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OF COUNCILS**  
*An Initiative of the Council on Foreign Relations*



# The 2024 Council of Councils Regional Conference *Background Memos*

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*This meeting, and the broader Council of Councils initiative, is made possible by the generous support of the René Kern Family Foundation.*

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# COUNCIL OF COUNCILS

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Background Memo

## *The West's Role in Arresting Global Fragmentation*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Bronwen Maddox**, Chatham House

### **To Halt Global Fragmentation, Share Power and Address Charges of Hypocrisy**

To maintain support for international order, richer countries need to take part in a more complex and balanced exchange, one that recognizes how uneven many countries feel the past order has been.

We live in a time of increasing fragmentation, with countries tending toward transactional relations and away from adherence to established blocs. That includes the United States, even though it led the creation of many of the rules and institutions of world order. China, in its rivalry with the United States for influence over the future of world order, is trying to undermine some of those institutions and recruit countries to its side.

China's success in building up the BRICS+ (Brazil, Russia, India, China, South Africa, Iran, Egypt, Ethiopia, and the United Arab Emirates) grouping is just one example of this; countries such as Turkey are courting BRICS+ membership while retaining the security umbrella of NATO. A certain pragmatic hedging drives such moves, as states jostle to avoid becoming collateral damage of the U.S.-China confrontation and instead seek to profit from it. The dynamics driving this behaviour cannot be changed, but steps to manage them can be taken. The immediate geopolitical priorities are twofold: the defence of existing international law and global order, and the pursuit of new agreements for problems that do not fall under the old frameworks, such as climate change, space, and artificial intelligence (AI).

The traditional leaders of the post-1945 multilateral system should recognise that the institutions built after the Second World War have not benefitted every country as well as they have benefitted the architects. Redistribution of voting rights in the big financial institutions, reconsideration of the permanent membership of bodies such as the UN Security Council (UNSC), and greater respect for the mandates of judicial organisations such as the International Criminal Court (ICC) and the International Court of Justice (ICJ)—all of these should be on the table as established states talk to middle powers about the rules of the world.

Arguments over the distribution of “chairs and shares” are painful, but some institutions are integral to global governance and demand updating. The world needs the International Monetary Fund (IMF) to work well, and that is one place to start. The UNSC remains not just a creator of principles but enforcer of them, and while it is paralysed, enforcement is absent.

The West needs to address one particular charge more directly than in the past—that of double standards. It is an old accusation that has become white-hot in the arguments over the conflict in Ukraine and over Israel’s actions in Gaza, the West Bank, and Lebanon following Hamas’s attack on October 7, 2023.

The charge is that the West applies the rules to suit itself. It defends international law in Ukraine but not in the West Bank or Gaza. It cares about democracy but not when it wants to install leaders it likes in other countries. It respects sovereignty except when it does not in Iraq. It argues for self-determination in Taiwan but not in Catalonia. It supports human rights, but not in countries from which it needs oil. It defends human rights until it gets too difficult, as in the case of Afghanistan.

Those accusations, unanswered, give those who want to undermine the West and perpetuate the new global fragmentation a weapon even when their own hypocrisy is luminous.

Russia, an expert in linguistic and conventional warfare, has weaponized the “double standards” accusation (while often guilty itself). As outrageous as many find Russia’s misrepresentations, they carry a resonance in some countries.

Western governments have a defence, as their foreign policy is shaped by calculations of national self-interest to be saleable to voters. But they should be able to show that their record is broadly compatible with underlying principles if they are to urge those principles on others, and they have not always been able to do that.

Some are already trying to answer this charge in such a way as they can. UK Prime Minister Keir Starmer and Foreign Secretary David Lammy’s recent decision over the Chagos Islands could be construed as an attempt to right perceived historic wrongs and reset relations with unaligned states in South Asia, albeit in a somewhat clumsy manner.

However, addressing charges of Western hypocrisy is only one part of this puzzle. Many countries want a new bargain in global governance, one that will require concessions from Western countries. They want money, too, but if that is not available in the quantities demanded—and it is not likely to be from highly-taxed, indebted countries—then a sharing of power will have to take its place. It is incumbent on Western governments to prove they are serious about entertaining this power-sharing prospect. Only then can they uphold a system of international law in which they support and manage global fragmentation.

### **The Postwar Institutions Need to Evolve to Survive**

The old institutions do still have a value. Chatham House has argued steadily for the importance of the rule of law in preserving global order, but nearly eighty years is a long time. The older liberal democracies need to be realistic about the waning power of these institutions. The UNSC could not be invented now, and its uses are severely limited by the likelihood of veto. Too often, the UN system appears sclerotic and bloated—unable to prevent crises and often overwhelmed by events. Regional organisations such as the European Union and NATO find themselves in a perpetual struggle between

organisational and strategic efficiency against the competing national interests of their member states.

So, there is a need to take a fresh look at the institutions of cooperation. All five permanent members of the UNSC have backed adding the African Union to the Group of Twenty (G20) to make it the G21. Momentum is also growing behind reform of the UNSC itself, at least in terms of representation among the nonpermanent members. That is a recognition of African states' increased diplomatic presence and their demands for inclusion, and of the importance of the UNSC in enforcing global agreements.

The IMF deserves serious attention, too; its value to the world in assisting economic stability outstrips the difficulty of the conversation about reform.

Smaller groupings such as the Group of Seven (G7), too, present opportunities to build more effective cooperation. The G7's role has greatly increased in the years since Donald Trump's presidency, and, given the conflicting interests within the G20, it is also the obvious place to work out major internal differences between richer countries, including on climate and trade. This year is a good chance to look at what the G7 countries can do more widely to help combat the threats of high inflation, low growth, and debt, as well as climate change and biodiversity loss, in a way that recognises how much the disruption they bring threatens a peaceful, cooperative, democratic world. But in the event of a second Trump presidency, some are even arguing for a new grouping—a Group of Six—without an unpredictable and volatile United States.

It is important to recognise that many countries want choice in their partnerships and for their support not to be taken for granted. The decision by Gabon and Togo last year to join the Commonwealth showed their desire for an alternative to the Francophone Bloc. The international financial institutions are right to focus on good governance in offering their support, but the tone in which they do it often jars with countries' sense of sovereignty and the right to set their priorities.

Those that believe in international institutions need to make the case for cooperation actively. For too long the arguments have been trending the other way. Recent years have seen trade, for three decades an engine of common benefit, used as a weapon by both Russia and China. The UK, in its decision to leave the European Union, seemed indifferent to the benefits of trade, although the country is now palpably poorer as a result. Populist politicians across Europe and the United States rail against international institutions, casting them as the drivers of national decline when in fact the true causes are closer to home. At a certain point, this blame game must end, and we must rebuild respect for the rules and structures of the international system. Those institutions persist because they have strategic value, but politicians in the West need to level with their populations about the trade-off between sovereignty and influence that they involve.

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Background Memo

## *Geopolitics and the Future of World Order: Addressing Fragmentation*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Eghosa E. Osaghae**, Nigerian Institute of International Affairs

### **Introduction: A World of Fragmentation**

The world is experiencing several inflection points that could lead to the dissolution of the international world order that has existed in the postwar era, especially since the end of the Cold War. A concept that has served as both driver and descriptor of this process is fragmentation—the pluralization or mutation of institutions and processes of global politics, order and governance. As a descriptive term, fragmentation captures the evolving, multiplex world where there has been a phenomenal increase in the number of international platforms and organizations that have emerged outside of mainstream multilateral bodies. These new platforms cater to a wide variety of interests including geographical and political regions, identities, issues, and strategic interests.

According to Amitav Acharya, fragmentation is a creative concept because it reflects broader forces of change in world politics.<sup>[1]</sup> As a concept, fragmentation is both constructivist and realist, as it involves the construction and mobilization of power-seeking platforms around ideas, interests, and identities on the one hand, and reflects extant power constellations on the other.<sup>[2]</sup> The key point to note about fragmentation being a constructivist concept is that its basis and scope are in a state of flux, reconstruction, and mutation, no matter how enduring the platforms or arrangements may appear. This must be so because of the expedient and strategic nature of international politics.

As a driver, fragmentation is a major factor in the dialectics of multilateralism that have led to the weakening of the United Nations and other major multilateral agencies. Simply stated, fragmentation represents a growing demand for new interests, spaces, principles, and approaches that are not adequately accommodated within the prevailing world order. As a driver of geopolitics, scholars and practitioners of international relations debate the pros and cons of fragmentations and ask if it is



inevitable, if it is incompatible with the present world order, and if it signals the beginning of the end of the international liberal order that is built around the United Nations and is seen as a bastion of Western hegemony.

Increasing fragmentation provokes questions like these for at least two reasons. First, it runs counter to the quest for a strong rules-based global system that the United Nations system was designed to uphold, especially in the light of globalization and increased interdependence of states and societies. Second, it challenges the extant order of the United States and Western hegemony. Specifically, the changing power configurations and fragmentation that have crystallized around the emergence of China as a rival power to the United States, the reemergence of Russia as a superpower, and the rise of emerging powers like Brazil, India, Iran, Saudi Arabia, and South Africa.

The emergence of platforms and coalitions like the BRICS (Brazil, Russia, India, China, and South Africa) and increasing cooperation (*détente* might be a more appropriate term) between China, Iran, North Korea, and Russia portend current and potential threats to the United States and Western hegemony. Writing from the perspective of the Global South, Acharya argues that “A key factor driving fragmentation is the outdated system of privilege enjoyed by the Western countries and their abuse of existing rules and norms and resistance to the lack of reform of multilateral institutions.”<sup>[3]</sup> This second reason not only makes geopolitics central to recent and ongoing global shifts and fragmentation, but raises concerns about the future of the present world order.

### **The Inevitability of Fragmentation**

The larger significance of fragmentation lies in the question it has historically raised about the ability of any world order to adequately accommodate and protect all interests and demands. Is the present world order, for example, able to respond to the challenges and demands of diversity, inclusivity, equity, global justice, emerging global and regional powers, and nonstate actors? Demands for the reforms of the United Nations, International Monetary Fund, World Bank, World Trade Organization (WTO), and the Organization for Economic Co-operation and Development aid architecture, as well as the call to decolonize those structures and give greater traction to the Global South, suggest that it is not able.

Those gaps, which are mostly blamed on the failings of the United Nations and the current multilateral system, underlie the increased fragmentation of the recent past. For emerging and aspiring global powers, it is the opportune time to entrench themselves. In truth, the world has never been able to build a system that can accommodate the myriad problems and competing ambitions of a highly diverse world, which is why regionalism and plurilateralism emerged as some of the earliest institutional forms of differentiation and fragmentation. It is partly in acknowledgement of this that Chapter VIII of the UN Charter provides the constitutional basis for the involvement of regional organizations in the maintenance of international peace and security. It is, however, a matter for debate whether a unipolar or centralized world order is desirable—or even feasible—in view of the power contestations and inequalities and differences that set regions, states, societies, and interests apart.

It is against this background that the fragmentation debates have rekindled. Most analysts agree that fragmentation is inevitable, but how much fragmentation is acceptable? That depends on its nature. It is acceptable when it does not threaten, contradict, or displace the current international order and can be complementary to it, but bad if it threatens to overthrow, creates tensions and uncertainties, and encourages unilateralism, lawlessness, and anarchy. The fragmented responses to COVID-19, climate change, state fragility, and the wars in Ukraine and Gaza show how bad fragmentation and deglobalization can weaken global governance and threaten the world order.

Given its inevitability, is fragmentation incompatible with the present world order, and does it signal the beginning of the end for UN-centred multilateral agencies? To address these questions, the nature of contemporary geopolitics and its interface with fragmentation should be examined.

### **Geopolitics and Fragmentation**

Geopolitics is often discussed in the context of relations among the major powers, which are the geographical centres of gravity in global affairs.<sup>14</sup> This makes geopolitics and fragmentation a solidary couple, since superpower politics is characterized by rivalries and competition over resources and domains of influence, which engender fragmentation.

Currently, China and Russia are the major rivals to the United States and Western Europe, and their rivalries have greatly polarized the world on virtually every issue of significance. Russia's invasion of Ukraine and the war in Gaza have further divided the world around these powers, with the UN Security Council serving as one of the major platforms for driving geopolitical fragmentation at the global level. China has made inroads into traditional domains of Western influence in Africa and elsewhere through its Belt and Road Initiative and development aid, and is today the United States's and Western Europe's greatest trade rival. Western European powers such as France, the United Kingdom, and Germany, allied regional and military organizations—such as the European Union (EU) and the North Atlantic Treaty Organization (NATO)—and allies such as Japan and Korea have also been major players in global fragmentation as gatekeepers of the liberal international order.

Brazil, India, Iran, Saudi Arabia, and the United Arab Emirates are all emerging and aspirant global powers and have been very active in mobilizing the Global South movement as a counterweight to Global North hegemony. Global North–Global South fragmentation has gained traction as the new front for challenging Western domination.

Through the BRICS and regular cooperation dialogues, China, Russia, India, and Brazil especially have sought to create alternative power spaces for themselves and the larger Global South. While Global South solidarity can be inferred as a “natural” foundation for these groups, the history of adversarial relations between some members (e.g., China and India) could suggest that their coherence and threat might be more apparent than real. In this regard, arrangements and tendencies that have more organic identity-based foundations such as the Middle East Islamic fronts in the Gaza war and networks of religious and racial fundamentalists, could pose more enduring threats.

Nevertheless, fragile states, climate change, foreign aid, intractable conflicts, and terrorist attacks provide other arenas for intensive fragmentation on a global scale. The changing geopolitics of Africa's Sahel and the scramble for strategic minerals across the continent are good examples of how Russia and China especially are building new alliances. Transnational corporations, together with criminal networks and global flows of drugs, arms, and trafficked people, contribute to nonstate actor-led fragmentation at the global level.

Smaller arenas of geopolitical fragmentation are dominated by regional organizations and arrangements that have contributed to the maintenance of international peace and security in accordance with Chapter VIII of the UN Charter. Although regional organizations have complemented the United Nations and other multilateral agencies and are therefore compatible with the present world order, some regional policies and actions—such as the EU's policies on immigration, trade protection, energy transition, human rights, climate change, artificial intelligence (AI), and disarmament—have the potential to further deepen fragmentation.

The rise of populist forces across Europe is largely responsible for the deglobalization preferences in emerging EU policies (it is interesting to note that Russia has also caught the anti-immigration bug). Coming at a time when Africa has launched the African Continental Free Trade Area, impediments to free trade and movements of goods and services will not only be counterproductive, but they will accentuate trade imbalances and injustices that underlie the plurilateral tendencies in the WTO. Other than that, regional organizations remain best positioned to address issues of health epidemics and pandemics, state fragility, and climate change.

## **Conclusion**

To answer the two critical questions posed earlier—is ongoing geopolitical fragmentation compatible with the present world order, and does it signal the beginning of the end of the UN-centred multilateral agencies space?—the answer is yes and no, as much will depend on the extent to which the UN and other multilateral agencies are amenable to demands for reform that challenge the legitimacy of the present world order. Fragmentation's constantly changing state of being—of construction and reconstruction driven by dynamic interests—is another unknown variable.

The EU, for instance, has witnessed internal divisions over common policies on the war in Gaza and trade with China in the recent past. Brexit is probably the most notable fragmenting outcome in the EU, but similar outcomes cannot be ruled out now or in the future. The BRICS have also seen differences over dollarization, with India opposing the de-dollarization preferences of China and Russia. Increased ocean wars, cyber wars, climate change, AI, populism, and immigration have also emerged as new frontiers that are likely to shape geopolitical fragmentation in the immediate future. With so much happening and new balances of power emerging at the global and sub-global levels, the challenges to the international liberal order are likely to intensify, especially if the UN and other major multilateral platforms continue to resist pressures for reform and change.

<sup>[1]</sup> Amitav Acharya, "The Future of Global Governance: Fragmentation May Be Inevitable and Creative," *Global Governance* 22, 4 (2016), pp. 453–60.

<sup>[2]</sup> Ian Hurd, "Constructivism," *The Oxford Handbook of International Relations*, eds. Christian Reus-Smit and Duncan Snidal (Oxford, United Kingdom: Oxford University Press, 2008), 298–316; Michael C. Williams, *The Realist Tradition and the Limit of International Relations* (Cambridge, United Kingdom: Cambridge University Press, 2005); Michael C. Williams, *Realism Reconsidered: The Legacy of Hans Morgenthau in International Relations* (Oxford, United Kingdom: Oxford University Press, 2007).

<sup>[3]</sup> Acharya, "The Future of Global Governance," 457.

<sup>[4]</sup> C. Dale Walton, *Geopolitics and the Great Powers in the Twenty-First Century: Multipolarity and the Revolution in Strategic Perspective* (London, United Kingdom and New York, NY: Routledge, 2007).

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Background Memo

## *Industrial Policy for the Green and Digital Transitions*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Igor Yurgens**, MGIMO

The UN's *Global Sustainable Development Report 2023* makes it clear that the world is not going to achieve any of the seventeen Sustainable Development Goals (SDGs) in full by the middle of this century.

Though one cannot deny certain advances of recent conferences within the UN Framework Convention on Climate Change (UNFCCC), particularly Paris in 2015, Glasgow in 2021, and Dubai in 2023, which give ground for cautious optimism, they have not managed to meaningfully slow environmental degradation: carbon dioxide concentration is rising, and the world is getting closer to the 1.5° C warming threshold stipulated by the Paris Agreement.

At current rates, in 2030 renewable sources of energy will account for just a small fraction of energy supply, with approximately six hundred million people potentially living without electricity and almost two billion continuing to use unsustainable fuels. Neither deforestation nor significant biodiversity loss will be halted by the expected deadline.

In the countries boasting high income levels, the material footprint per capita is dozens of times higher than in emerging states. Should current trends hold, by the end of the decade, 7 percent of the world population—575 million people—will live in extreme poverty, with most of these people living in sub-Saharan Africa. The Global South will remain the Global South. Out of 127 countries for which current data is available, only one-third will be able to halve the national poverty level from 2015 to 2030.

In June 2024, the International Energy Agency (IEA), noting a low level of expenditures on green energy in emerging economies (excluding China), provided a vivid illustration of sustainable development stalling in the Global South due to the high price of foreign funding. Though their investments in 2024 could exceed \$300 billion according to the IEA forecast, this figure would make up just 15 percent of global indicators. This level is far below what is required to satisfy the growing

demand for energy in many of those countries, where the costs of raising funds often constrain new project development. Simultaneously, the IEA expects Chinese investments in clean energy in 2024 to reach \$675 billion, with European investments reaching \$370 billion and U.S. investments amounting to \$315 billion.

Overall, such a critical situation with funding is clearly reflected in international environmental financing, which has long been in the public focus due to the performance of the UNFCCC and independent global bodies. However, this focus, while accompanied by nice words and reasonable ideas, has not yet brought much progress.

In late May 2024, the Organization for Economic Cooperation and Development (OECD) claimed that in 2022 that it had finally exceeded its goal for annual climate change financing, reaching an estimated \$100 billion. This commitment was made at the 2009 Copenhagen Conference of the UNFCCC. The year 2020 was initially planned to be the first year of its implementation. The allocated funds are far short of the actual cost of climate change mitigation and adaptation.

UNFCCC conference declarations also stipulate the need for grant financing or concessional financing. Yet, the OECD recognizes that in 2022 and in previous years the environmental funding offered bilaterally and multilaterally by developed countries mainly took the form of loans (69 percent, or \$63.6 billion). The proportion of grants turned out to be considerably lower: 28 percent, or \$25.6 billion. From 2016 to 2022, the annual volume of grants increased by \$13.4 billion (109 percent) while government loans grew by \$30.3 billion (91 percent). As for the funds allocated by international development banks, 90 percent were loans.

Such ratios are directly related to the imbalance regarding consequence mitigation and adaptation. From 2016 to 2022, a major share of adaptation measures (38 percent) and cross-sectoral financing (55 percent) was grant-derived. Loans, as a rule, are spent on mitigation—grants make up just 15 percent.

Further, payments from developed countries to the Fund for Responding for Loss and Damage (established at the 2023 UNFCCC in Dubai) accounted for only \$661.4 million. This level of funding is not enough considering the actual loss and damage already inflicted or expected in the near future. According to the *Climate Finance Shadow Report* released in 2023 by Oxfam, by the end of this decade economic expenditures in this sphere will fall between \$447 and \$894 billion annually—and this does account for noneconomic losses, such as the loss of cultural heritage.

The inadequacy of the \$100 billion goal is a recurring theme of Oxfam's *Shadow Report*. The document's bottom line was quite eloquent:

Achieving the goal on paper is not enough as both the way climate change funding is provided and the amount in which it is provided, matter. The report shows how excessive loans, insufficient grants and inappropriate finance of adaptation and misleading accounting principles lead to environmental financing being far from reaching its goal....The worst thing is that in some cases, this funding which is to ensure communities well-being, inflicts damage in other ways, increasing debt and reducing the official stimulus meant for further development.

The Independent High-Level Expert Group on Climate Finance (IHLEG) assumes that by 2030, developing countries (excluding China) will require investments valued at \$2.4 trillion a year to

achieve their goals in the climate and environmental sphere. This is four times more than their current investment level. IHLEG experts believe that to acquire approximately one trillion dollars out of the sum required, international fundraising sources will be necessary.

However, climate inequality is demonstrated not only in the division between the Global North and Global South, but by the divide between the world's very richest and the rest. "The super-rich are burning our world," was the headline of another recent report by Oxfam: *Climate Equality: A Planet for 99%*.

The thesis of this report was substantially supported by statistics: In 2019, the wealthiest 1 percent of people on the planet (the "super-rich") were responsible for 16 percent of global carbon dioxide emissions, equal to the total emissions generated by the bottom 66 percent of the world's population—some five billion people. Since the UNFCCC was adopted, the super-rich 1 percent have spent twice as much of the carbon budget as the poorest half of humanity combined. The annual global emissions of the super-rich offset all the CO<sub>2</sub> savings provided by almost a million inland wind turbines. The emissions of the super-rich were enough to result in 1.3 million heat-related deaths.

Climate change and environmental protection constitute just one part of the sustainable development global agenda, but they have remained pivotal throughout the decades. These issues have received increased attention in the policies of global powers and developing countries, and in their bilateral and multilateral collaboration. Fostering global climate security and the related green transition to a low-carbon economy has become a priority.

Existing global governance institutions, authorities, and organizations of higher-income countries do not demonstrate a willingness to provide sufficient and quality aid to international development, with the global economy's level of sustainability itself remaining low. The ideology of consumption growth exceeds the resource potential of our planet. Humanity is faced with the dramatic problem of being unable to maintain its existing consumption patterns, especially as practiced in high-income countries, while also accounting for increased consumption levels in emerging economies. The present technological paradigm and economic models need to account for the finite resources on Earth.

At the moment, consumerism as the main economic driver is evident. We face the task of revising the existing model of consumerist society, while taking into consideration underconsumption in the developing world and climate change.



Background Memo

## *From Competitiveness to Security: Rethinking EU Industrial and Trade Policy*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Cinzia Alcidi**, Centre for European Policy Studies

Economists have long debated the necessity of industrial policy, with skeptics arguing that markets should be left to allocate resources based on consumer preferences and technological advancements. While certain countries have a history of industrial planning, the concept fell out of favour in mainstream economics over the past three decades, with neither the United States nor the European Union (EU) prioritizing it. However, industrial policy has recently seen a resurgence in popularity. This renewed interest has been largely driven by its explicit “comeback” under the Joe Biden administration in the United States. In the EU, the idea of a European industrial strategy was put forward in 2019. As Ricardo Hausmann rightly pointed out in 2023, the current discussion is no longer about *whether* industrial policy should exist, but rather *how* to manage it effectively.

At its core, industrial policy involves government intervention in the economy to shape its direction. Traditionally, interventions focused on supporting specific industries or companies with potential for success (“picking winners”). More recently, however, the focus has shifted to industries and companies deemed “strategic” for national or economic security.

Across the world, concerns about economic security are shaping industrial policies that encourage the relocation of production for strategically important goods within national borders through subsidies. Similarly, trade policy tools are being increasingly employed. On the one hand, tariffs are used to restrict imports and protect domestic markets. On the other, export controls are imposed to prevent the transfer of sensitive technologies. For example, the United States has expanded export controls to protect national security and achieve foreign policy goals. These controls, which traditionally applied only to military and dual-use goods, now include any product made using American software or technology. Following similar logic, the Netherlands recently imposed export controls on advanced semiconductor manufacturing equipment for security reasons.



This growing focus on security stems from three key structural changes, all of which pose significant challenges for the EU:

1. **Undermining of the global rules-based trading system:** The U.S.-China trade war and Russia's aggression against Ukraine have severely weakened the multilateral trading system. The EU, with its very high degree of openness and its full commitment to World Trade Organization (WTO) principles, finds itself in a unique and vulnerable position. Trade dependencies can be exploited as powerful tools, and growing disregard for WTO principles creates an uneven playing field where competition becomes increasingly difficult.
2. **Technological leadership as a source of power:** Technology is widely recognized as a key driver of both economic success and geopolitical power. There are growing concerns that the EU is falling behind the United States and China in this area, as highlighted by the Draghi report. Additionally, access to key technologies is crucial not only for competitiveness but also for economic security.
3. **The role of technology in the green transition:** While there is no full consensus on how to achieve the green transition, technological progress is universally acknowledged as a critical factor. This underscores the need for investments in technology—investments that cannot be fulfilled by the private sector alone.

These structural changes raise the question of how the EU addresses these challenges in a coherent manner.

### **Trade Policy Tools for Economic Security**

The EU's trade policy tools are largely rooted in free-market principles. Deviations from free trade usually occur in response to unfair practices or market distortions by external actors. The EU's approach to managing risks, known as de-risking, has primarily involved diagnosing economic vulnerabilities, such as assessing global value chain resilience and identifying trade dependencies. This approach has relied more on broad policy guidance than direct market interventions. Compared to the more assertive strategies used by the United States and China, the EU's tools appear weaker. The EU's reactive measures and diagnostic-based de-risking do not offer the same level of economic protection or leverage.

However, adopting the more aggressive approaches employed by the United States and China could escalate trade tensions—a risk the EU should carefully consider. The EU is highly open to global trade and lacks the centralized power and vast resources of those superpowers. In the event of a trade war, the EU would face significant losses due to its greater exposure, and its capacity to retaliate would be more limited.

Instead, the EU should explore ways to revive the WTO and invest in trade diplomacy to diversify trade linkages, particularly with smaller economies and emerging markets.

### **Industrial Policy for Economic Security**

To pursue economic security effectively, the EU needs a comprehensive reassessment of its industrial policy. This should involve extending its industrial policy instruments beyond those designed solely for the single market. For instance, exploring the use of EU funds to support a comprehensive

industrial strategy could prove beneficial. The idea of an EU sovereignty fund, although ultimately dismissed, aligned with this direction, and alternative options should be considered.

Reassessing EU industrial policy also requires a careful evaluation of the industrial restructuring needed to support the green and digital transitions.

Finally, it is important to recognise that the concept of trade dependency, which underpins economic security, is evolving and closely linked to technological developments. This calls for a flexible framework and a risk-management approach rather than a rigid model.



Background Memo

## *Bridging the Global Technology Governance Divide*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Daniel Voelsen**, German Institute for International and Security Affairs

The course of the negotiations over the UN Global Digital Compact (GDC) brought to the fore where we stand, globally, in terms of cooperation on digital technologies: indeed, it highlighted strong divisions. And these divisions do not only pertain to issues where one might expect them, such as human rights. They go even deeper. The world is far from any consensus on what kind of global technology governance is required, let alone desirable.

To the extent that digital technologies are connected through the internet, they tend to spread globally. In this sense, they are truly global phenomena that affect societies everywhere. In response to this, different levels of governance have emerged over recent decades. National governments have found ways to assert their authority—such as by imposing legal restrictions on the use of certain digital technologies or by limiting the import and export of certain products and services. Various groups of states coordinate those activities, including agreements among the Group of Seven and the Organisation for Economic Co-operation and Development, tight cooperation within the European Union (EU), and a host of bilateral initiatives. Tech companies, in turn, have become political actors of their own. They set de facto standards for how technology is used with regard to data protection, freedom of speech, and intellectual property (e.g., OpenAI). International multistakeholder formats also play a crucial role by developing crucial technical standards (e.g., 5G, WiFi) or maintaining critical global infrastructure such as the internet’s domain name system. Quite a lot of governance has been developed in this field despite global ambivalence.

Across those different dimensions of technology governance, three political trends can be observed. First, we see a rise of authoritarian models of technology governance. Second, we see how technology has become, or been turned into, a major element of the geopolitical confrontation between the United States and China. Third, we see an enormous concentration of economic and political power in the hands of a few big companies.

These three trends overlap, and together they are the foundation for what can be understood as the “global technology governance divide.” For the last few decades, technology governance was heavily shaped by the United States. Further, major technological innovations came from the United States. And given the special political situation after the end of the Cold War, the United States was actually quite successful in not only exporting products and services, but also political ideas about technology. Among these were the basic idea that fast, disruptive technological development is desirable (a certain “techno-optimism”) and an emphasis on the role of private companies in not only the development and distribution, but also the governance, of those technologies (“techno-libertarianism”). Today, a growing number of governments no longer accept this U.S. model. Europe, in fact, has also begun to oppose it. Among the most contentious points are questions of data protection and the regulation of free speech on online platforms.

So, to a certain extent, technology governance divides are the new normal. In fact, in a political world built on the principle of sovereign statehood, the current state can also be described as a return to the old normal. And in light of the three trends sketched above, it is highly unlikely that we will ever get back to the rather homogenous situation of the late 1990s or early 2000s.

But is this necessarily a problem, and, if so, for whom? By way of comparison, there are a select few issues in international politics that create a strong demand for global governance. In principle, these are issues that inherently transcend borders and, in doing so, create severe or even existential risks (e.g., the use of weapons of mass destruction, the effects of climate change, or the threat of the next pandemic). Technology is, for the most part, not such an issue. After all, it is conceivable to strictly limit the use of technology and thus also its effects on a national level. The extreme example is North Korea, where only a tiny portion of the population even has access to Western technology. China follows a more nuanced approach but has similarly tight control over the use of technology by its citizens. The exception to this is technology that forms the basis for weapons of mass destruction. Some argue that artificial intelligence (AI) could evolve into a similarly existential threat to humanity, if at some point machines were to become more intelligent than humans and henceforth suppress us. While the prospects for this are slim, it remains a possibility, and so it is certainly wise to closely track the developments in the field of cutting-edge AI—and to do so by way of inclusive global cooperation.

On a more mundane level, the technology governance divide produces economic costs and obstacles to innovation. Companies need to invest substantial resources to be able to accommodate different governance arrangements, which is particularly burdensome for small companies just starting out. Export controls and a lack of trust disrupt global supply chains and create political limitations for global research cooperation.

Finally, the technology governance divide poses particular challenges for democratic, market-based societies. In essence, the danger is that the openness that makes these societies so attractive becomes a vulnerability. Politically, it is much more difficult for democratic governments to limit the influx of foreign products and services (e.g., ChatGPT, TikTok). Also, they find it more difficult to limit the power of private companies when these create entirely new markets (e.g., Amazon Marketplace,

Temu). Those problems are even more pronounced when societies heavily rely on technology from other societies. What seems efficient according to the logic of free trade can turn into a one-sided dependency. To illustrate this point, many of the EU's activities in this field amount to an attempt to regulate U.S. companies, at least how they interact with European citizens. In fact, this challenge is acute for democratic governments all around the world with the exception of the United States, which, so far, has been able to defend its status as a technological superpower.

For European governments, this analysis leads to a threefold recommendation. First, it seems necessary to further intensify cooperation among like-minded states. The goal here should be to build a sufficiently large network of governments and markets to allow for innovative and democratically controlled tech development. Crucially, this includes continuous efforts to find common ground with the United States, which is likely to become more difficult if Donald Trump is reelected. Second, European governments should actively seek to expand the circle of like-minded governments. For all its faults, the United Nations—and processes such as the negotiations leading to the GDC—still remains an important forum to build such new partnerships. Third, with regard to the aforementioned global risks of AI and the economic costs of further bloc-building, efforts to ease tensions across the technology governance divide remain important. Their chances of success will be higher the more they are narrowly focused on those areas where a certain convergence of interests still exists.

# COUNCIL OF COUNCILS

An Initiative of the Council on Foreign Relations



Background Memo

## *Bridging the Global Technology Governance Divide*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Carola Ramon**, Argentine Council for International Relations

The unprecedented level of global interconnectedness, rapidly evolving innovation, and remarkable technological advancements in the world today pose many challenges. In this dynamic environment of digital and data innovation, global technology governance has become of paramount importance. However, there are discrepancies in how technology governance is approached around the world, not only between nations, but also at the regional level because of numerous geopolitical, economic, and cultural factors.

For innovation and technology to be beneficial to all societies, it is imperative to find common ground and bridge existing gaps and differences in approach. This could be achieved by fostering collaborative efforts for promoting and regulating responsible innovation, the use of technology, and data management.

This is even more acute for developing countries, as they not only lag in innovation, governance, access, and usage, but also tend to be more affected by geopolitical tensions. In addition, they often do not have the capabilities to participate in certain governance debates. At a time when multilateralism is often challenged, more efforts to harmonize standards and practices while respecting diverse contexts will be needed.

### **Approaches to Governance and Barriers to Collaboration**

Technology governance varies immensely between countries and regions, and it is linked to various factors such as culture, politics, and economics. For example, in the European Union (EU), data protection is stringent and regulated by the General Data Protection Regulation (GDPR), while the United States emphasizes innovation and market-driven solutions, often at the expense of

comprehensive data protection. Conversely, China's approach intertwines technological governance with state control, prioritizing national security and social stability.

Those differences reflect broader geopolitical dynamics. For instance, in the EU, there is a strong emphasis on human rights and data privacy, driven by historical experiences and cultural values emphasizing individual freedoms. In contrast, in China, the focus is more on maintaining social order and leveraging technology for economic growth. Such divergent priorities can lead to conflicting standards and regulations, which can complicate international collaboration and trade.

In addition, geopolitical tensions and competition between major global players hinder collaborative efforts. The U.S.-China tech rivalry exemplifies how geopolitical conflicts can exacerbate divisions in technology governance. This rivalry impacts global supply chains, intellectual property rights, and technology standards, making collaborative efforts more difficult. Moreover, differing national interests and strategic priorities can lead to a lack of consensus on international standards and regulations.

Another relevant aspect of technology governance is addressing how multilateralism can respond and adapt to the speed of innovation. Traditional governance is not agile or flexible enough for the current rapidly changing technological developments. Having institutions that can give quick and adequate responses to new developments is crucial, whether it is by imprinting new dynamism to existing institutions or creating new ones. Additionally, there is a wide array of forums, and the lack of coordination between them works against the effective management of these technologies.

Economic disparities also play a crucial role regarding the digital divide between the developed and developing world. Developing countries can struggle to implement robust technology governance frameworks due to limited resources and technical expertise. This uneven capability creates a governance gap, where poorer nations may not be able to effectively regulate or benefit from emerging technologies. Such disparities can perpetuate global inequalities and hinder collective progress. These countries often face challenges related to limited access to technology and insufficient digital infrastructure, which undermines the ability to participate fully in global discussions and decision-making processes. Developing and peripheral countries are therefore becoming rule takers.

Bridging this gap requires investment in digital infrastructure and capacity-building initiatives that empower all nations to contribute meaningfully, at an international level as well as the national level. It also requires the consideration of disparities among countries.

### **The Role of Global and Ad Hoc Efforts**

The UN Global Digital Compact and ad hoc efforts by groups such as the Group of Seven (G7) and Group of Twenty (G20) represent different approaches to addressing digital governance issues. Each has its strengths and limitations.

The adoption of the UN Global Digital Compact at the 2024 Summit of the Future, which was proposed as a global and comprehensive framework for digital cooperation, aims to establish common principles and norms for digital governance. Its strengths lie in its potential to provide a unified

platform for dialogue and standard setting, leveraging the United Nations' broad international legitimacy, and its emphasis on inclusivity, human rights, and global cooperation. The Compact seeks to address pressing global issues such as digital divides, cybersecurity, and ethical artificial intelligence (AI), offering a comprehensive approach to technology governance.

However, the United Nations' model faces challenges related to its complexity and the varying commitment levels of member states. Achieving consensus among a diverse group of countries with differing priorities and capabilities can be difficult. Additionally, the United Nations's processes can be slow and inflexible, potentially hindering timely responses to rapidly evolving technological issues. For developing countries, the chance to participate in a multilateral process with all UN countries involved is attractive.

On the other hand, ad hoc efforts by groups like the G7 and G20 can offer more agile and focused approaches. These groups, comprising some of the world's largest and most influential economies, have the capacity to drive significant initiatives and set global standards. Their smaller, more homogenous memberships can facilitate quicker decision-making and more cohesive policies. These ad hoc groups can effectively address specific issues and foster collaboration between major economies.

However, these groups are not inclusive. Excluding major emerging economies and developing countries can undermine the global applicability and fairness of their initiatives. Furthermore, their focus on major economic powers can neglect the needs and perspectives of less-developed regions. These groups often prioritize issues relevant to their members, which can lead to policies that do not adequately consider the perspectives of less-developed nations. However, they can be effective in addressing specific issues by fostering collaboration on targeted initiatives and raising global awareness.

### **Prioritizing Common Initiatives**

Several issues should be considered to develop and foster common initiatives for global governance:

- **Accessing digital infrastructure.** Investing in digital infrastructure is essential for bridging the digital divide. Initiatives that enhance connectivity, provide affordable access to technology, and support digital literacy can empower developing countries to participate more fully in the global digital economy and governance discussions.
- **Enabling developing countries to harness the benefits of technology.** Collaborative programs that offer training, resources, and technical assistance can help build local expertise and drive innovation. Coordination between all initiatives is key to avoid forum shopping, duplication, overlapping, and contradicting approaches and initiatives.
- **Developing and promoting global ethical standards for technology.** This includes addressing issues such as data privacy, cybersecurity, and the ethical implications of AI. Creating frameworks that protect human rights and promote responsible innovation can help ensure that technology serves the public good.
- **Having inclusive policy development processes.** New processes are needed that are truly representative of diverse perspectives. Platforms should be created for multilevel and



multistakeholder involvement, with dialogues to help align global standards with the needs and priorities of all countries and regions. Initiatives should be people-centered, equitable, open, and transparent.

- **Building flexible institutions for addressing global governance.** Adaptable institutions are paramount for managing the rapid changes and effects that these technologies have on societies. Global governance also implies discussing global enforcement, particularly the need for mechanisms, binding agreements, and a sanctions framework for those who do not comply.

In conclusion, bridging divisions in digital and technology governance requires a multifaceted approach that addresses barriers, fosters collaboration, and promotes inclusive participation to build a digital future that benefits all nations and drives sustainable development for everyone. To move forward, it is essential to prioritize initiatives that promote global standards, ethical frameworks, capacity building, multilateral dialogue, and digital inclusivity with a high level of flexibility and adaptability to the speed of these changes. If these priorities are addressed, a more cohesive and equitable approach to technology governance, ensuring that technological advancements benefit all of humanity and support the common good, is possible.



Background Memo

## *Supporting Ukraine's Reconstruction and Security*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**André Härtel**, German Institute for International and Security Affairs

### **Ukraine's Dire Situation in Autumn 2024**

After more than two and a half years of the full-scale war imposed on it by the Russian Federation, the overall picture for Ukraine looks bleak. While Russia is making slow but steady progress on the battlefield in the east, Ukraine is also faced with the destruction of most of its energy infrastructure and a growing lack of public finances. The upcoming winter months will most likely bring daily energy blackouts, a further deterioration of the humanitarian situation, and thus a wave of emigration comparable to early 2022.

While withstanding Russian aggression, Ukraine became dependent on its Western partners at an early stage. The United States, the European Union (EU) and its member states, and other Group of Seven (G7) countries steadily increased their support, including the delivery of heavy weapons, budget support, and humanitarian help. The significance of Western military and economic support for Ukraine became clear when a \$61 billion aid package for Ukraine was blocked for months in the U.S. Congress until April 2024. At that point, Ukrainians had already faced serious ammunition shortages, with momentum on the battlefield slowly tilting toward the Russian side.

It is important to note that the war between Russia and Ukraine remains an asymmetric conflict to this date. Russia disposes of far more military personnel, equipment, and economic resources. Western support, even if unprecedented from a European perspective, cannot close this gap. Ukrainian resilience—not victory—is thus a complicated and fragile equation factoring in firstly, ongoing efficient Ukrainian military conduct; secondly, a steady flow of weapons and money from the outside; thirdly, a sanctions regime genuinely affecting Russia's current and especially future ability to produce arms; and last but not least, the will of the majority of ordinary Ukrainians to die for their freedom.

## **The European Path in Supporting Ukraine**

The EU and its member states have come a long way in supporting Ukraine since early 2022. Considering that the EU is not a security institution and that bigger member states such as Germany were strictly against any military support after the events in Crimea and eastern Ukraine from 2014 to 2022, the transformation is impressive. Since the start of the full-scale invasion, the EU refinanced weapons deliveries by member states to Ukraine via the European Peace Facility, granted budget support, and provided humanitarian assistance. In 2023, the EU started a Common Security and Defense Policy mission as part of the EU Military Assistance Mission in support of Ukraine (EUMAM Ukraine), training tens of thousands of Ukrainian soldiers in Germany and Poland, and even opened accession negotiations with Kyiv.

In light of Russia's determination to prolong the war, the EU in 2024 developed instruments and stacked up diplomatic efforts in order to match Russian long-term thinking. The Ukraine Facility—worth \$50 billion—is designed to enable Ukrainians to cover their economic and reconstruction needs for the next four years. The EU will also be the main guarantor for a G7-agreed loan of the same amount, enabling Ukraine to buy weapons in the West itself. The loan will be serviced by windfall profits from frozen Russian assets in the West, thereby easing the financial burden for Ukraine's partners. Overall, the EU in 2024 has been overtaking the United States as Ukraine's biggest supporter in short-term and multiyear aid with well over €140 billion provided or committed.

## **Loopholes in the Western Strategy and Recommendations**

Although the EU's overall record in strengthening Ukraine's resilience is impressive, the main question to date is whether this support is sufficient to reach a defined strategic goal, or just enough to keep Ukraine alive somehow for now. What is the strategic goal and how does that relate to current Western support efforts? The lack of precise and persistent strategic goals is one of the main gaps in Western support since the early phase of the war. Approaches still range from the unrealistic resurrection of Ukraine's 1991 de facto borders to the ill-defined commitment to grant support as "long as it takes."

The truth is that current Western support falls short of the modest and ever more popular behind-closed-doors objective of bringing Ukraine into an acceptable bargaining position in future cease-fire or peace negotiations. An acceptable position would mean that the country would be able to ensure its independence and free choice of alliances while suffering only limited territorial losses in eastern and southern Ukraine. Yet, in order to realize this strategic goal, Russians would first of all have to get to the negotiating table—something they would, in most experts' opinions, only agree to if their military campaign gets stuck, if Ukrainians get the upper hand, or if the Kremlin determines that the high costs of a prolonged war are outweighing the gains. None of these conditions are currently in place.

On the contrary, at this point of the war, Russian leadership can, with some measure of certainty, expect that Ukraine's defense will falter faster and long before Russian resources exhaust themselves. This is due to: Western military support being still agreed on a punctual basis, reaching capacity bottlenecks and becoming ever more politically contingent; the Ukrainian army's increasing difficulty

in providing fresh and trained replacements to exhausted troops on the front; and Russian successes on the energy infrastructure front, increasingly disabling Ukraine's backyard from efficiently supporting the military and regaining industrial potential.

If summarizing those points for the EU, the most important loopholes for now are the lack of industrial capacity in order to provide a steady stream of ammunition, antimissile defense systems, and heavy weapons to Ukraine; the inability to catch up in an appropriate time frame with other Ukrainian military needs, such as training for a higher number of soldiers; the relatively slow reaction to Ukraine's apparent energy crisis; the lack of prioritization of support instruments; and a generally too-cautious approach when it comes to public and private investments for a so-called reconstruction at war.

To turn the tide and shore up strategic support for Ukraine, the following measures should be enacted by the EU and its members:

- Prioritize and scale up financially all programs intended to increase ammunition and heavy weapons production (e.g., European Defence Industry Reinforcement through common Procurement Act, Act in Support of Ammunition Production)
- Get long-term delivery assurances to Ukraine by way of a security pact akin to the U.S.-Israel agreement on an appropriate level (financed by issuing of Eurobonds)
- Agree to shift EUMAM training grounds to Ukraine to enable a much higher number of troops to participate and prepare for combat
- Strive to fulfil President Volodymyr Zelenskyy's demand for getting to twenty-seven antimissile defense systems to cover the whole country as soon as possible; support closure of the air gap by other means (additional F-16s, helicopters)
- Invest in the systematic and timely reconstruction and diversification of Ukraine's energy infrastructure
- Disconnect economic support from conditionality demands and the accession process
- Start large-scale reconstruction projects where militarily feasible and invent creative instruments for insuring larger private investments (reconstruction at war)



Background Memo

## *Scaling Long-Term Funding for Ukraine's Reconstruction with Global and Indian Geopolitical Considerations*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Velina Tchakarova**, Observer Research Foundation

### **Introduction**

Ukraine faces an immense challenge in rebuilding after Russia's invasion, with estimated reconstruction and recovery needs amounting to around €453 billion by the end of 2023, according to the Rapid Damage and Needs Assessment coauthored by the World Bank, the government of Ukraine, the United Nations, and the European Union (EU). Russia's war on Ukraine has inflicted colossal human loss, displaced millions, and led to a significant increase in poverty and inequality. Scaling up long-term funding for Ukraine's reconstruction is a global priority that requires coordinated efforts from international institutions, governments, and the private sector.

This background memo explores strategies to scale up long-term funding, attract private capital, address frozen Russian assets and windfall profits, and analyse the global implications of those measures. It also highlights India's evolving role in conflict resolution and reconstruction following Prime Minister Narendra Modi's recent visit to Ukraine, emphasizing India's multi-aligned approach and potential contributions.

### **Scaling Up Long-Term Funding for Ukraine's Reconstruction**

#### **1. International Financial Institutions (IFIs):**

- **World Bank and International Monetary Fund (IMF):** The world's foremost IFIs should transition from emergency loans to long-term investment frameworks, expand existing credit lines, and consider establishing an institutionalised Ukraine-specific development fund to pool resources from multiple nations and institutions.

- **European Bank for Reconstruction and Development (EBRD):** The EBRD can most significantly leverage its resources by leading financing for critical infrastructure projects, especially in energy, transportation, and communications.
- **European Union:** The EU has established the Ukraine Facility, securing €50 billion from the Multiannual Financial Framework for 2024 until 2027, with two-thirds allocated for loans and one-third for grants. The funds are conditional on Ukraine implementing reforms aligned with EU integration.

## 2. Multilateral Donor Coordination:

- **Multi-Donor Coordination Platform:** Established by Group of Seven leaders to coordinate support for Ukraine's immediate and long-term recovery, the coordination platform ensures transparency and maximizes the impact of contributions.
- **Ukraine Recovery Conference (URC):** URC 2024 in Berlin resulted in more than 110 agreements amounting to approximately €16 billion, highlighting the importance of private capital and public-private partnerships in the reconstruction process. Subsequent annual conferences should work to further develop these partnerships and mobilize international support.

## 3. National Contributions and Bilateral Funding:

- **United States:** The U.S. commitment of around €25 billion in financial support focuses on immediate budgetary needs.
- **Other Nations:** Canada, Japan, Norway, the United Kingdom, and others have contributed, but additional commitments are needed for long-term reconstruction.

## 4. Leveraging Ukraine's Domestic Resources:

- **Economic Reforms:** Implementing tax incentives, regulatory adjustments, and anticorruption measures to attract foreign direct investment in key sectors such as agriculture, manufacturing, and information technology (IT), should be prioritised.
- **Human Capital:** Reintegrating refugees and veterans into the workforce through comprehensive rehabilitation and reskilling programs will be critical for boosting economic recovery.

## Attracting Private Capital for Ukraine's Reconstruction

Attracting private capital is essential but challenging due to the ongoing conflict and associated risks.

### 1. Risk Mitigation and Investment Guarantees:

- **War Risk Insurance:** Systemic war insurance should be developed to cover investments. Initiatives such as the \$350 million insurance program announced by Aon and the U.S. International Development Finance Corporation support sectors like healthcare and agriculture.
- **Political Risk Insurance:** Programs led by the World Bank's Multilateral Investment Guarantee Agency and the EBRD to provide coverage against war-related risks should be further expanded.

### 2. Blended Finance Mechanisms:

- **Public-Private Partnerships:** A robust framework to attract private investment in critical sectors, sharing risks between public and private entities, will be vital for Ukraine's economic recovery.
  - **Sovereign Wealth Funds:** Investments from sovereign wealth funds in high-growth sectors, emphasizing long-term profitability and stability, are well suited for economic recovery.
- 3. Export Credit Insurance:**
- **Trade Continuity:** Germany, Poland, and Denmark utilize export credit agencies to offer insurance and guarantees for exporters against commercial and political risks; a similar system should be adopted.

## Addressing Frozen Russian Assets and Windfall Profits

The immobilization of Russian Central Bank assets presents a significant opportunity to support Ukraine's reconstruction, with recent developments indicating the EU's proactive approach. However, legal complexities and geopolitical sensitivities surrounding the use of those assets should be navigated carefully. Seizing frozen Russian assets presents an opportunity but involves legal and geopolitical complexities.

### 1. Legal Framework and EU Coordination:

- **First Payment From Immobilized Russian Assets:** In July 2024, the EU made available the first payment of €1.5 billion generated from immobilized Russian assets held by central securities depositories such as Euroclear. These extraordinary revenues, generated from maturing financial instruments and deposits held due to EU sanctions, do not belong to Russia and were channeled through the European Peace Facility and the Ukraine Facility to support Ukraine's military capabilities and reconstruction efforts.
- **Legal Acts Enabling Asset Use:** Following proposals from the European Commission and the High Representative, the Council of the EU adopted a legal framework in May 2024 that allows the use of net revenues generated by EU operators holding Russian Central Bank assets for Ukraine's benefit. This decision marks a significant shift in the EU's approach, enabling immobilized assets to be repurposed without violating international law, which typically protects sovereign assets from seizure.

### 1. Background on EU Sanctions:

- **Immobilization of Russian Central Bank Assets:** As part of the sanctions in response to Russia's invasion of Ukraine, the EU froze assets of the Central Bank of Russia. The prohibition on transactions related to those assets has led to the accumulation of extraordinary revenues held by EU financial operators. These revenues are being redirected to support Ukraine's recovery and reconstruction.

### 2. Ongoing and Future Asset Utilization:

- **Euroclear as a Key Operator:** The Brussels-based clearinghouse Euroclear, which holds approximately €200 billion in immobilized Russian assets, generated €3 billion in interest from those assets in 2023 alone. This interest has now become a significant

resource for Ukraine's reconstruction, and future revenues from similar sources are expected to follow.

- **Broader Implementation Across the EU:** While the first payment from those revenues is a promising start, the EU is expected to continue using the extraordinary revenues from immobilized Russian assets in a systematic way to finance Ukraine's reconstruction, particularly through the Ukraine Facility.

### 3. Potential Challenges and Broader Implications:

- **Legal and Geopolitical Considerations:** While the use of profits from immobilized assets avoids the direct confiscation of sovereign wealth, which remains protected by international law, there could still be legal challenges or diplomatic tensions. Some countries could view this as a violation of sovereign rights, necessitating careful legal justification and international cooperation to prevent backlash.
- **Setting a Global Precedent:** The EU's approach sets a precedent for how frozen assets from sanctioned countries can be repurposed for humanitarian and reconstruction purposes. This model could inspire similar actions by other countries or international bodies, though it requires balancing legal frameworks with diplomatic efforts to avoid unintended geopolitical consequences.

### 4. Next Steps:

- **Expanding the Use of Revenues:** As the war continues, further interest and profits from immobilized Russian assets are expected to accrue. The EU and its allies should ensure these revenues are consistently and transparently directed towards Ukraine's reconstruction, while also exploring additional measures to address frozen assets globally.
- **Broader International Involvement:** Beyond the EU, other nations holding Russian assets should explore similar legal frameworks, such as Estonia's legislative approach, which enabled the use of €38 million of immobilized Russian assets for Ukraine. Coordinating those efforts could significantly increase the funds available for reconstruction.

## Global Implications of Seizing Russian Assets

### 1. Precedent for Future Conflicts:

- **International Relations Impact:** Redirecting sovereign assets could set a new precedent, potentially deterring future aggression but also causing concerns among nations about the security of their foreign reserves.

### 2. Financial System Stability:

- **Asset Diversification:** Countries could diversify their assets to reduce exposure, potentially impacting global financial systems.

### 3. Diplomatic Considerations:

- **Geopolitical Tensions:** Seizing assets could strain relations with non-Western countries and requires diplomatic efforts to manage potential fallout.



## India's Role in Ukraine's Conflict Resolution and Reconstruction

India's geopolitical strategy emphasizes multi-alignment—balancing relations with Russia, Ukraine, and Western nations. Prime Minister Narendra Modi's recent visit to Ukraine highlights India's potential contributions.

### 1. Military and Economic Ties With Ukraine:

- **Defense Cooperation:** India relies on Ukrainian defense manufacturers for key military equipment components (e.g., gas turbine engines for Indian Navy Warships and An-32 aircraft operated by the Indian Air Force). Maintaining those ties is crucial for India's military readiness and Ukraine's financial diversification.
- **Joint Ventures:** India and Ukraine are exploring collaborations to mitigate supply chain disruptions and reduce Indian dependence on Russian military supplies.

### 2. Balancing European Alliances:

- **Engagement With Eastern Europe:** Prime Minister Modi's visits to Ukraine and Poland reflect India's recognition of shifting dynamics in Europe and the importance of diversifying partnerships.

### 3. Diplomatic Mediation and Global Bridge-Building:

- **Neutral Stance:** India's balanced approach positions it as a potential mediator in the conflict and as a geopolitical bridge between the West and the Global South.
- **Humanitarian Support:** Symbolic gestures and agreements in agriculture, medicine, culture, and humanitarian aid enhance India's role as a compassionate global player.

### 4. Economic and Technological Cooperation:

- **Reconstruction Efforts:** India's expertise in IT and infrastructure can contribute to Ukraine's rebuilding, fostering resilient supply chains and strategic partnerships.

## Policy Prescriptions

### 1. For the EU:

- **Increase Financial Support:** The EU should enhance the Ukraine Facility and encourage member states to commit more funds for long-term reconstruction. It should also institutionalise a new Marshall Fund for Ukraine together with international partners.
- **Legal Framework for Assets:** Mechanisms to use frozen Russian assets and windfall profits for Ukraine's recovery should be further developed.
- **Strengthen Anticorruption Measures:** Ukraine will need EU support in implementing reforms to improve governance and transparency, aligning with EU standards.

### 2. For India:

- **Deepen Economic Ties:** India should expand cooperation in defense, technology, and infrastructure, thereby supporting Ukraine's reconstruction.
- **Mediation Role:** Leveraging its neutral stance would allow India to facilitate dialogue between Ukraine and Russia, promoting conflict resolution.

### 3. For International Institutions:

- **Risk Mitigation Measures:** Expanded war risk insurance and investment guarantee programs to attract private capital will be essential for Ukrainian recovery.
- **Coordinate Reconstruction Efforts:** Platforms such as the Multi-Donor Coordination Platform and URC should be utilized to streamline funding and initiatives.
- **Facilitate Private Investment:** International institutions should develop strategies to mobilize private capital, including blended finance mechanisms and support for public-private partnerships.

## **Conclusion**

Ukraine's reconstruction will require a concerted global effort, combining public and private funding, innovative legal frameworks, and strategic partnerships. Addressing immediate needs while planning for long-term recovery is essential. India's evolving role demonstrates the importance of multi-alignment and proactive engagement in global affairs. By implementing the outlined policy prescriptions, international actors can support Ukraine's path toward recovery, stability, and integration into the European and global economy.

# COUNCIL OF COUNCILS

An Initiative of the Council on Foreign Relations



Background Memo

## *Exploring Ukraine's Options for Accountability: International Justice*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Otilia Anna Maunganidze**, Institute for Security Studies

### **Background**

Russia and Ukraine have been embroiled in a bitter conflict concerning parts of Ukrainian territory for over a decade. In 2014, Russia annexed Crimea and asserted its intention to acquire more Ukrainian territory. Acting on this intention, Russia invaded Ukraine in February 2022. This move was a major escalation of the Russo-Ukrainian war that had started in February 2014. Currently, Russian troops occupy approximately 20 percent of Ukraine, and about 10 percent of Ukraine's 41 million people have been forcibly displaced. By the end of September 2024, more than 11,500 Ukrainian civilians had been killed and more than 23,000 injured in the war. Estimates of military casualties vary, but sources agree that this number is in the hundreds of thousands.

As a result of the ongoing war, international law has been violated. This article focuses on criminal accountability for international crimes committed in Ukraine since November 21, 2013, when a wave of large-scale protests began in response to the decision of the then-President of Ukraine Viktor Yanukovich to strengthen Ukrainian ties with Russia. This decision was signaled by Yanukovich's move to not join a political association and free trade agreement with the European Union (EU). This temporal focus situates the ongoing war in Ukraine within its more recent historical context. It also aligns with the timeline that led to the annexation of Crimea in March 2014, and the subsequent invasion of Ukraine by Russian forces in February 2022.

The discussion article recognises that due to the ongoing conflict, there are inherent challenges in collecting evidence for the purposes of prosecution. It also recognises that while there is already jurisdiction over war crimes, crimes against humanity, and genocide, the crime of aggression would

only be prosecutable if a special tribunal with a specific mandate for the crime of aggression is established.

### **What Are the Options for Justice?**

Since February 2022, the response to the war in Ukraine has included the exploration of various legal options. These include supporting (both in Ukraine and in other countries exercising universal jurisdiction), establishing a hybrid court to prosecute international crimes, pushing for a specialised tribunal for the crime of aggression, and advancing accountability through international courts, including the International Court of Justice (ICJ) and the International Criminal Court (ICC).

It is beyond the scope of this piece to explore the option for a special tribunal for aggression in detail or to cover the ongoing case before the ICJ concerning the question of whether Russia is committing genocide in Ukraine.

### **Criminal Accountability at Home**

As the theatre of the conflict, Ukraine has the primary jurisdiction over crimes committed in its territory. Any other mechanisms of accountability can only serve to complement this primary responsibility. Ukraine's Office of the Prosecutor General (OPG) has, since the 2022 invasion, adapted itself to operate primarily as a war crimes prosecution team. This office previously had a small unit focused on war crimes linked to the annexation of Crimea, but since the invasion, it has been re-engineered to focus exclusively on war crimes, given the scale of the conflict.

The OPG is currently investigating more than 120,000 incidents involving potential war crimes. This is an overwhelming number of possible cases, so international backing (including from the U.S.-funded Atrocity Crimes Advisory Group) will be instrumental. Already, the OPG has identified 695 suspects. By mid-2024, eighty-three convictions for war crimes (under Article 438 of the Ukrainian Criminal Code) had been secured in Ukrainian courts.

Commendable as those efforts are, there are still challenges for the Ukrainian criminal justice system. These include the need for clearer criteria around the prioritisation of war crimes cases, prosecuting those most responsible (i.e., going up the command structure), effectively registering evidence, and balancing the need to prosecute war crimes against other crimes (including fraud, drug smuggling, human trafficking, and arms trafficking) that have also increased during the war.

### **Domestic Prosecutions Outside of Ukraine**

As a complement to national prosecutions in Ukraine, other countries can invoke universal jurisdiction or other extraterritorial jurisdiction (such as jurisdiction based on the nationality of the victim or perpetrator and their physical presence in the country seeking prosecution) to investigate, prosecute, and adjudicate international crimes cases. By September 2024, at least twenty countries were investigating crimes linked to the Ukrainian armed conflict, and the United States and Lithuania have already charged some individuals. Successful processes will require international cooperation

in the arrest, extradition and/or surrender of suspects, as well as the investigation and sharing of evidence.

Another vehicle of accountability is through joint initiatives such as the innovative Joint Investigative Team (JIT): a consortium comprising Ukraine, Estonia, Latvia, Lithuania, Poland, Slovakia, and Romania, under the auspices of the EU's Agency for Criminal Justice Cooperation (Eurojust). JIT has also partnered with the Office of the Prosecutor (OTP) of the ICC and the EU Agency for Law Enforcement Cooperation, strengthening international cooperation. Eurojust also hosts a new prosecutorial hub, the International Centre for the Prosecution of the Crime of Aggression in Ukraine, where prosecutors work together and exchange evidence.

These initiatives are not without their limitations, but still serve the important function of enhancing international cooperation, evidence-sharing, and learning from others' experiences. The recently concluded Ljubljana-The Hague Convention can be used to advance cooperation in the investigation and prosecution of international crimes. However, only thirty countries have signed the convention so far.

### **International Criminal Court(s)**

Finally, when it comes to accountability for war crimes committed in Ukraine, there is the option of international criminal courts, which, at the moment, is limited to the ICC. This is because, while there are efforts to establish a specialised tribunal to deal with the crime of aggression, these discussions are still in their infancy.

The ICC has jurisdiction over crimes committed in Ukraine since November 2013. This follows Ukraine's acceptance of the jurisdiction of the ICC through two declarations in April of 2014 and September of 2015 (it is not a State Party to the Rome Statute of the ICC, though in August its parliament voted conditionally to ratify the Rome Statute). Based on the ICC OTP's conclusions on February 28, 2022, the ICC Prosecutor sought authorisation to investigate the situation in Ukraine. The following day, Lithuania referred the situation in Ukraine to the ICC. On March 2, 2022, a coordinated group of thirty-eight States Parties submitted a subsequent joint referral. The ICC's investigation began in earnest that day. Four additional countries have since referred the situation to the ICC, as well.

To date, the ICC has issued five arrest warrants. These include warrants for Russian President Vladimir Putin and Maria Alekseyevna Lvova-Belova, the commissioner for children's rights in the Office of the President of Russia. Two more arrest warrants were issued in March 2024 for Sergei Ivanovich Kobylash, a lieutenant general in the Russian Armed Forces, and Viktor Nikolayevich Sokolov, an admiral in the Russian Navy. Most recently, on June 24, 2024, the ICC issued warrants of arrest for two more individuals: Sergei Kuzhugetovich Shoigu, secretary of the Security Council of Russia, and Valery Vasilyevich Gerasimov, a general in the Russian Armed Forces.

The ICC OTP also has a dedicated portal where people with information relevant to the Ukraine situation can contact ICC investigators. With indictments only for Russian officials, this has created

an impression of bias on the part of the court. Unsurprisingly, when Ukraine's parliament voted to join the ICC in August 2024, it included a specific reservation that Ukrainian nationals cannot be prosecuted for seven years after Ukraine's instrument of ratification is submitted to the court. This reservation is provided for in Article 124 of the Rome Statute.

### **Beyond Criminal Accountability**

Criminal accountability is only one piece of the puzzle of international justice. There remains a possibility—once the war is over—for transitional justice mechanisms. The UN Independent International Commission of Inquiry on Ukraine has emphasised the significance of noncriminal dimensions of accountability, such as truth and reconciliation, reparations, and guarantees of nonrecurrence. Ukraine can also explore those forms of justice and accountability. Already, it is doing so with reparations for conflict-related sexual violence. A key challenge, however, is that transitional justice mechanisms have tended to be employed in cases of domestic armed conflicts and not in international cases. They are often geared towards internal healing and restoration.

Understandably, 75 percent of participants in a recent survey of local communities in Ukraine were of the view that justice cannot be achieved without prosecuting those responsible for the invasion of Ukraine and the ensuing war crimes. This does not preclude a role for transitional justice. Rather, it means that criminal accountability will be key in ensuring justice for Ukraine.

### **Using All the Tools in the Toolbox**

Justice is a process that should center victims and survivors while ensuring perpetrators are held accountable. Ukraine has several tools at its disposal, and it has been innovative in dealing with this ongoing conflict, including by adapting its prosecution office to take on war crimes. It has also joined initiatives with other countries that facilitate cooperation. Finally, having already accepted the jurisdiction of the ICC, it has taken solid steps to become a member state. Beyond criminal justice, there is also the option to implement some aspects of transitional justice, bearing in mind the limitations that come with the nature of the war. A combination of responses at national, regional, and international levels is critical to ensuring some measure of justice.

# COUNCIL OF COUNCILS

An Initiative of the Council on Foreign Relations



Background Memo

## *The Case for Expanding the EU's Transatlantic Relations*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Renata Zilli**, Mexican Council on Foreign Relations

In 1917, in the aftermath of the sinking of U.S. merchant ships, President Woodrow Wilson told Congress in his request for a declaration of war on Germany that “the world must be safe for democracy [and] its peace planted upon the tested foundations of political liberty.” While the histories of the peoples of Europe and the United States were deeply intertwined in centuries past, it was not until Wilson’s enduring remarks that the fates of their societies became explicitly linked. Today, the transatlantic alliance between the United States and Europe—the bedrock of the postwar liberal order—is experiencing an unprecedented crisis, where it is not external forces but internal politics that pose the greatest threat.

In recent years, the United States and several European countries have experienced what *Financial Times* journalist Martin Wolf calls a “democratic recession.” A series of structural economic downturns, rising inequalities, low social mobility, and declining productivity growth have contributed to this trend. As a result, citizens have begun to lose trust in the institutions of the democratic world. There is no denying the scale of the geopolitical rivalry between authoritarian states and their proxies aiming to shape a post-liberal world.

However, international systems do not always collapse solely because of external conflicts and wars, but also because of domestic crises. It was a combination of internal strife, domestic upheaval, and conflict that brought down Rome. Nor was it nuclear weapons that ended the Cold War, but a decaying Soviet system that dismantled the USSR and, with it, the bipolar structure of the world. Thus, for the transatlantic relationship to remain competitive in a changing geopolitical landscape, it should realign its internal interests to better reflect its international goals.

## **Two Sides of the Same Coin**

Despite their differences and subtleties, the rise of nationalist and far-right movements on both sides of the Atlantic share the belief that forces of globalisation are undermining the moral fabric of local communities and the material hopes of those left behind by economic change. Some of these movements assert that the best response would be to shield from the world by raising barriers to goods, people, and ideas. In his latest rally in Flint, Michigan, former president and current Republican Party nominee Donald Trump announced he would impose a 20 percent import tariff on all U.S. imports and a 200 percent tariff on Chinese-made cars from Mexico. If those measures are implemented, not only will they blow up the trade deal between the United States, Mexico, and Canada (USMCA) that Trump's own administration negotiated, but they will also signify the nail in the coffin of an already-weakened multilateral trade regime. Regrettably, taking comfort in the possibility that a Democrat-led administration would take a pro-internationalist approach is misguided. The Joe Biden administration has comfortably followed Trump's tariff playbook, in which confronting China unilaterally without addressing the impasse at the heart of the World Trade Organization (WTO) is the way forward.

On the other side of the Atlantic, protectionist rhetoric is stealthier. Many institutions of the European Union (EU) have adopted a new *raison d'être* around the idea of "open strategic autonomy." In the realm of trade, the instrumentalization of this economic statecraft involves a number of trade defensive mechanisms that aim to provide the European Commission with legal tools to act against third countries. While many of these instruments were designed as external geopolitical tools, they are also a way out of the EU's internal inability to sign new trade agreements, such as EU-Mercosur. In a move to maintain the cordon sanitaire against the extreme right, President Emmanuel Macron sought to hijack the EU's trade agenda to please French conservative voters.

This unilateral approach to trade policy creates a dilemma for the EU, as it hurts both rivals and allies. Furthermore, as a construct of multilateralism itself, the EU should have an existential interest in its preservation, as Professor Anu Bradford recently noted. The challenge for the EU is, therefore, to find the right balance between remaining autonomous and strengthening its leading role as a normative power in international relations.

## **The Other Transatlantic Relation: Latin America**

In a 2020 op-ed, Joseph Borrell, the outgoing EU high representative for foreign affairs and security policy, urged EU members to see Latin America as the other transatlantic relation. And while the transatlantic outlook has traditionally been seen as exclusive to Washington and Europe, the time has come to broaden the dialogue. There is no question that the United States and the EU are the main architects of the existing liberal international system. Yet, it is the medium and small economies that have benefited the most from this rules-based order. Thus, with the growing insularity of the United States and the EU, it is right to wonder and voice concerns about what the future holds for the liberal order and those who rely on it.



Elsewhere in the world, and particularly in Latin America, the democratic recession coincides with a persisting trend in the deterioration of living standards. Between 2015 and 2024, according to a report from the UN Economic Commission for Latin America and the Caribbean, the region exhibited an average growth of 0.9 percent—a record low compared to the 2 percent recorded during the “lost decade” of 1980 to 1990. Further escalation of trade protectionism would hamper access to markets and critical resources, hurting those countries whose exports and economic activity are heavily dependent on the growth prospects of their main trading partners.

In Latin America, deteriorating material conditions go hand in hand with rising levels of insecurity, violence, and the weakening of the rule of law. Dissatisfied with democratic institutions, citizens have begun to flirt with the idea that strong leaders operating above the law would be a better choice. This trend is reflected in the electoral success of those who promise their voters a false dilemma in which there exists a trade-off between democracy and security. This political shift also has global implications, as there has been a continuing tendency for these rulers to identify and ally with other autocratic regimes.

## **Conclusion**

International systems do not always collapse solely due to external threats; they can also collapse due to internal dynamics. Sometimes, the geopolitical contest begins at home. The transatlantic alliance should focus on building inclusive and resilient economic partnerships where countries can voice their concerns about the future of open trade, technology, and durable supply chains in strategic industries. In particular, deeper cooperation on the green energy transition could solidify transatlantic leadership with Latin America based on shared environmental and development goals. Looking at Latin America as part of a broader transatlantic agenda represents a strategic opportunity for the EU and the United States to increase their influence in a geopolitically fragmented world. As a region mainly comprised of democracies, Latin America can contribute to an ambitious, social, green, and digital transformation based on liberal values. Ultimately, the success of an enhanced transatlantic relationship will depend on its ability to bridge internal divides and work effectively in the pursuit of a common goal: “a world in peace planted upon the tested foundations of political liberty.”

# COUNCIL OF COUNCILS

An Initiative of the Council on Foreign Relations



Background Memo

## *Europe Should Adapt to a More Distant Patron*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Riccardo Alcaro**, Institute of International Affairs

In the past few years, Europe has taken several steps to fulfill its stated ambition to play a “geopolitical” role. Most European North Atlantic Treaty Organization (NATO) members have increased the share of gross domestic product (GDP) spent on defence, with twenty-three of them set to reach the 2 percent target agreed upon by the alliance ten years ago. The European Union (EU) has provided Ukraine with hundreds of billions worth of aid, including military transfers, in the attempt to thwart Russia’s war of conquest. It has also given Kyiv a prospect of accession to the bloc. Assistance to Ukraine has gone hand in hand with far-reaching sanctions on Russia and an abrupt shift away from Russian energy supplies. Amidst growing tensions between the United States and China, and with global value chains at greater risk of disruption, the EU has developed geoeconomic tools to reduce its vulnerability to the political use of investment and economic ties.

What Europe has not done is reduce its dependence on the United States. In fact, the opposite has occurred.

Let us consider trade and investment. With the United States reducing imports from China and China itself bent on increasing domestic production of advanced technologies—processes that are fueled by the growing antagonism between the two countries—transatlantic trade has rebounded. The United States is now the EU’s largest export destination for both goods (16 percent of total EU exports) and services (22 percent). Bilateral trade hovers around one trillion dollars. Direct investment, always massive, is destined to increase further relative to that of China, which has been diminishing for fifteen years.

While this points to a healthy transatlantic economic relationship, it also increases the exposure of the export-dependent EU to the trade and investment choices of the United States. The Donald Trump administration resurrected tariffs as a tool against allied countries. The Joe Biden administration, weaving domestic content requirements with its green technology-promoting Inflation Reduction Act (IRA), has shown it has no qualms in attracting European investment at the expense of European interests.

Energy is another issue in which the EU has become more reliant on the United States. Imports of liquefied natural gas (LNG) have surged as the EU has weaned itself off of Russian supplies, and 48 percent of total EU imports came from the United States in 2023. The EU's ambitious green transition agenda is also partly dependent on cooperation with the United States, including its ability to secure critical raw mineral supply chains and especially obtain the cutting-edge technology that the IRA-enabled investment is spurring.

The same applies to the digital transition. The United States is all but certain to rush ahead of the EU in chip production (it is already dominant in chip design) and has already a massive advantage in the production of artificial intelligence (AI) and cloud computing. With Chinese technology fraught with political risk and an underdeveloped indigenous industry, EU producers and consumers will increasingly look to the other side of the Atlantic for supplies.

Then there is defence. The fragmentation of EU defence markets and the preference of several EU states to buy U.S. products off the shelf have prevented greater political investment and spending on defence from creating a more autonomous industrial base. Furthermore, all of Europe's defence capabilities remain far behind those of the United States.

All of this is reflected in the EU's diminished crisis- and conflict-management capacity. From Ukraine to the Middle East, there is no single crisis over which Europe is now able to exert influence through autonomous action. Even on Ukraine, which they have supported extensively politically, economically, and militarily, EU and British leaders cannot but tailor their policies to the choices of the future U.S. administration.

The bottom line is that great power antagonism, and especially Russia's aggression, has brought Europe's subordinate role in the transatlantic order in sharp relief, even as the EU has equipped itself with more foreign policy assets.

Reliance on the United States brings with it undeniable strategic benefits—so long as the it is willing to provide them. Unsurprisingly, the possibility of Trump, an avowed skeptic of the transatlantic alliance, returning to the White House has created concerns across the EU.

The issue that worries Europe the most is Ukraine. Trump is expected to condition U.S. aid to Kyiv's acceptance of permanent territorial losses and abandonment of its NATO ambitions. Whether he can actually do so is uncertain, given the strong opposition in the United States to a deal with a Russian government still insisting on maximalist demands. Be that as it may, Europe is unlikely to be consulted and will be expected to follow.

Equally troubling are Trump's economic plans. His pledged 10-to-20 percent tariff on all imports would do great damage to the EU, and so would his China policy. If Washington indeed adopts a 60 percent tariff on Chinese imports, Beijing could dump its goods in excess on Europe. The EU would be forced to consider its own tariffs, which could trigger a trade war with China on top of the one with the United States.

Finally, Trump's reelection would embolden Europe's far-right to more openly embrace an illiberal and nativist vision of the West, focused on sovereign nations rather than transatlantic institutions, where rights are curtailed and the rule of law eroded. Internal contestation would fracture the EU, thereby increasing individual member states' dependence on the United States.

The above is not a given, as Trump's reelection could alternatively bring about a centripetal dynamic in the EU. Even accounting for its structural reliance on Washington, a more integrated EU remains the best option for its member states to strengthen their resilience to external pressures, as former European Central Bank President Mario Draghi has extensively articulated in his report on EU competitiveness. Even if the more Atlanticist Kamala Harris wins, it is high time EU leaders realize that their patron will be more distant and demanding, and prepare accordingly.

A robust dialogue and negotiation platform is critical on the economic front. Under a Harris administration, the EU should engage the United States in talks over the further relaxation of the IRA's content requirements while continuing to use the Transatlantic Trade Council as a vehicle for regulatory convergence on AI, data protection, online content regulation, and antitrust.

A Trump presidency would require the EU to combine the threat of retaliation, including through the Anti-Coercion Instrument, with more coordination on China. Specifically, EU members should resist Trump's inevitable attempts at dividing them (including by applying tariffs unevenly across the union), as whatever benefit they could get bilaterally would most likely be offset by the costs of an EU incapable of fighting back. In addition, the EU should enhance dialogue on economic security and energy transition with Japan and South Korea, while reassessing climate policies to tighten relations with nonaligned countries. In the meantime, the EU should work towards further reducing its vulnerabilities, which any U.S. administration should approve of if it is presented as targeted at China (and Russia). The EU should harmonize investment screening mechanisms and create a single EU oversight authority for export controls and sanctions enforcement.

Further defence integration is very much warranted. The full involvement of member states in the European Defence Agency's capability development plan, coupled with a significant expansion of the European Defence Fund and the European Defence Investment Program, would be pivotal steps. This would strengthen the European industrial base and shore up the European capacity to contribute to defence and deterrence against Russia and crisis management in Europe's neighborhood.

The United States needs Europe for its economic prosperity and to keep its rivals at bay. EU leaders should leverage this asymmetrical interdependence with the United States to avoid a purely subordinate status.

# COUNCIL OF COUNCILS

An Initiative of the Council on Foreign Relations



Background Memo

## *EU-China Relations*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Chunsi Wu**, Shanghai Institutes of International Studies

### **A More Balanced Relationship With China?**

From the Chinese perspective, the change of EU policy toward China cannot bring about a balanced partnership, but rather will lead to a negative transformation of the EU-China relationship. In 2019, the European Union (EU) issued its strategic document on China, *EU-China: A strategic outlook*, stating that “China is simultaneously a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance.”

Considering the disparate characteristics attributed to China in this strategy, Beijing believes it is impossible for the EU to view China comprehensively. The attributions of cooperation partner, negotiating partner, and economic competitor only apply to certain areas of the EU-China relationship. However, the so-called “systemic rival” description applies to China as a whole, and it will, in practice, influence all EU-China policy in a negative way.

China believes that the EU’s definition of China as a systemic rival is emphatically wrong for several reasons. First, it is wrong to believe that there is only one road to Rome. Different countries, with different histories and cultural backgrounds, have the right to choose the best and most proper path to their development.

Second, different models of governance do not necessarily lead to alternative models. In fact, China prefers to remain a participant in the established multilateral institutions that it has helped to build and reform. Since the late 1970s, China has been deeply integrated in the international economic system. It is not in China’s interest to destroy those structures.

Along with many other countries, China recognizes that the current international system is facing serious challenges. China is willing to contribute more resources to maintain the peace and stability of this system, especially when it sees some leading countries as reluctant to provide public goods to countries in need. However, China still sees itself as a developing country with limited capabilities.

In addition, China is a country willing to implement the commitments it makes and obey the regulations to which it agrees. However, it does not accept the heavy-handed rules imposed by other countries. That is why China emphasizes that the current international order is based on international laws, not the rules made by specific countries or country groups.

Third, the Chinese path to increased development is not a challenge to Europe's interests. It is true that China wants to further increase its economic capability, but China has no intention of damaging the European market. It also wants to further open its market to Europe and the rest of the world. The question is how to fairly negotiate mutually beneficial agreements and whether the implementation of those agreements will be disrupted by politics.

For many years, it has been a common understanding that there is no geopolitical conflict between the two China and Europe. China believes that the EU is an important pole in the multipolar vision of international order, which means China took a positive view of European integration. These days, however, geopolitical tension is emerging in EU-China relations around Taiwan. The EU seems to be increasingly active on the Taiwan question, which is not a good omen for EU-China relations.

From the Chinese perspective, the EU's pursuit of a "balanced policy" toward China is just nice words. In practice, no country would practice policy toward a rival that is fair and reciprocal. For China, the most important goals are to push the EU-China relationship back toward the partner, not systemic rival, attribution, and to rebuild consensus of their roles in the international system.

### **Are European Countries Aligned on China?**

European countries have common interests, but they also have different perspectives on how to understand China's role in the world and its relations with Europe. China takes a pragmatic approach to the differences between European countries. It believes that EU members support an integrated Europe and European solidarity, although their interests are not completely in line with each other in some areas. China tends to meet the varied demands from European countries and, at the same time, respect the interests of the EU.

China hopes that different perspectives within the EU on understanding China and its role in the international system will be helpful for forming a positive view of China. Democracy is, after all, a system willing to listen to and accommodate different opinions, not a system arbitrarily silencing different voices.

## **What Actors and Factors Will Have the Greatest Impact on the Bilateral Relationship?**

Currently, there are two factors substantially influencing the EU-China relationship. The first is how to look at Russia and its “special military operation” in Ukraine,” and the second is how China and Europe can update their economic relationship in a mutually beneficial way.

Regarding the war in Ukraine, China and Europe could have different interpretations on the reasons for the conflict, but they share some similar views on its consequences. China believes that the war in Ukraine has become a huge burden on Europe, consuming Europe’s resources and diverting its energy from development to conflict. In China’s view, it is best for Europe to stop the conflict as soon as possible.

Regarding the economic disputes, China feels that Europe is too heavily guided by political and ideological considerations. In addition, Europe could be overanxious due to its current internal challenges, causing it to then become oversensitive to the so-called China challenge in the economic and technology fields.

## **What Does the EU De-risking From China Mean for Its Wider Indo-Pacific Relations?**

China understands that economic globalization has reached a threshold that requires adjustments in supply chains. Some countries are moving to relocate production and supply chains closer to home to avoid risk and increase resilience. China, as part of the global economy and production chain, is ready to adapt to those new developments and even accept some rearrangements of nearshore supply and production.

However, the reality is much more hostile than what China initially thought. The relocation of supply and production chains led by the United States is aimed to exclude China from current global economic cooperation. Near-shoring is better described as friend-shoring.

Therefore, de-risking as practiced by politicians is not what is required by companies and consumers. What de-risking follows is geopolitical and even ideological, not economic, meaning its implementation will damage economic development in the Asia-Pacific and wider Indo-Pacific region.

Asian countries are quite pragmatic on issues related to the peace and development of their countries. Asian countries want to see a safer, more resilient, and sustainable environment for development in the Asia-Pacific, and China will be a partner in this regard.



Background Memo

## *EU-China Relations: Between Challenges and Opportunities*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

**Ferdinando Nelli Feroci**, Institute of International Affairs

In 2019, China was described by the European Union (EU) as a global issues partner, an economic and technological competitor, and a systemic rival. China has become a key partner in the management of global challenges such as climate change, environmental protection, global health, and food security. It is a competitor on economy, trade, and technologies due to the effect of China's economic and industrial policies on Europe, coupled with recurrent violations of World Trade Organization (WTO) commitments, state subsidies, protection of foreign investments, and intellectual property rights. Finally, China is a systemic rival because of substantive divergences on values and principles, including its posture in international affairs and use of economic power to pursue political objectives.

That description is still fundamentally valid today. However, the situation has become far more complex due to the following factors.

Firstly, China's gross domestic product (GDP) is growing at a slower pace than anticipated. Its economy is characterized by a prolonged real estate crisis, increased indebtedness of central and local public administration, and a rapidly aging population—all factors that demonstrate China's vulnerabilities. However, China has continued to invest heavily in industrial production without stimulating domestic consumption, which has led to a phenomenon of structural industrial overcapacity. This is provoking unsustainable trade imbalances with its trading partners, particularly Europe.

Secondly, from a European perspective, China's reaction to Russia's aggression against Ukraine has been disappointing. China has refused to condemn this aggression and the violation of fundamental principles of international relations. Furthermore, it has not seriously engaged itself in the search for



a diplomatic or political solution to the conflict. China has, in fact, stood by Russia's side and exploited this opportunity to assume a leading role in the contestation of the West and the present world order.

Finally, China's choice to pursue a policy of economic statecraft leveraging its economic strength, together with its trade and economic policy and choice to stress its growth model based on competitive exports, have equally complicated EU-China relations.

These developments have increased the EU's awareness of the risks related to excessive dependencies and vulnerabilities. They have also contributed to the EU's decision to focus on a strategy aimed at improving the competitiveness of the European economy and at strengthening its economic security and autonomy through a reduction of its strategic dependencies.

Leaving aside EU-China divergences on foreign policy issues and principles, this policy brief will focus on EU-China economic relations, the impact of the EU's strategy for competitiveness and economic security within EU-China relations, and on whether this strategy can be implemented in an antagonistic or cooperative manner with China.

To be clear, the notion of Europe's strategic autonomy is still the subject of different interpretations among Europeans. Nevertheless, there is agreement on the idea that Europe should be able to reduce its dependencies—or at least choose its dependencies—to increase the competitiveness of its economy and contribute to its long-term economic security.

In defining this strategy toward China, the EU has never considered decoupling as a practicable option, as Europe's economy is built largely around global trade. China has emerged as the EU's largest trading partner by far in goods (not in overall trade, if one includes trade in services), and the volume of these exchanges has increased substantially over the last ten years. The consequence is that the two economies are too interdependent to imagine decoupling as an option without a serious and negative impact on EU's economy. This is despite the fact that the EU is running an important bilateral trade deficit with China, which has reached the record figure of €396 billion in 2022 (representing a 58 percent increase from 2021).

The reality that decoupling is unfeasible and would seriously undermine the EU's economy has led the EU to embrace a strategy defined as de-risking. In this approach, the EU would be capable of seizing economic opportunities while reducing or managing risks in relations with China.

In defining a strategy for de-risking and upholding economic security, the EU has identified several types of risks of maintaining economic relations with China that include supply chain security, the physical security of critical infrastructures and cybersecurity, technology security, and risks related to economic dependencies and economic coercion.

Some of the instruments utilized to implement this strategy are considered protective measures, such as monitoring mechanisms of inbound foreign investment; measures aimed at counterbalancing market distortions, particularly through the use of public subsidies (with the imposition of tariffs,

duties, or quotas on imports); measures aimed at protecting against violations of intellectual property rights; and anti-coercion measures. The EU is also implementing measures that are meant to support economic security, diversify supply chains, and boost industrial and technological competitiveness of the EU economy (like the CHIPS Act, the Critical Raw Material Act, the Green Deal Industrial Plan, and the related Net-Zero Industry Act).

To be clear, the EU strategy of de-risking and economic security is not exclusively conceived of as targeting China. But because of the dimensions of China's economy and the interdependence of the respective economies, China has inevitably become the main target of EU de-risking measures. However, de-risking can be pursued in a cooperative manner.

It is possible for the EU to coexist with China while protecting its own interests. This is generally the approach that the EU has adopted in dealing with China: firm on principles and values; firm on the defense of European economic interests; and determined to maintain transatlantic solidarity and contain China on threats such as disinformation, security at large, and interference in domestic affairs.

But the EU has also remained available to maintain dialogue at all levels, including on the management of global challenges. Moreover, it has been determined to avoid the escalation of tensions, to maintain divergences on political issues separate from trade and economic disputes, and to avoid the trap of a spiraling of protectionist measures by both sides.

Pressure from the United States to implement a policy of containment toward China could increase depending on who will be elected the next U.S. president. The EU will therefore need to manage a difficult balancing act between the need to maintain transatlantic solidarity and the desire to capitalize on the opportunities of a cooperative relationship with China.

Finally, for the EU to be successful, it needs to be able to maintain a common stance when dealing with China. Free-rider attitudes by individual governments risk weakening a common strategy with respect to a country of the size of China. It also needs to be able to involve other partners to defend basic principles, such as the security of supply chains or the respect of WTO rules. China, for its part, should avoid the temptation of playing the Europeans against each other.

# COUNCIL OF COUNCILS

An Initiative of the Council on Foreign Relations



Background Memo

## *EU-Middle East Relations*

Council of Councils Fifteenth Regional Conference

October 27–29, 2024

Centre for European Policy Studies, Brussels, Belgium

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European Union (EU)-Middle East relations have long been shaped by mutual interests in security, energy, trade, and regional stability. The Gulf Cooperation Council (GCC) countries, in particular, have been developing strong economic ties with the EU, while also engaging in dialogue on issues of political and security concern. Despite Saudi Arabia and the broader Gulf region sharing common views when it comes to the stability of the wider Middle East, including on how to reach a resolution to the Palestinian issue, the GCC states do not see Europe as acting coherently or willingly striving to pursue such a solution with a robust foreign policy. In addition, there remains a gap between the EU's broader global security focus and the specific security needs of the Gulf states. This memo outlines the current state of EU-Middle East relations, with a focus on the priorities of Saudi Arabia and the GCC, and the need for a fairer balance of relations when it comes to addressing regional security concerns.

### **The Recognition of Palestine As a State: A Core Priority for Saudi Arabia and the GCC**

In the wake of the crisis in Gaza, which has now reached the one-year mark, one of the most critical issues for Saudi Arabia and other GCC countries in their relations with the EU is the question of Palestine. Implementing a cease-fire and seeing immediate widespread humanitarian assistance delivered to Gaza is a core concern for Gulf states alongside the ultimate need to move toward the recognition of Palestine as a sovereign state. Resolving the Palestinian issue is viewed as absolutely essential to achieving long-term peace and stability in the region.

Saudi Arabia, as a leading voice in the Arab and Muslim world, has been particularly vocal in advocating for the international recognition of Palestine and is grounded in the Arab Peace Initiative of 2002. This initiative, endorsed by the Arab League and supported by many Gulf states, offers Israel normalization of relations in exchange for the establishment of a Palestinian state based on the 1967 borders, with East Jerusalem as its capital.

The Gulf states firmly believe that the EU countries should play a more active role in advancing this solution, particularly by formally recognizing a Palestinian state. Countries such as Ireland, Norway, Slovenia, and Spain have shown varying degrees of support for Palestinian statehood. Norway, for example, has been a key actor in peace negotiations through the Oslo Accords, and Ireland has been one of the most vocal European nations in supporting Palestinian self-determination. Spain and Slovenia have also expressed support for a two-state solution, yet broader European recognition is still lacking.

From the perspective of Saudi Arabia and the GCC, European recognition of Palestine is crucial for demonstrating a commitment to justice and fairness in the region. From a Gulf perspective, seeing international humanitarian law ignored and UN Security Council resolutions unimplemented undermines not only the multilateral system of the rule of law, but also European credibility given the normative values that Europe regularly preaches. Moreover, recognition of Palestinian aspirations for statehood will help stabilize the broader Middle East by finally putting to rest one of its most enduring conflicts. The lack of progress on this front continues to be a point of contention between the Gulf states and their European partners, and it remains a core diplomatic priority.

### **Security: A Central Pillar of Middle East Priorities**

In addition to the issue of Palestine, Saudi Arabia and the GCC also want to see a fair and balanced partnership implemented in their relations with the EU. This requires an acknowledgment of the unique challenges facing the Gulf region. While the EU has made efforts to engage in dialogue with the GCC through platforms such as the EU-GCC Joint Council and Ministerial Meeting and the EU's recent Joint Communication on a Strategic Partnership with the Gulf announced in May 2022, there is a need for more substantive discussions on the issues most important to the Gulf states. These include not only economic and trade issues but also political and security concerns.

The Middle East is a region that has long been affected by conflicts, sectarian divisions, and geopolitical rivalries, and the GCC countries have prioritized stability and security as fundamental to their foreign policies. Key security concerns for the Gulf states include the threats posed by Iran's regional activities, instability in Yemen, and ongoing conflicts in Syria and Iraq.

While the EU recognizes the importance of security in the region, its focus has often been more aligned with broader global security concerns, such as counterterrorism and combating violent extremism. The EU's security agenda in the Middle East frequently revolves around issues such as migration control, the fight against the self-proclaimed Islamic State, and preventing the spread of extremism to Europe. These are undoubtedly critical issues, but they do not always align with the specific security priorities of the Gulf states. For example, while counterterrorism cooperation has been a key component of EU-GCC security collaboration, the Gulf states are seeking a more nuanced approach that also addresses state actors that destabilize the region.

For Saudi Arabia and the GCC, Iran's activities in the region, including its support for proxy groups in Yemen, Lebanon, and Iraq, represent a direct threat to their national security. The Gulf states are also deeply concerned about the humanitarian crisis in Yemen, which is exacerbated by the Iranian-backed Houthi forces. The EU has been involved in diplomacy related to the Iran nuclear deal (e.g., the Joint Comprehensive Plan of Action), but the Gulf states have often felt sidelined in those

discussions. They argue that their security concerns should be more prominently featured in EU policymaking, particularly when it comes to Iran's influence in the region. There is a prevailing sentiment among the Gulf states that issues such as regional rivalries, territorial disputes, and the influence of external powers such as Iran and Turkey are not being addressed with an adequate sense of urgency by the EU.

### **The Path Forward: EU-GCC Cooperation on Critical Regional Security Issues**

Despite those differences in security priorities, there has been a marked improvement in EU-Gulf cooperation in recent years. Examples include the appointment of an EU Special Representative for the Gulf region, the holding of regular security dialogues, and the first-ever Summit Meeting at the heads-of-state level in October 2024 in Brussels. Overall, the EU has shown greater willingness to engage with the GCC on regional security matters, and there have been positive steps toward more substantive dialogue. These steps have not gone unnoticed. However, the Gulf states still believe that the EU has only recently begun to listen more closely to its GCC partners, and further efforts are still needed.

EU-Middle East relations are complex and multifaceted, with security, trade, and political issues at the forefront of the agenda. For Saudi Arabia and the GCC, the urgent priority now is to find a pathway toward a resolution to the Palestinian issue and remove it once and for all from the Middle East agenda, where it continues to lie at the heart of regional instability. In conjunction, the EU and the GCC states should further align their security agenda with a focus on returning stability and proper governance to the battered state system in the Middle East. Taken together, this will provide the foundation for a stronger and more mutually beneficial partnership.

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The relationship between the European Union (EU) and the Middle East has become more complex over the years. The Middle East is not a homogeneous region and has overlapping political, religious, and historical connections. Lately, relations with the EU have become increasingly transactional.

The EU is the biggest trading partner for most Middle Eastern countries, including Syria, and it has trade agreements with most countries in the region, an important element of those relationships. A relevant point in these trade agreements, which comprise cooperation and economic assistance, is the notion of conditionality regarding human rights.

### *The EU's Top Priority: Migration*

The EU's main concern has been the influx of people coming in from the Middle East and Northern Africa. As a regulatory power more than anything else, the EU has tried for years to stem the flow of illegal migrants in various ways. This concern can be traced to the Euro-Mediterranean Partnership (Barcelona Process) in 1995 which morphed into the Union for the Mediterranean (UfM) in 2008 mainly to address greater migrant inflows. Although the purported aim was to promote regional cooperation, the driving force for the EU was to help Middle Eastern and North African countries develop so that there would be no need for their citizens to cross over to Europe. The UfM is one of few organizations where Israel and Arab representatives sit at the same table, although it is difficult to find consensus on any issue.

With the Syrian civil war and the rise of the self-proclaimed Islamic State, terrorism became another concern for the EU. Unchecked migration compounded the matter. The migration issue has sparked the rise of populist nationalist parties, which have gained strength and even become part of the government in some member states. Moreover, Islamophobic reactions and racism have increased in several EU countries.

The EU has tried to stem this inflow through deals with Middle Eastern states, including Turkey and Libya. The latest agreement was with Egypt this March, in which EU leaders pledged €7.4 billion in grants and loans to help curb irregular migration. The agreement came after European Commission President Ursula von der Leyen travelled to Cairo with the leaders of Austria, Belgium, Cyprus, Greece, and Italy, demonstrating the importance of this issue for the EU. While the EU, like the United States, considers itself the torch bearer of human rights and democracy, it has increasingly formed pragmatic relationships with illiberal Middle Eastern countries, such as Egypt. This has shown how the EU's concerns trump universal values such as rule of law and freedom of speech, as it deals with authoritarian governments.

### *Dealing With Regional Conflicts*

The EU has made numerous efforts to find diplomatic solutions to the conflicts in the region. For example, it took part in negotiations with Iran on the nuclear issue that culminated in the Joint Comprehensive Plan of Action (JCPOA).

The EU supports a two-state solution and has tried its hand in bringing Israel and the Palestinians together with limited success. Along with economic and commercial relations, humanitarian assistance to the Palestinians is key. Despite being Israel's biggest trade partner, the EU's impact is not commensurate. The latest war between Israel and Hamas (along with Iranian proxies, specifically Hezbollah), has shown the limits of the EU's influence. It does not have the clout of the United States with either Israel or the Arab countries.

Because the United States remains solidly behind Israel and cannot stop the carnage in Gaza, the Arab states have looked elsewhere. However, Russia is too distracted by its own war in Ukraine and is mainly concerned with supporting Bashar al-Assad's regime in Syria. Meanwhile, China has started to play a bigger role in the region: it helped Iran and Saudi Arabia reestablish diplomatic ties in 2023 after a long spell. This is because China is a new player without any historical baggage in the region. It also does not condition its assistance to human rights issues. Yet, it also does not have any effect on Israel.

One of the handicaps the EU has is the colonial history of some of its members. Even though Euromed was geared towards development, it had a condescending effect that was perceived as arrogant. Germany has a certain weakness when it comes to Israel and has difficulty balancing its policies towards the region. The latest war between Israel and Hamas is a case in point. Turkey is trying to renew its ties with the region after a spell in which it was at odds with most of the Arab world, but it will take time to rebuild the trust Ankara lost.

### *Difficulties in Engaging the Region*

Additionally, there is no uniformity in the region itself, and rivalry between states is prevalent. Until recently, Qatar and the Gulf Countries were at odds. The uniting factor between many of the Gulf countries and Israel is the threat of Iran. Just as the Abraham Accords brokered by the United States were on their way to easing relations between Israel and its neighbours, the war in Gaza and now in Lebanon put that on hold.

The EU's Achilles heel is its lack of cohesiveness in foreign policy. Unity is typically found in the lowest common denominator. The EU could reach consensus on issues with little national relevance for any one member. However, when a question affects national interests, it is extremely difficult for them to unite. The Gulf War was one example where the major powers of the EU had conflicting concerns. Even the greater good for the EU can be hampered by the interest of one member. Hungary, for example, is a thorn for the EU as it continues to block measures against Russia.

Internal and external threats and challenges have detached the EU from the Middle East. Economic difficulties, competition from China, the war in Ukraine, the strain of enlargement, the rise of populism, illegal migration, and the spectre of terrorism have prevented the EU from being more active in the region. Thus, the major concerns of the EU have been relegated to irregular migration and terrorism.

Overall, it is Washington that still has sway over the region. Although the EU does not have many assets, it can still use the ones it does have if it can present some unity. Despite several efforts, the EU has never succeeded in becoming a military power—that has been left to the North Atlantic Treaty Organization (NATO). When Russia invaded Ukraine, nonaligned Finland and Sweden turned their back on neutrality and joined NATO, demonstrating membership in the EU to be insufficient for their security.

Yet, the EU's regulatory power should not be discounted. The EU is not only a major trade partner for the region, but most of their foreign investment comes from the EU. The EU could help Middle Eastern countries diversify their energy sources and improve energy efficiency as the world is slowly moving away from gas and oil. It could continue with providing technical and technological assistance and building partnerships with countries that are active in the region. However, it should have no illusion on whether this will alter those countries' conduct toward democratic values and freedoms. In this era, where multipolarity is giving way to a multilayered international structure, the EU is one player among others and should accept the limits of its influence.



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As of October 2024, the role of the European Union (EU) in the crisis triggered by Hamas’s attack on Israel on October 7, 2023, has been markedly limited. The EU has been constrained by internal divisions, with European leaders—even EU institutions—at odds over their approach and unable to make clear decisions. This indecisiveness, coupled with efforts to maintain an overly balanced position, has led to frustration on both sides. Israelis have emphasized the need to contain the rising Moscow-Tehran axis and combat Islamist terrorism—common interests between Israel and European countries—yet Israel has not received increased support, and has been disappointed by the EU’s distance from part of their actions. Meanwhile, Palestinians and their supporters are criticizing the EU for not upholding its professed legal and moral standards, accusing it of double standards favoring Israel.

In the Red Sea, despite European interests and the need for secure transit, the EU’s influence remains limited. Though it established the Aspides mission to protect maritime traffic while showing geopolitical capacities and independence from Washington, the operation’s results have been mixed. Unlike some U.S.-led operations, Aspides’ defensive-only mandate hampered the EU’s ability to react, leaving it torn between looking active and strictly obedient to international law. In some instances, European countries have acted outside of EU institutions against the Houthis and Iran. In Lebanon, the EU’s voice has similarly been ineffective, adding to its powerlessness in the region.

In other words, the EU has been largely irrelevant in the Middle East while managing to alienate all sides. It has tried to mediate between all the players in the region and find an equilibrium between principles and interests, while other global powers have taken clear sides and acted according to Realpolitik considerations. The EU has only succeeded in demonstrating its weakness and creating either disdain or frustration.

This failure contrasts starkly with its relative success in the Ukraine crisis, which showcased its geopolitical ambitions and was sometimes hailed as the dawn of a “geopolitical Europe.” The setbacks in the Middle East have, in some ways, undermined those earlier successes, and have been particularly damaging to the EU’s relations with the Global South. Moreover, the EU’s weak response to Middle Eastern developments and the divisions this crisis has created within European societies have been exploited by the EU’s adversaries. Those factors have been used to damage its global standing and undermine its internal resilience, with potentially devastating long-term repercussions.

Despite its shortcomings, the EU is not without tools of influence in the region, especially vis-à-vis Israel and the Palestinians. The EU is Israel’s primary trading partner, and Israeli participation in EU programs, particularly in the scientific and academic fields, is significant for the country. For the Palestinians, the EU is the largest provider of external assistance and is directly involved with the Palestinian Authority through the EU Mission for the Support of Palestinian Police and Rule of Law, aimed at strengthening the Palestinian police and justice system, and the (currently suspended) EU Border Assistance Mission for the Rafah Crossing Point. These missions could be leveraged in any future settlement involving the Gaza-Egypt border and Palestinian Authority reforms, enabling a prompt European contribution to such a political solution, even if it is primarily fostered by other countries. Furthermore, the EU is still seen as a normative power whose support lends international legitimacy.

Thus, the EU has the potential to affect the Israeli-Palestinian conflict, but shifting from being merely a payer to a player will be challenging. Expectations from local actors are polarized. Israelis want greater EU support, tougher action against antisemitism in Europe, and stricter scrutiny of aid to Palestinians. They believe the EU has long overlooked radicalism and violence within Palestinian society and claim that EU assistance to Palestinians should be conditional, particularly concerning ties between civil institutions and terrorist groups, as well as the content of educational materials. On the other hand, Palestinians seek robust support for their rights, sanctions against Israel, and backing for statehood. Meanwhile, other countries in the region seem content with the EU playing a limited role, acting primarily as a financial contributor with little impact on decision-making.

To be influential in the Middle East and thus gain the geopolitical relevance it aspires to, the EU needs to dramatically change its approach. It should adopt a clearer stance, even if at a cost, and take concrete steps in the direction it chooses, without hesitating to leverage its assets in the region to put pressure on relevant players. It should also clearly identify local allies and rebuild their trust to be able to work with them in the future.

However, achieving the needed unanimity among EU members on such a policy remains highly unlikely. The discrepancy between the pro-Palestinian position of countries like Spain, Ireland, and Belgium and the pro-Israeli stance of Hungary, the Czech Republic, and Austria seems insurmountable. As a result, the EU appears destined to continue acting based on a paralyzing lowest common denominator, while coalitions of countries choose to coordinate their policies independently of EU institutions.

The current crisis also coincides with a lack of a clear leadership in Europe—a figure or country capable of steering European responses to crises. Traditional pillars of the European community are

weakened, which is evident in the context of the Middle Eastern conflict. French President Emmanuel Macron has made numerous statements on the Middle East, which mostly generated friction with Israel, and European partners are reluctant to let France lead at a time when its president is weakened domestically. Germany faces criticism from Arab leaders for a perceived pro-Israel bias while its government also deals with domestic challenges. Italian Prime Minister Giorgia Meloni, despite aspirations for a larger role, has yet to make a significant impact. Within Europe but outside the EU, it is still too early to know if the new British prime minister is willing to play a bigger role on those issues.

The Israeli-Palestinian issue could be too delicate for the EU or European countries to play a decisive role in, given the internal feud it creates and the number of regional and global powers vying for influence. The EU could instead be more relevant in addressing other crises and threats that affect the Middle East. For example, Iran is a significant threat to Europe. Tehran has directly threatened European countries, and its alliance with Moscow and involvement in Ukraine make it an adversary to the EU.

Adopting a stronger stance against the Iranian regime would be less contentious among EU members and would demonstrate Europe's readiness to defend its interests. This would garner positive responses from several regional actors including Arab governments, the Palestinian Authority, and Israel. The evolving situation in Lebanon also presents an opportunity for Europe to demonstrate its capabilities. Countries like France and Italy already have a presence there, and UN Security Council resolutions provide a legal framework justifying intervention, with the distinction between Lebanon and Hezbollah widely accepted. However, making the EU and Europe relevant even in these less complex areas will require political risk-taking and delicate choices.

In summary, the 2023 to 2024 Middle Eastern crisis has been a harsh reality check for the EU, testing its strategic capacity and challenging the dream of a "geopolitical Europe" that had gained momentum after the EU's response to Russia's invasion of Ukraine. European leaders must regain relevance, credibility, and agency in the region, as the challenges in the Middle East have significant implications for the EU's global standing. A drastic change is needed to stop and repair the damage done in one year. However, current developments in the Middle East, in the EU, and within EU member states offer little optimism.