elaborates its positions in alignment with European law; by honoring its obligations; adhering to the basic values of the EU; and implementing structural reforms creating a more efficient public sector and a better functioning economy.

The three branches of Croatia’s EU-regional policy, 1) institutional cooperation, 2) serving as the “voice from the region, about the region,” and 3) reinforcing an image of a reliable European state, make up a complete policy approach to serving both a European purpose and Croatian interests, while forwarding the goals of the Western Balkans countries in this magnificent project of creating a whole, free and prosperous Europe.

Even as a smaller EU state, Croatia can find its niche within the Union by following these policies and conducting a “smart state” strategy that allows the country to play a more active and influential role in European policymaking. □

1. George Schöpflin says: “A proper understanding of the sociology and cultural norms of the region, including both short-term and longue durée legacies of the past, would help to account for the shortcomings and failures that have been evident in the reconciliation of form and content and the corresponding move towards democratic values,” in Kymlicka, Will and Opalski, Magda, ed.; *Can Liberal Pluralism Be Exported? Western Political Theory and Ethnic Relations in Eastern Europe*, 2002, Oxford; 131.

2. Wivel, Anders; “From Small State to Smart State: Devising a Strategy for Influence in the European Union,” 2010; Chapter 2 in *Small States in Europe: Challenges and Opportunities*, edited by Robert Steinmetz and Anders Wivel, 2010, Ashgate Publishing Ltd., England and USA; 15-17.

3. Robert Steinmetz and Anders Wivel, ed.; *Small States in Europe: Challenges and Opportunities*, 2010, Ashgate Publishing Ltd., England and USA; 220.

Assistance from Airlines

Sharing flight passenger data has protected Europe from terrorist attacks

By per Concordiam Staff

Since 2007, an agreement between the European Union and the United States to share passenger information on commercial flights has foiled transnational crime, such as human and drug trafficking. Most importantly, the Passenger Name Record (PNR) agreement has identified potential terror plots targeting both continents.

But in April 2013, the European Parliament's Civil Liberties Committee, citing privacy concerns, voted against a renegotiated PNR with the U.S. The EU has also expressed concerns that Russia is requiring airlines to provide passenger information for flights destined for Russian airports.

Under EU rules, passenger data cannot be transferred to non-EU countries unless there is an international agreement with those nations. "The commission is very concerned about the measures the Russian authorities want to implement," a spokeswoman for EU Home Affairs Commissioner Cecilia Malmström told the BBC.

But nine EU countries led by France and Germany support a modified PNR, which could curb terror plots and prevent budding radicals from traveling to conflict zones.

"One of the most useful tools to trace such people, when they go to Syria or elsewhere and when they come back, would be a PNR," French Interior Minister Manuel Valls and his Belgian counterpart Joelle Milquet told Agence France-Presse in a written statement.

The modified system would "allow authorities to follow the movements of such people to identify those, often young and vulnerable, who might risk their lives by going to conflict zones" and that it would prevent "acts of terror in Europe and other serious crimes," Valls and Milquet said.

Young European extremists are fighting in Syria and other conflict zones, the ministers said, and they could return home to France and Belgium with radical indoctrination and military training. "Not all these people are extremists or terrorists, but we have enough grounds to have our concerns," Valls said.

Britain, Italy, Luxembourg, the Netherlands, Poland and Sweden also are supporting a modified PNR.

PNR data is collected during reservation and check-in for flights entering and leaving the EU and includes a passenger's name, address, phone number and credit card information. Travel dates, itinerary and ticket information are also included. More than 500 million records are collected every year.

"PNR data constitute a valuable weapon in the fight against terrorism and serious crime," the British Parliament's European Union Committee concluded in a 2007 report.

"Their continued use is both necessary and justified."

The PNR agreement has been a valuable counterterrorism tool, stymying hundreds of terror plots since September 11, 2001. In 2009, PNR information was used to identify a man planning to attack Mumbai, India, as he booked a flight from the U.S. to Germany, according to a report by The Heritage Foundation. In 2006, London police stopped a



Passengers check departure times at Fiumicino airport in Rome in October 2013. Some Europeans object to the sharing of airline passenger data, but security experts credit such sharing with stopping terrorist attacks.

group of terrorists plotting to use liquid explosives to bomb nine planes flying from the United Kingdom to the U.S.

Over the years, PNR data has also disrupted human trafficking and exposed drug smuggling operations, according to a 2007 British Parliament report.

Cooperation is the key to the success of the PNR. The U.S. shares leads with EU law enforcement agencies on crime and terrorism that affects EU countries. Sharing passenger information helps "law enforcement authorities prevent, detect, investigate and prosecute serious crimes, including acts of terrorism," according to a 2011 EU council report.

PNR data sharing, according to the report, also has led to a "better understanding of the composition and operations of terrorist and other criminal networks." □



A Tunisian demonstrates against the country's Islamist-led government in Tunis in August 2013. Her sign declares that she's a "free Tunisian woman" and that parliamentary leaders don't represent her.

AFP/GETTY IMAGES

Reclaiming THE Arab Spring

Europe supports democratic solutions to resolve tensions in the Middle East *By per Concordiam Staff*

“**I**rhal ... irhal ... irhal ...” For four days, the chant rang out across Cairo’s Tahrir Square, packed with tens of thousands of Egyptian protesters. *Irhal*, Arabic for “leave,” was the message directed at then-President Mohammed Morsi, elected one year earlier in Egypt’s first democratic elections.

By most estimates, more than 30 million Egyptians — out of a population of about 83 million — braved the midsummer North African heat to voice their discontent. Much had changed in the year since Morsi narrowly won a bitterly fought election following the collapse of Hosni Mubarak’s 30-year rule.

Egypt’s economy deteriorated while Morsi and his Freedom and Justice Party focused on consolidating political power, raising criticism that the government was not only unrepresentative but also incompetent. After four days of acrimonious protests and counterprotests, the Egyptian military — reportedly fearing civil war — removed Morsi’s party from power.

The question for Europe is how to stay engaged with the countries of the so-called Arab Spring after the conspicuous breakdown of electoral democracy in places such as Egypt. Recognizing that instability on its doorstep spills over into its own member states, the European Union (EU) continues to promote democracy and economic liberalization in its “southern neighborhood.”

Euro-Mediterranean cooperation

“The European Union is keen to deepen its engagement with Maghreb,” EU Commissioner for Enlargement Štefan Füle said of the five North African states in September 2013. “We set out ways in which we could support efforts by the Maghreb countries

to promote their closer integration within the region — fully respecting their ownership of the process and their ambitions about the speed and depth of this process.”

The European Neighbourhood Policy (ENP) provides a framework for EU interaction with the countries of North Africa and the Middle East. The ENP’s stated goal is to work with partners “to achieve the closest possible political association and the greatest possible degree of economic integration,” building on common values of “democracy, the rule of law, respect for human rights, and social cohesion.” The ENP has worked mostly through bilateral agreements in which the EU signed action plans separately with Morocco, Egypt, Tunisia, Jordan, Lebanon, Israel and the Palestinian territories.

Taken by surprise in 2011 by the Arab Spring uprisings, the EU developed a new ENP approach



Hundreds of thousands of Egyptians gather in Cairo’s Tahrir Square during a demonstration against former Egyptian President Mohammed Morsi in June 2013. *THE ASSOCIATED PRESS*

toward the region that emphasizes democratic change and offers improved incentives to support transitioning democracies. But according to a September 2013 report by the Atlantic Council, the revised ENP, lacking a strategic vision and thwarted by disagreements among members states, has struggled to achieve results in the Arab world.

Nevertheless, Europe still has leverage in the region. European nations remain a major source of financial aid, loans, trade and tourism. In 2012, EU member states pledged 5 billion euros in aid to Egypt. Europe is also Egypt's biggest trading partner with imports and exports totaling 24 billion euros in 2011, the *Belfast Telegraph* reported.

The Euro-Mediterranean Partnership (EUROMED), or Union for the Mediterranean, is a more comprehensive program to promote economic integration and democratic reform in Europe's southern neighborhood. EUROMED (formerly known as the Barcelona Process) comprises all 29 EU member states and 15 Southern Mediterranean, African and Middle Eastern countries, including Tunisia, Egypt and Syria. EUROMED was relaunched in 2008 when the EU concluded that the Barcelona Process had been ineffective, according to Álvaro de Vasconcelos of the European Union Institute for Security Studies.

Spring no more

Arab Spring-inspired movements have also appeared in Morocco, Jordan and Bahrain, where the royal rulers have moved to grant differing levels of democratic reforms.

Democratic change has been more difficult in other Arab Spring countries besides Egypt. In Libya, a weak national government has struggled to control tribal militias commanded by regional warlords, including some linked to al-Qaida. An Islamist militia hired by the central government to provide security actually detained Prime Minister Ali Zidan for several hours in October 2013, further weakening and destabilizing the Libyan government. Arms left over from the Moammar Gadhafi regime have spread widely throughout Libya and conflict zones such as Mali and Somalia. And in Syria, democracy has yet to take root as a civil war rages with a three-way battle among al-Qaida-linked Islamists, moderate and secular rebels, and forces commanded by Syrian President Bashar al-Assad.

European diplomats and policymakers have many challenges ahead, suggests Peter Berkowitz, a scholar at the Hoover Institution at Stanford University in California. "Large questions loom — in relation to Tunisia, Egypt, Libya, Syria and throughout the region — about the balance

of power between the young secular democrats who gave the revolutions their initial impetus, and the traditionalists and Islamists who are seeking to take advantage of the overthrow of dictators to advance their visions of political Islam," Berkowitz said.

Until Morsi was dismissed, EU High Representative for Foreign Affairs and Security Policy Catherine Ashton and Special Representative for the Southern Mediterranean Bernardino León worked to bring Egyptian factions together. According to the Atlantic Council report, the EU quietly warned Morsi and his Muslim Brotherhood supporters about "the perils of its politics of marginalizing and antagonizing the opposition." Polls show that large majorities of Egyptians support freedom of religion and speech, but Morsi supporters had a "winner-takes-all understanding of democracy." The Egyptian military's removal of the Morsi government was greeted with elation by many who had demonstrated for democracy two years earlier, and some of his countrymen have hailed military leader Gen. Abdel Fattah al-Sisi as a national savior.

In late 2013, EU diplomats pressed the country's military to include opposition figures in the government. León told Carnegie Europe that he fears the removal of Morsi has widened the already-deep chasm between secularists and Islamists in Egypt and increased the potential for civil war. Anwar Sadat, a member of the Egyptian parliament and nephew of the former president for whom he is named, told *The Independent*: "From our friends abroad we



An Egyptian policeman stands in front of a burned police station in Kerdassah on the outskirts of Cairo in September 2013 during a period of civil unrest. AFP/GETTY IMAGES

But de Vasconcelos noted critically that the new union focused on an "alliance against political Islam, the fight against terrorism and control of immigration," rather than on democratic objectives. He urged the EU to support the democratic aspirations of the citizens of the Arab Spring nations, and floated the idea of deeper economic and political integration as a reward for those Middle Eastern and North African countries that liberalize.



Egyptian Defense Minister Gen. Abdel Fattah al-Sisi, right, meets with European Union High Representative for Foreign Affairs and Security Policy Catherine Ashton in Cairo in October 2013. AFP/GETTY IMAGES

need solutions that will help us, not threats. And we as a society have to look into what happened to us. We became very savage, even to our friends.”

The Tunisian path

Many similarities exist between Tunisia, where the Arab Spring began, and Egypt. An uprising begun by young, secular Tunisians ousted a long-established authoritarian ruler, Zine El Abidine Ben Ali. As in Egypt, Tunisian Islamists capitalized on their better organization to win ensuing elections. But that’s where Tunisia and Egypt diverge: Tunisia’s victorious Ennahdha Party, also affiliated with the Muslim Brotherhood, formed a governing coalition with two left-leaning secular parties.

Ennahdha has been pressured by Salafists who have called for an Islamic state ruled by Shariah law. In June 2012, Islamists rioted over an art exhibition that they felt insulted Islam, and in February and July 2013, Salafists assassinated two leftist opposition leaders. More than 1 million people turned out for a funeral-turned-protest march for one of the leaders, Chakri Belaid. Amna Guellali of

Human Rights Watch told Al-Jazeera that the many acts of violence from Salafists — without any investigations or consequences — fueled perceptions that Ennahdha was “coddling the perpetrators of violence.”

But Tunisia has a long history of secular rule and a Westernized middle class. According to *Gulf News*, “the influence of Islamists is largely limited to rural regions.” In July 2013, after the second assassination and a month after Morsi was deposed in Cairo, protesters surrounded the parliament building in Tunis and demanded the end to the Ennahdha-led government. Rather than attempting to entrench himself as the Brotherhood did in Egypt, *The Economist* reports, Ennahdha leader Rashid Gannouchi agreed to step down in favor of a temporary technocrat-led administration and scheduled new elections for early 2014.

The Tunisian model, if successful, could suggest a way forward toward greater political, economic and cultural integration with Europe and the world at large. “Tunisia’s experiment may provide a much-needed vision of the role of political Islam in modern Arab societies,” said an October 2013 article in *Gulf News*. □

Building Partnerships

The Steppe Eagle 2013 exercise highlights teamwork among Central Asian and NATO soldiers

By *per Concordiam* Staff

Photos by Sgt. Lauren DeVita/U.S. Army Central

The young soldiers line up to form a human barricade with metal shields firmly planted on the ground between them and the rioters. On the other side of the shields, the rioters become more rowdy. They pick up plastic bottles and sticks from the ground, which they bang together to make noise.

As the rioters begin to press into the wall of Kazakh and Tajik soldiers, a Tajik squad leader, maintaining a calm demeanor as instructed by his trainers at the Steppe Eagle exercise, makes a peace offering that defuses the situation without violence.



U.S. Brig. Gen. Kenneth Roberts, U.S. Army Central Command director of operations, right, is greeted by General-Lieutenant Saken Zhasuzakov, the Kazakh chief of defense, during the opening ceremony for Steppe Eagle 2013.

One of the trainers who had been observing can't suppress his enthusiasm. "That's how you do it!" he shouts to the multinational riot squad. The training session ends with a group huddle and congratulatory backslapping.

More than 1,600 personnel from nine countries participated in the 11th annual Steppe Eagle exercise August 5-23, 2013, at the Iliskiy Training Center in Kazakhstan. Hailing from Kazakhstan, the Kyrgyz Republic, Tajikistan, Italy, Lithuania, Switzerland, the United Kingdom and the United States, participants focused on peacekeeping and peace-support operations. Observers attended from Belarus, Germany, Spain and Ukraine.

During the event, Kazakhstan's peacekeeping infantry battalion, known as KAZBAT, was evaluated by NATO officials with the goal of gaining certification that would ultimately allow it to operate seamlessly with partner nations. The country's goal is to deploy a full brigade in NATO-led peace operations by 2015, further deepening the relationship between the Central Asian country and NATO under the auspices of the Partnership for Peace (PfP) program.

"Exercise Steppe Eagle 13 was a significant milestone in cooperation between NATO and Kazakhstan within the framework of PfP," said Col. Bardhyl Kollcaku, director of Kazakhstan's Military Partnership Directorate Coordination and Integration Division. "I was very pleased with the levels of cooperation, enthusiasm and information exchange



A Kazakh soldier provides fire support during Steppe Eagle 2013, an annual multilateral exercise designed to train participants in peace support operations.

Kazakh soldiers
help extract mock
terrorists from
a village during
Steppe Eagle.





displayed throughout, underpinning KAZBAT's capability to conduct peacekeeping operations."

Each year, the Steppe Eagle exercise consists of battalion and brigade command operations, as well as tactical instruction designed to help Kazakh soldiers comply with United Nations standards. In line with the multinational peacekeeping focus, training includes defusing riots and maintaining security in camps for displaced people.

Until 2008, elements of KAZBAT served in Iraq to help dispose of unexploded ordnance, supply fresh water and provide medical care for Iraqis.

"I've been involved in quite a few of these exercises over the years, and I can honestly say that the Kazakhs have made strides from a tactical level to a soldier level, all the way up to brigade level," said Capt. Christopher Kent, one of the mentor/trainers supplied by the U.S. Arizona Army National Guard. "I have watched them take on the world stage in a remarkable way, with great government and societal support as a whole, and open up to other countries and accept transition from Soviet Union to former Soviet Union."

Steppe Eagle attracts increasing numbers of

participants each year, a fact noted by Kyrgyz Maj. Baiysh Kalchaev. "The exercise was aimed at improving the skills of commanders and staffs in the organization of the decision-making and communication between departments during the peacekeeping operation," Kalchaev said.

The exercise also stresses multinational communication as different countries learn to work together as a unit. To cement relationships even further, exercise organizers stressed the use of the English language for much of their communication.

"NATO-backed programs have focused on strengthening Kazakhstan's capabilities for peacekeeping, Caspian Sea maritime defenses, and interoperability with the alliance. For example, NATO has been promoting Western-language training of Kazakh officers and helping to develop a professional noncommissioned officer class based on Western NCO standards," wrote Richard Weitz of the Central Asia-Caucasus Institute Silk Road Studies Program. □

U.S. Army Sgt. Lauren DeVita contributed to this article.

Kyrgyz Lt. Col. Mamytyv Kenjebek, center, talks with a U.S. soldier about combat medic tactics during Steppe Eagle 2013 at the Iliskiy Training Center in Almaty, Kazakhstan.

Securing the Internet

Cyber security experts converge for Locked Shields exercise in Estonia

By *per Concordiam* Staff

Estonia's Cooperative Cyber Defence Centre of Excellence (CCDCOE) is a powerful testament to NATO's goal of protecting the Internet. The 2007 cyber attack on Estonia revealed NATO vulnerabilities in cyber security, but also served as a catalyst for Estonia to become a world-renowned cyber defense nerve center.

In April 2013, 250 security professionals from nine European countries participated in the CCDCOE's annual Locked Shields cyber security exercise to measure how effectively the Alliance can fend off cyber attacks in an era of increasing malware sophistication. The two-day exercise replicated a real-life crisis to test the skills of cyber experts from Estonia, Finland, Lithuania, Germany, the Netherlands, Italy, Poland, Spain and Slovakia.

The fictional scenario featured the unstable nation of Boolea under attack by a strong insurgency openly assaulting coalition forces. At the same time, civilians were afflicted by a deadly epidemic. Response teams from organizations such as the United Nations and the Red Cross learned that their computer systems were under attack, crippling relief efforts. The aid organizations asked coalition forces for help to keep their systems running at 10 locations for two to three days.

To resolve Boolea's situation, computer experts from each participating country and NATO competed to develop the best defense. Collectively, they were known as the blue teams, or the defenders. The attackers were part of a red team of hackers enlisted to compromise the computer systems of the blue teams.

NATO emerged as the winner, with Estonia in second, but competition was fierce. "It is good to see that the blue teams have really prepared well for this year's exercise, and the opposing team had

to work a lot harder to keep the difficulty level high for the defenders," said Jaan Privalu, director general of the Estonian Information System's authority, according to the center's website. Aside from the technical aspects, working together in a practice scenario helped participants better understand different cultures, diverse ways people do things, and even different languages.

Estonia as cyber pioneer

Estonia has emerged strongly from the April 2007 cyber attack that overwhelmed the websites of banks, ministries, parliament and television stations. The country's latest development is the creation of an all-volunteer "cyber army" known as the Cyber Defense League. It empowers citizens to participate in national cyber security. The unit's 150 members are some of the country's best and brightest information technology minds. They would be among the first contacted should Estonia find itself under attack.

"We have slowly gotten to a point where we admit that cyber attacks and cyber wars are a major threat and not just child's play by misguided hacker-geeks. ... When threats are no longer classic threats, our response can no longer be classic either," Estonian President Toomas Hendrik Ilves said at a cyber conference.

In 2012, for the third year in a row, Estonia was ranked by the non-profit human rights organization Freedom House as having the most Internet freedom. Germany and the U.S. were second and third. Anti-virus software vendor McAfee rated Estonia as one of the most prepared countries against cyber attacks.

Estonian President Toomas Hendrik Ilves speaks to the United Nations General Assembly about Internet security in September 2013.

GETTY IMAGES



“We have slowly gotten to a point where we admit that cyber attacks and cyber wars are a major threat and not just child’s play by misguided hacker-geeks.”

– Estonian President
TOOMAS HENDRIK ILVES

**In 2012, the
“Eurograbber”
virus stole 36
million euros
(about \$47 million)
from more than 30
European banks
via cellphones.**



A bank customer accesses his account through his mobile phone in June 2013 in Paris. The need for cyber security increases as more people use mobile phones for financial transactions.

AFP/GETTY IMAGES

In Ilves' view, the key to security online is identifying users. Estonia enlists a secure online identification system, and the government serves as guarantor of online transactions. Each citizen has a government identification card that protects digital signatures and personal information.

“We use a two-factor identification system in which the ID is protected by both a chip and a password. A binary key or public key infrastructure guarantees securely encrypted transfer of information,” Ilves wrote in an article published in *The New York Times* in April 2013.

Estonians access their government and public services online, and vote in national elections via the Internet. In 2001, about a quarter of Estonians cast ballots online. Nearly all banking transactions take place online, and the number of online banking users exceeds the country's population. Ninety-five percent of tax returns and prescriptions are filled online.

Protecting mobile connections

As the Internet plays a larger role in most people's lives, protecting mobile connections has increased in importance. In 2012, the “Eurograbber” virus stole 36 million euros (about \$47 million) from more than 30 European banks via cellphones. This malware was designed to defeat the two-factor authentication systems used by most banks — the safeguard of sending the customer a text message with a temporary password.

The infection starts with a click on a malicious link or the opening of spam email. At that time, the ominous Trojan infects the computer, unbeknownst to the user, and waits for the user to log into a bank account. The Eurograbber then intercepts the bank's website and displays a bogus page that asks the customer to complete a “security upgrade.” The page requests the mobile phone number of the user and sends them a text.

“It's multi-staged, in that it focuses on the computer and the mobile device,” Darrell Burkey, anti-virus expert at Check Point Software Technologies, noted in an article on the Bank Info Security website. “It's sophisticated in the way it goes about taking advantage of the two-factor authentication. It's targeted. It's stealthy. And unfortunately, it's successful.”

CCDCOE's future

Since its establishment in 2008, the CCDCOE has heightened NATO cyber defense. The center's mission is to enhance cooperation, research and development and information sharing among nations on best practices. Estonia, Germany, Hungary, Italy, Latvia, Lithuania, the Netherlands, Poland, Slovakia, Spain and the U.S. are partners at the center. France, Turkey and the United Kingdom are slated for membership in 2014, and Iceland



announced in April 2013 its intent to join. In October 2013, Estonian and Finnish defense ministers agreed to allow Finland to contribute two experts to the center starting in 2014, even though the country is not a NATO member.

CCDCOE partnerships with various institutions such as the Cyber Defence Research Centre (CODE) of the Universität der Bundeswehr München, the NATO school, and the U.S. Naval War College are instrumental in its success. “It is definitely a win-win situation for both sides because we gain the most recent academic knowledge from a highly sophisticated research institute and CODE’s students will benefit from a very skilled mentor whilst working on their theses, not to mention the experience and contacts made during this period,” the CCDCOE noted in a news release.

Kenneth Geers, a U.S.-based cyber security expert who has worked at the CCDCOE, likened hackers to pirates who probe opponents for weaknesses to exploit. A solid defense forces cyber criminals to turn their attentions elsewhere. "You can't wait until a conflict erupts" to

start building cyber defenses, Geers told an audience at the George C. Marshall European Center for Security Studies in July 2013.

The exercise's name, Locked Shields, refers to a method of defense on an ancient battlefield. If only one soldier is holding a shield, he is protected only on one side, Rain Ottis, a CCDCOE cyber security expert, explained in a video from the 2012 exercise. But several soldiers standing together with shields can protect each other's vulnerable sides. "If you have many men, locked shields can form an impenetrable wall. This is what we wanted to convey — this message that we have to work together. We have to lock our shields and protect each other."

Working together in programs through the CCDCOE in exercises such as Locked Shields strengthens those cyber defenses. “I firmly believe we owe the success of the exercise to our partners, without whom this event could not take place, and we are hoping to cooperate with all of them again for Locked Shields 2014,” said Col. Artur Suzik, director of the CCDCOE. □

A high-contrast, black and white close-up of a wolf's eye. The eye is a striking yellowish-gold color with a dark, circular pupil. The surrounding fur is dark and textured, with individual hairs clearly visible. The lighting is dramatic, highlighting the eye's intensity.

ARMY OF ONE

Europe and its allies confront the
phenomenon of *lone wolf extremism*

VEER

By per Concordiam Staff

A string of recent terrorist cases around the world demonstrates that disruptions caused by so-called lone wolves can be as dangerous as those caused by large terrorist groups: the Boston Marathon bombings, the murder of an off-duty soldier on the streets of London, the shooting rampage in Toulouse, France, and Anders Breivik's mass atrocity in Norway. With the advent of the Internet, a lone wolf terrorist has instant access to information about weapons and tactics, as well as the ability to link up with like-minded radicals. Some experts contend that individual violent extremists, often anonymous and resourceful, can be more dangerous than large terror groups whose intentions are broadcast on the Web.

In the United States, lone wolves were the first to introduce innovations such as destroying buildings with car bombs, exploding airliners in midair, tampering with sealed medicines and delivering anthrax and explosives in the mail. "The lone wolf has been the most innovative and creative in terms of terrorist tactics, including new forms of violence that the more established terrorist groups eventually adopt as their own," author Jeffrey D. Simon explained in his book *Lone Wolf Terrorism: Understanding the Growing Threat*.

CHANGING FACE OF EXTREMISM

Extremist groups have seen the effectiveness of the lone wolf and are trying to incorporate the single-person attack into their tactics. In the view of counterterrorism expert Shiraz Maher of the International Centre for the Study of Radicalisation in London, al-Qaida was forced to re-evaluate its future when coalition forces in Afghanistan removed the Taliban from power and deprived al-Qaida of its training

grounds in the country. To remain relevant, al-Qaida strategist Abu Musab al-Suri devised a strategy of using smaller-scale attacks. Maher described the new approach as "go buy a knife, go stab somebody, it's impossible to stop," according to an article that appeared on CNN's website in May 2013. "Provided you pick a sensitive target, you can still cause absolute pandemonium."

The Internet plays a pivotal role for the lone wolf. It provides immediate information on home-made bomb-making, maps, photos and floor plans of possible targets, weapons and online surveillance. Computer links also provide details of attacks that failed, allowing lone wolves to learn from past mistakes and perfect tactics.

The Web can also breed communities of extremists. Breivik, for example, posted a 1,500-page online manifesto that blamed Norwegian politicians for the "Islamic colonization and Islamisation of Western Europe." After Breivik murdered dozens of his fellow citizens in 2011, many people read his manifesto out of curiosity. The Internet provides anonymity that didn't exist in the days when people checked books out of libraries or subscribed to magazines.

The Internet also played a role in the May 2013 daylight murder of Lee Rigby, a British soldier walking down a street near his barracks in Woolwich near London. As blood dripped from a knife and meat cleaver, one of the two attackers was captured on video shouting: "We swear by almighty



Michael Adebolajo was found guilty in December 2013 of murdering Fusilier Lee Rigby in a brutal attack in Woolwich, England, in May 2013. THE ASSOCIATED PRESS



Soldiers lay flowers at the scene of the killing of British soldier Lee Rigby in Woolwich, England, in May 2013. REUTERS

Lone wolves often enjoy posting opinions online. If lone wolves are spouting a violent philosophy on the Web, law enforcement can track them and uncover their identities.

Allah we will never stop fighting you until you leave us alone. ... This British soldier is an eye for an eye, a tooth for a tooth.” In March 2012, Mohamed Merah, the gunman who admitted to killing three soldiers, three Jewish children and a rabbi in a killing spree in Toulouse, France, also publicized his actions on video. The British and French videos both found their way to the Internet, where they were seen by millions.

INCREASED VIGILANCE

Detecting every lone wolf is impossible. Only a minority of extremists turns to physical violence, and psychological research has struggled to identify terrorists before they strike. U.S. Homeland Security expert Erroll Southers cautions: “Singling out a person or entire community as suspect based on anything other than fact undermines the community cohesion we need to counter the persistent threat.”

Nevertheless, security professionals can adopt preventive measures to reduce risk, and multinational intelligence sharing is critical. Closed-caption television (CCTV) played a critical role in capturing the Boston Marathon suspects. Nearby store cameras helped investigators identify the bombers and revealed how the attack occurred. Britain, China, India and the

U.S., have increased their use of CCTV for security purposes. Britain, sometimes called the CCTV capital, has nearly 2 million such cameras. Societies are debating how much privacy they’re willing to surrender in the name of security.

Lone wolves often enjoy posting opinions online. If lone wolves are spouting a violent philosophy on the Web, law enforcement can track them and uncover their identities. Such monitoring could also detect purchases of bomb-making equipment and chemicals.

Opinions vary whether closer scrutiny of the Boston bombing suspects could have prevented the crime. Russia informed the FBI that bomber Tamerlan Tsarnaev had visited Russia in 2011 and planned to join radicals fighting in Chechnya. But an FBI investigation turned up no hard evidence that Tsarnaev was plotting an attack in the U.S. Uncovering such small extremist plots can be difficult, especially if the period from target to attack is short, and the number of plotters is limited. Bruce Riedel, an expert on radicalization, wrote in an article for the Yale Center for the Study of Globalization.

Larger plots are more prone to discovery. In 2006, on the fifth anniversary of the attacks of September 11, 2001, al-Qaida’s plan to blow up eight or more jumbo jets between London and North America was foiled primarily because of its size and complexity. Phil Mudd, then-director of the Central Intelligence Agency Counter Terrorism Center, said the plot was built around a simple explosive device that could be smuggled on airplanes in soft drinks, but because the conspiracy involved a dozen British citizens working over the span of a month, it was easier for the authorities to infiltrate.

The emergence of the lone wolf has forced nations to change their way of thinking about extremism. Such terrorists do not need large sums of money or training in a faraway country to be successful. The lone wolf’s biggest advantage is his anonymity. Exposing his secret world is one of the biggest challenges facing counterterrorism professionals. □



Global Power Shift

A Marshall Center Senior Executive Seminar examines the strategic reorientation toward the Asia Pacific

By Lenya Meissner, graduate student, Humboldt University, Berlin
Photos by Marshall Center

At first thought, “the global shift of power” is a self-explanatory phrase often used in reference to the shift of power from “The West” — represented mainly by the United States — to emerging powers, especially China. But what exactly is meant by power? How will this power shift take place? Are there winners and losers? What are the consequences, and how should global leaders respond to the opportunities and challenges created by changes in the international system?

Seventy-three senior government and military leaders from 48 countries assembled at the George C. Marshall European Center for Security Studies to discuss these questions at “The Global Shift of Power: Challenges, Opportunities and Security Implications for the U.S.,

Europe and the World” Senior Executive Seminar (SES). The International Senior Enlisted Seminar (ISES) also addressed these issues parallel to and in cooperation with the SES and consisted of 47 military attendees from 33 countries. Participants examined different aspects of power and how they relate to Asia’s growing international role.

The value of soft power

The global shift of power includes a shift from an exclusive reliance on hard power to one also reliant on soft power. Soft power emanates from the attractiveness of a country’s ideas and way of life. Despite the continued importance of economic and military power, the skillful



exercise of soft power is increasingly crucial in global politics. Military power alone can't deliver intended outcomes in the world. In the long term, cultural diplomacy can play a significant role in maintaining a country's security, despite a relative decline in economic and military power.

Nevertheless, soft power must be backed by hard power to be effective. The effectiveness of soft power as a policy tool is limited by the lack of ability to compel. For example, when facing security challenges such as terrorism, it is crucial to strike a smart balance between hard and soft power. Recognizing that terrorism will never completely disappear and is not the highest threat to most states, participants suggested that states treat terrorism as a law enforcement issue rather than a national security matter.

Soft power plays a significant role in delegitimizing terrorism as a political tool, in part by focusing on engaging with moderates to weaken extremists and empowering people to prevent them from turning to terrorism. SES participants considered nonmilitary measures as fundamental, but noted that many governments lack the means to use soft power effectively.

Power diffusion and convergence

Soft power is difficult to build, control and apply, especially today, as power is diffused among a myriad of nongovernmental actors. Large international companies, media and even individuals can influence world politics using technology, money, popularity or other assets. The increasing diffusion of power is considered one of the driving factors for change. While SES participants did not judge this trend to be a threat, they agreed that it is crucial to strengthen weak states — militarily, economically and especially socially — and international institutions and build close cooperation between states to limit the power of potentially malign private actors.

“Convergence” — in this context, between terrorism and transnational crime — is another term often applied to the global shift of power. Acknowledging that the scale of illicit activities is increasing and often presents an important funding source for terrorists, the SES-participants also recognized that as the size of the overall economy is increasing, no relative growth of illicit activities is noticeable. Illicit activities directly challenge national security when

criminal groups successfully capture a state or are sponsored and directed by a state. SES participants determined that efforts to curtail illicit activities should thus be directed toward destroying critical links between organizations.

Pivot to Asia

In November 2011, then-U.S. Secretary of State Hillary Clinton announced a foreign policy “pivot” toward Asia. The announcement, combined with an increased U.S. military presence in the region (and decreasing numbers of troops in other regions, such as Europe) and a growing Chinese defense budget and national assertiveness, are evidence of the power shift toward the Asia-Pacific region.

The region is a hub of investment and development, and its youthful, growing population highlights the reality of the power shift away from the U.S. and Europe to the Asia Pacific. However, the rise of this region is not synonymous with American decline. The U.S. still has enormous assets in terms of social cohesion and newly exploitable energy resources, while the Asia Pacific faces severe social and environmental challenges.

Most SES participants favored an enlarged U.S. presence in the region, believing that the U.S. helps balance China’s power, protects other countries in the region and forces China to conduct itself peacefully as a global power. But seminar attendees felt that China, like India, has no interest in large-scale conflict, but rather wants to be accepted as a regional power and focus on domestic growth and stability.

However, the region bears the potential for serious conflict. Some potential sparks include Indian-Chinese border demarcation, territorial-waters disputes combined with natural gas discoveries, increased water scarcity in river basins shared by several countries, cross-border pollution and environmental degradation, and rapid population growth leading to diasporas. The Asia-Pacific region is far from stable, and experience shows that disputes among smaller states can lead to wars among powerful states.

An enduring U.S.-Chinese relationship is essential for stability, SES participants agreed. A positive relationship would establish behavioral norms for other states and significantly

contribute to peace in the region. Building this relationship requires strategic patience on both sides to foster mutual cultural understanding. The international community, and the U.S. in particular, must accept China as a regional power, while China must accept a U.S. military presence in the region.

Going forward

SES participants concluded that the global shift of power breeds the potential for conflict between major powers and is hence the greatest threat to international security. It should be the focus of security discussions. Participants accentuated the importance of education as a preventive measure against conflict of all sizes. Education yields prosperity, promotes tolerance and helps to counteract propaganda. Furthermore, education is a basic foundation for technological progress, which in turn can help to alleviate many of the world’s problems. Information sharing should not be seen as a disadvantage by any country.

Nations are responsible not just for their own security but for the world’s. In light of considerable cuts in defense spending, particularly in many European Union countries, it is more critical than ever to determine which

forces are indispensable and which can be reasonably left to allies. Collective security agreements — combined with increasing economic interdependence — counterbalance the security gap from decreasing defense capabilities. Accordingly, the EU and NATO need to define specific roles in maintaining international security. SES participants pointed to greater EU involvement in the neighboring Mediterranean-North African, Eastern



Above and right: Participants in the Marshall Center's Senior Executive Seminar examine various aspects of power.

European and Balkan regions as possibilities. Continued NATO participation in Central Asia following the withdrawal from Afghanistan was encouraged, with a priority placed on exchanging best practices and information, and providing technical support to maintain stability in the face of persistent extremism, terrorism and drug trafficking.

Cooperation within international institutions, especially the United Nations, is essential to stability. In the case of unforeseeable, high-impact events — so-called black swans — trust in international institutions, in combination with pre-existing capabilities, can prevent the greatest harm.



Therefore, reform of the UN is indispensable. But this reform should not overburden the UN with tasks it cannot fulfill. The frequent inability of the UN Security Council to make decisions does not mean that any UN action, including military, is necessarily illegal.

In addition, exchange and interaction among governmental leaders and decision-makers is crucial to prevent large-scale conflict. SES participants underscored the significance of face-to-face interaction in building trust and personal networks, which can have decisive impacts in avoiding conflict in critical situations. Institutions such as the Marshall Center play a vital role in facilitating such exchanges, and their relevance should not be underestimated.

Nongovernmental organizations (NGOs) also play a vital role in facilitating dialogue and networking and should be supported in their work by host and provider countries. NGOs are able to reach out to ethnic and religious groups and build grass-roots initiatives that empower people.

Participants at the Marshall Center's SES succeeded in shedding light on important aspects of the global shift of power and exchanging views on how best to prepare for the future. Moreover, the international seminar facilitated face-to-face interaction among decision-makers from around the world. Such interactions build trust and stability. □

Addressing Political Islam

A new Marshall Center program will study soft power approaches to regional problems

By Dr. Petra Weyland, Marshall Center faculty

In late 2012, two of my fellow faculty members at the George C. Marshall European Center for Security Studies and I discussed an important topic that hadn't been covered at the center up to that point: political Islam as it was evolving in the post-Arab Spring era, its implications for security and the world's response to that movement.

As post-revolutionary events in Egypt and Tunisia have shown, political Islam has become much more prominent. When these nations held elections, a majority of votes went to parties falling within the spectrum of political Islam. And in the ungoverned spaces that emerged in the wake of Arab uprisings, jihadist formations found new locations in which to operate. The phenomenon of the astounding emergence of Salafist movements was another interesting topic of these initial discussions. Salafism is not new, but it rose to unprecedented prominence only after the uprisings.

Considering these new developments, we realized that public and official perceptions of political Islam, and of Salafism in particular, were often inaccurate. Political Islam and Salafism are by no means monolithic and homogeneous but represent a wide spectrum of activities and principles. Some adherents are nonviolent and apolitical. Others engage in political and social activities but do so nonviolently, and a relatively small segment resort to violent extremism.

We also asked ourselves whether these developments in the Middle East and North Africa (MENA) region impact other regions with majority or minority Muslim populations. What is the status of political Islam/Salafism in non-Arab Muslim communities in Europe, the Caucasus and Central Asia?

We departed with an understanding of how important examining these new trends is for the Marshall Center: Do they have potential implications for local, regional and global security? Do policymakers need new forms of political engagement? Could a new Marshall Center project provide answers to these questions?

THE PROPOSAL

We thought this could indeed be the case, given the unique position of the Marshall Center in bringing together large networks of partner institutions, experts and alumni for discussions. So we proposed a series of round tables and submitted it to Marshall Center leadership. Once policies were established, findings could be published and integrated into the Marshall Center's curriculum, taught by a network of interested experts.

We proposed a multiyear project with annual or biannual round tables, held in various partner countries, that could build on the findings of previous years' events.

The project was approved, and the first explorative round table financed. This initial workshop was September 26-28, 2013, in Istanbul, and was co-hosted by the Center for International and European Studies at Kadir Has University. About 20 participants from Azerbaijan, Georgia,



Participants from 11 countries discuss political Islam at a Marshall Center-sponsored round table in Istanbul in September 2013.

MARSHALL CENTER



KADIR HAS UNIVERSITY

Germany, Greece, the Kyrgyz Republic, Lebanon, Poland, Russia, Turkey, Ukraine and the United Kingdom discussed, under the Chatham House Rule, specific trends within political Islam in the MENA and the post-Soviet world. The round table assessed these new trends and debated possible implications for state and regional security. Finally, suggestions for policy recommendations and future round table topics were proposed.

FINDINGS OF THE ISTANBUL ROUND TABLE

Participants confirmed that political Islam and Salafism were prominent in their countries. The Istanbul meeting was designed to provide an overview, so there was little time for in-depth analysis. However, attendees agreed that more meetings are needed to discuss this broad topic.

Although the presence of political Islam in the participants' countries is undisputed, this presence is not necessarily a result of the Arab Spring. Reasons for its emergence must be analyzed in the local cultural, economic, social and political context. To better understand, we need to investigate root causes through case studies. Focusing on religion or mapping acts of violent extremism will not lead to viable policy recommendations to address radicalization of the younger generation.

Another interesting outcome of the Istanbul round table concerned threat perception. No one denies the existence of violent extremism, yet terrorism was not seen as a major problem in the countries under discussion. (This impression is certainly different in the failing states and ungoverned spaces that emerged in the wake of the Arab uprisings, as seen in Syria or the Egyptian Sinai). But there is no guar-

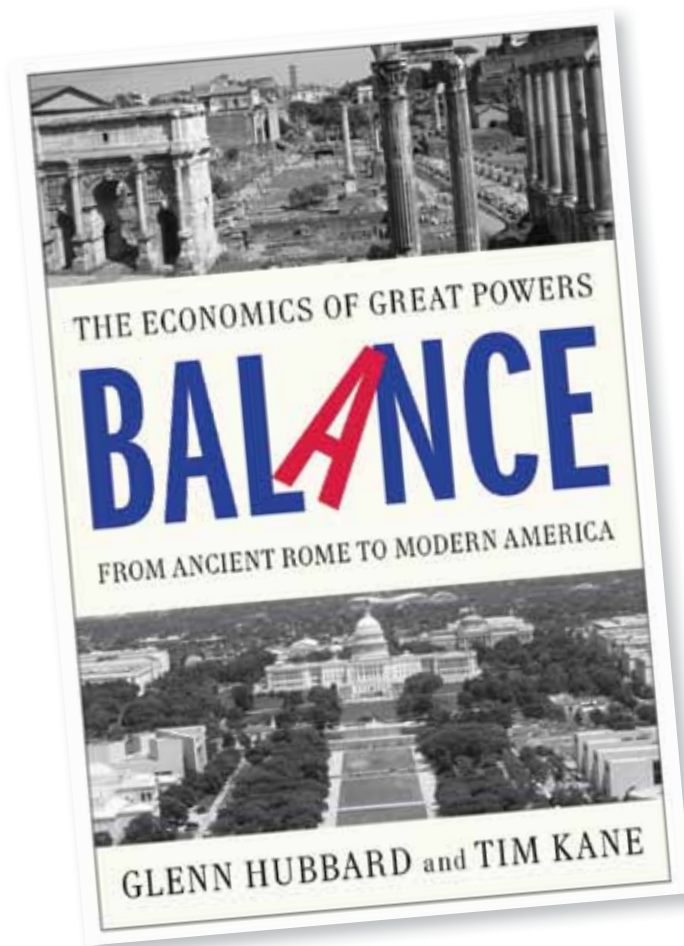
antee that this relatively calm situation will prevail in the future. New security challenges might very well arise, with new actors using Islam to legitimize violence. Engagement with political Islam/Salafism will remain a challenge for governments and international partners alike.

Prevention has become a paramount strategy, and innovative policy recommendations are needed on this topic. Round-table participants concluded that hard power measures to curb violent extremism are not successful and might lead more young people to choose violence. So-called soft power approaches need to be designed. Soft power approaches can be implemented by a range of state and civil society actors. One particularly challenging suggestion discussed at the Istanbul round table was to view Islam/Salafist movements not as potential threats but as opportunities to implement new soft power approaches.

THE WAY AHEAD

In conclusion, the Istanbul round table confirmed many of the ideas developed in the original project proposal submitted to the Marshall Center — that new trends in political Islam/Salafism are important to Europe, Eurasia, the Middle East and North Africa and will remain so in the foreseeable future. Participants will profit from intensive, closed discussions and case study comparisons. This framework provides a unique opportunity to develop new soft power approaches.

Given these results, the Marshall Center is developing a proposal for a second round table, explicitly dealing with the question of soft power and the role Islamic institutions might play in this respect. □



Balance: The Economics of Great Powers from Ancient Rome to Modern America

Book authors:

Glenn Hubbard and Tim Kane

Reviewed by:

per Concordiam Staff

In the 16th century, Ottoman Turkey, flush with booty from its many conquests, was among the wealthiest societies on earth. By the 19th century, the Turkish sultan, ruling a still-vast empire from his palace in Istanbul, was ignominiously forced to declare bankruptcy to stave off European creditors. It was just a few decades later that the empire and the sultanate that ruled it had been abolished.

If there's a lesson from the Ottoman experience — and that of Ancient Rome, Imperial China and Hapsburg Spain — it's that economic power is a precarious thing. In the absence of sound policies, nations tend to squander their endowments and stymie innovation until they become sickly shadows of their former selves.

Economists Glenn Hubbard and Tim Kane have published a book called *Balance: The Economics of Great Powers from Ancient Rome to Modern America* in which they relate a country's relative dominance to the success of its economic institutions. In their telling, free trade, industrial expansion and high productivity — abetted by a central government that recognizes the limits of economic intervention — go a long way toward explaining a nation's power and influence.

The authors assemble evidence to show that military power stems from economic power, not the other way around. Prosperous countries have little trouble fielding powerful militaries often unimaginable in financially unbalanced countries. Geographically slight countries, such as the Nether-

lands, have wielded power disproportionate to their size, thanks to their wealth and efficiency.

To calculate a country's relative economic power, the book combines three broad measurements: gross domestic product (total annual economic activity in a nation), productivity (defined as GDP per capita) and economic growth. China, for example, produces stellar economic growth. But because such growth is diluted by the country's huge population, China has yet to join the highest tier of prosperous nations. In 2010, GDP per capita was \$32,004 in Europe and just \$7,746 in China.

About half of the book consists of historical anecdotes outlining the economically induced rise and fall of famous empires: the Roman, Ottoman, Spanish, British and Chinese. Also added to the discussion are the modern fiscal travails of Japan, the European Union and the United States.

Hubbard and Kane view some historical economic deficiencies as social and psychological. They cite traditional Chinese isolationism and British imperial reluctance to grant citizenship to colonials. Interestingly, the authors hesitate even to include Great Britain on the list — though shorn of its colonies, it remains an economic success story.

When it comes to the demise of Rome, Istanbul and Hapsburg Spain, overtaxation played a large role. Spain's importation of New World silver made it so profligate that the Spanish monarchy was forced to squeeze the peasantry of its native Castile just to pay its bills. Rome's habit of devaluing its silver coinage over the centuries created inflationary ripples that undermined the empire. Turkey's suppression of innovations such as the printing

press left it economically inferior to its rivals by the late 17th century.

In evaluating historical rulers, the book makes allowances for ignorance. Roman emperors and Turkish sultans were forced to stumble through economic crises they could barely comprehend. But Hubbard and Kane refuse to grant absolution to Information Age leaders armed with reams of macro-economic data. When it comes to contemporary policymaking, the authors turn their attention to familiar targets in the West.

Japan and the EU, suffering from declining populations and reluctant to trim high government social spending, have relegated themselves to second best when it comes to wealth creation, the authors contend. Up-and-coming nations would be better served by building institutions that support entrepreneurship, innovation and high growth.

High growth rates should be the norm for populous nations beginning their climb out of relative poverty. When such economic expansion doesn't happen — the authors cite the example of

present-day South Africa — something is probably amiss with a country's wealth-creation engine.

Balance is an interesting summation of the latest "liberal" analyses of how societies amass greater prosperity and power. It's written in the mold of Paul Kennedy's 1980s best-seller *The Rise and Fall of the Great Powers* and Scottish professor Niall Ferguson's *The Ascent of Money: A Financial History of the World*. The book's historical warnings should convince any would-be central planner that a lighter touch is preferable to a heavy hand and that indebtedness is no substitute for innovation. □

"The authors assemble evidence to show that military power stems from economic power, not the other way around. Prosperous countries have little trouble fielding powerful militaries often unimaginable in financially unbalanced countries."

Resident Courses

Democratia per fidem et concordiam
Democracy through trust and friendship

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Admission

The George C. Marshall European Center for Security Studies cannot accept direct nominations. Nominations for all programs must reach the center through the appropriate ministry and the U.S. or German embassy in the nominee's country. However, the registrar can help applicants start the process. For help, email requests to: registrar@marshallcenter.org

SEMINAR ON REGIONAL SECURITY (SRS)

The three-week seminar aims at systematically analyzing the character of the example crises, the impact of regional actors, as well as the effects of international assistance measures. SRS 14-2 will concentrate on two traditionally unstable regions - the Western Balkans and the South Caucasus - looking at actual conflicts in the regions and efforts to achieve stability. SRS will be offered annually.

SRS 14-2

Jan. 27 -
Feb. 14, 2014

January							February						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
				1	2	3							1
5	6	7	8	9	10	11	2	3	4	5	6	7	8
12	13	14	15	16	17	18	9	10	11	12	13	14	15
19	20	21	22	23	24	25	16	17	18	19	20	21	22
26	27	28	29	30	31		23	24	25	26	27	28	

PROGRAM ON TERRORISM AND SECURITY STUDIES (PTSS)

This four-week program is designed for government officials and military officers currently employed in mid-level and upper-level management of counterterrorism organizations and will provide instruction on both the nature and magnitude of today's terrorism threat. The program will improve participants' ability to counter terrorism's regional implications by providing a common framework of knowledge and understanding that will enable national security officials to cooperate at an international level to combat the threat of terrorism. Finally, the program will help integrate the counter-terrorism community and enable individual nations to successfully cooperate in the on-going Global War on Terrorism.

PTSS 14-3

Feb. 24 -
Mar. 21, 2014

February							March						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
						1							1
2	3	4	5	6	7	8	2	3	4	5	6	7	8
9	10	11	12	13	14	15	9	10	11	12	13	14	15
16	17	18	19	20	21	22	16	17	18	19	20	21	22
23	24	25	26	27	28		23	24	25	26	27	28	29
							30	31					

PTSS 14-7

June 30 -
July 25, 2014

June							July						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
1	2	3	4	5	6	7							
8	9	10	11	12	13	14							
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29	30						20	21	22	23	24	25	26
							27	28	29	30	31		

PROGRAM ON COUNTERING NARCOTICS AND ILLICIT TRAFFICKING (CNIT)

The two-week resident program focuses on 21st-century national security threats as a result of illicit trafficking and other criminal activities. This program examines the major methods by which transnational criminal and terrorist organizations engage in illegal narcotics trafficking and other criminal activities for profit.

CNIT 14-4

Mar. 31 -
Apr. 11, 2014

March							April						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
						1							
2	3	4	5	6	7	8							
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							27	28	29	30			

SEMINAR ON TRANSATLANTIC CIVIL SECURITY (STACS)

STACS provides civil security professionals involved in transatlantic civil security an in-depth look at how nations can effectively address domestic security issues that have regional and international impact. The three-week seminar examines best practices for ensuring civil security and preventing, preparing for and managing the consequences of domestic, regional, and international crises and disasters. The STACS will be offered once in FY 2014.

STACS 14-6

June 2 - 20, 2014

June						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
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29	30					

SENIOR EXECUTIVE SEMINAR (SES)*

This intensive five-day seminar focuses on new topics of key global interest that will generate new perspectives, ideas and cooperative discussions and possible solutions. Participants include general officers, senior diplomats, ambassadors, ministers, deputy ministers and parliamentarians. The SES includes formal presentations by senior officials and recognized experts followed by in-depth discussions in seminar groups.

**Adapting Our Strategies to Counter Evolving Transnational Terrorist Threats from Al-Qa'ida, its Affiliates and its Advocates*

SES 14-8

Sept. 15 - 19, 2014

September						
S	M	T	W	T	F	S
1	2	3	4	5	6	
7	8	9	10	11	12	13
14	15	16	17	18	19	20
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PROGRAM ON APPLIED SECURITY STUDIES (PASS)

The Marshall Center's flagship resident program, a seven-week course, provides graduate-level education in security policy, defense affairs, international relations and related topics such as international law and counterterrorism. A theme addressed throughout the program is the need for international, interagency and interdisciplinary cooperation in responding to most 21st-century security challenges. Participants must be proficient in one of two languages: English or Russian.

PASS 14-9

Sept. 29 -
Nov. 14, 2014

September						
S	M	T	W	T	F	S
1	2	3	4	5	6	
7	8	9	10	11	12	13
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28	29	30				

October						
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26	27	28	29	30	31	

November						
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2	3	4	5	6	7	8
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16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

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