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Tipping the Scales

Why Central Europe
Matters to the United States

Wess Mitchell

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Executive Summary

Does Central Europe still matter to the United States? Twenty years ago, the answer to this question was obvious. For Cold War-era U.S. policymakers, the region stretching from the Baltic to the Black Sea — sometimes known as Eastern or East-Central Europe — was among the militarily and geopolitically most important places on earth — the one region where the next world war seemed most likely to begin. After the Cold War, Central Europe continued to grab Washington’s attention as a laboratory for American-style privatization and democratization, and the focal point of U.S. efforts to expand NATO. However, in recent years, as Central Europe has become more fully integrated into the Western free market system and more pressing concerns have arisen in other parts of the globe, the region has lost its visibility in the United States. Though the Iraq War momentarily brought Central Europe — dubbed the “New Europe” by U.S. Secretary of State Donald Rumsfeld — back to the fore, it remains among the most neglected areas of concern for the U.S. foreign policy establishment. But Central Europe still matters to the United States:

- Economically, the region — with its combined population of more than 100 million consumers — is one of the most dynamic and fastest-growing markets in the world, boasting half a trillion dollars in combined gross domestic product, more than \$17 billion in trade with the United States, and an increasingly prominent position in the European Single Market — the world’s largest trade bloc.
- Militarily, Central European governments are among the most pro-American in Europe, and have provided much-needed material support in international hotspots like Iraq, as well as access to strategically located bases for the forward deployment of U.S. troops and weapons systems.

- Geopolitically, the region's countries represent a substantial support base within the EU and other international forums, as well as an eastward-facing salient in the campaign to spread democracy to the chaotic rimlands of the former Soviet Union.

Although Central Europe may not be as conspicuous a concern of the United States as China or the Middle East, it does represent an important and much-needed base of support for U.S. policies that has the potential to tip the scales in America's favor on a number of crucial issues. In the years ahead, Washington would do well to revitalize its relationship with Central European countries. Doing so will require a degree of consistency and reciprocity that has so far been lacking in America's dealings with the region.

Introduction

During the first decade after the collapse of the Soviet Union, U.S. policymakers cared deeply about developments in the ex-communist satellite states of Central Europe. Committed to ending the region's 50-year economic, diplomatic and cultural isolation from the West, the United States expended vast sums assisting Central European countries in their transition to democracy and free market capitalism. Economically, the U.S. government contributed billions of dollars in aid and created a host of commercial, political and humanitarian assistance programs to provide support to these fledgling governments.¹ Militarily, the United States moved decisively to stabilize the region on two occasions, dispatching forces to Bosnia in 1995 and Kosovo in 1999. Politically, despite staunch Russian resistance, U.S. leaders worked prodigiously to ensure that



the region's countries would be invited to join the North Atlantic Treaty Organization (NATO) and European Union (EU).² [See Figure I.]

However, as the 1990s drew to a close, America's interest in Central Europe waned. The accession of Poland, Hungary and the Czech Republic to NATO in March 1999 and the opening of talks for the eastward enlargement of the EU were followed by a period of denouement in U.S.-Central European relations.³ America's goals in the region, it seemed, had been met and emerging challenges in other areas of the globe — most notably East Asia — demanded greater attention. The resulting loss of interest in the region was further accelerated by the September 11, 2001, terrorist attacks, which brought an unambiguous shift in focus for U.S. policymakers away from Europe and Asia and toward the Middle East.⁴

The willingness of the Central Europeans to defy France and Germany during the Iraq crisis and send troops to Iraq — which earned them praise as the “New Europe” from the Bush administration — momentarily catapulted the region to the fore, leading some analysts to predict a new period of close cooperation in U.S.-Central European relations.⁵

However, in the wake of the crisis, the loyalty of Washington's Central European allies has failed to bring about a more systematic and deliberate policy of U.S. engagement in the region.⁶ Contrary to expectations, Central European companies did not receive major contracts to participate in the reconstruction of Iraq, nor did the region's military establishments — pushed to their logistical and budgetary limits by deployment 2,000 miles from home — receive the much-anticipated funds for force modernization. Other hopes — especially for a softening of visa requirements for Central European visitors to the United States — were also disappointed.

Increasingly, it appears that Washington does not have a coherent game plan for bolstering ties with Central European countries — or for that matter, much of an understanding of why it is important

to do so. Meanwhile, in regional capitals from Tallinn to Ljubljana there are growing signs of disenchantment with the United States, as people on the streets grow weary of the war. These countries, which have traditionally been the most pro-American in Europe, are beginning to question the sincerity and durability of U.S. engagement in their region.⁷

America's battle for the hearts and minds of Central Europeans isn't only being lost — it isn't even being fought yet. In a world where support for U.S. policy is in short supply, neglecting a community of nations which, by virtue of their economic potential, military mindset and geopolitical orientation, are naturally inclined toward partnership with the United States, is a luxury Washington cannot afford.

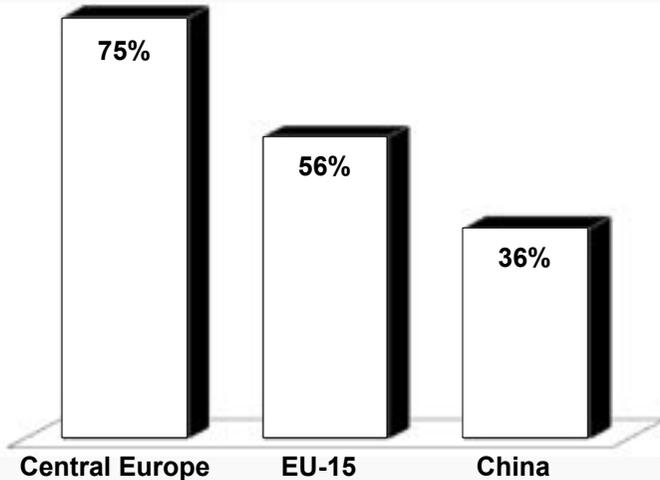
In short, despite its seemingly diminished profile, Central Europe is more important to America than ever before. The purpose of this paper is to explain why Central Europe matters to the United States, why EU enlargement did not mark the end of history in the region, and why U.S. policymakers should seek a deeper level of engagement with the region and its leaders than they currently do. In the following pages, I will present a list of reasons why Americans should care about Central Europe. Collectively, these reasons — which span the economic, military and geopolitical realms — illustrate the depth of America's national interest in this vital region and underscore the urgent need to find new pathways for engaging the region's governments and winning the battle for heart and minds of Central European citizens.

I. Rise of a Powerhouse: Why Central Europe Matters to the United States Economically

Throughout the Cold War, America's interest in Central Europe was motivated overwhelmingly by geopolitics. To the extent that the region's economy mattered at all, it was seen as a drag on global economic growth — an anomalous zone somewhere between the First and Third Worlds where the only functioning market was the black market. A decade and a half later, following a region-wide political and economic revolution, Central Europe has shed its socialist legacy to emerge as one of the world's most attractive destinations for foreign capital and a major engine of global economic growth. In the wake of these changes, America's Cold War-era thinking on the region has been reversed: While geopolitics continues to matter in Central Europe, from a U.S. perspective the single most compelling reason to care about the region today is economic. In much the same way that American military strategists once based their war plans on the latest tally of Warsaw Pact armored divisions, modern-day American companies increasingly find that their business plans — and bottom lines — are profoundly (and positively) shaped by the latest Central European economic data.

The growing importance of Central Europe to the U.S. economy was summed up in the headline on the cover of a recent edition of *Business Week*: “Central Europe: Rise of a Powerhouse.” The region's economic ascent — marked by gross domestic product (GDP) growth rates as high as 10 percent and an annual foreign investment rate second only to China — has made it a magnet for U.S. trade and investment. Between 2000 and 2004, U.S. trade with Central Europe increased by 49 percent to nearly \$58 billion. Investment has also grown at a rapid pace:

FIGURE II
Percentage Change in U.S.
Foreign Direct Investment, 2000-2004



Note: The EU-15 are the countries that were EU members prior to 2004. Central Europe includes eight of the 10 countries that joined the EU in 2004 and two candidates set to join in 2007.

Source: Based on U.S. Bureau of Economic Analysis, *Survey of Current Business*, September 2005.

- Overall, U.S. companies have invested about \$13.4 billion in the region since 1990.⁸
- Between 2000 and 2004 alone, U.S. foreign direct investment (FDI) in Central Europe grew by nearly \$6 billion, or 75 percent.⁹
- To put this in perspective, during the same four-year period, U.S. FDI flows into China and India increased by \$4.3 billion and \$3.8 billion, respectively.¹⁰ [See Figure II.]

The rise in American investment in Central Europe has been fueled by three ingredients: 1) the willingness of the region's governments to implement pro-growth economic policies, 2) a highly-skilled, inexpensive workforce, and 3) Central Europe's unique ability geographically to act as a hub for foreign companies doing business

in other regions — notably Western Europe and Eurasia.¹¹ Together, this potent combination has not only created strong incentives for U.S. companies to invest in the region, it has also provided a powerful endorsement of the American free market economic model and an attractive alternative to the growth-inhibiting mixture of public-sector spending and protectionism that currently characterizes economic policy in many Western European countries.

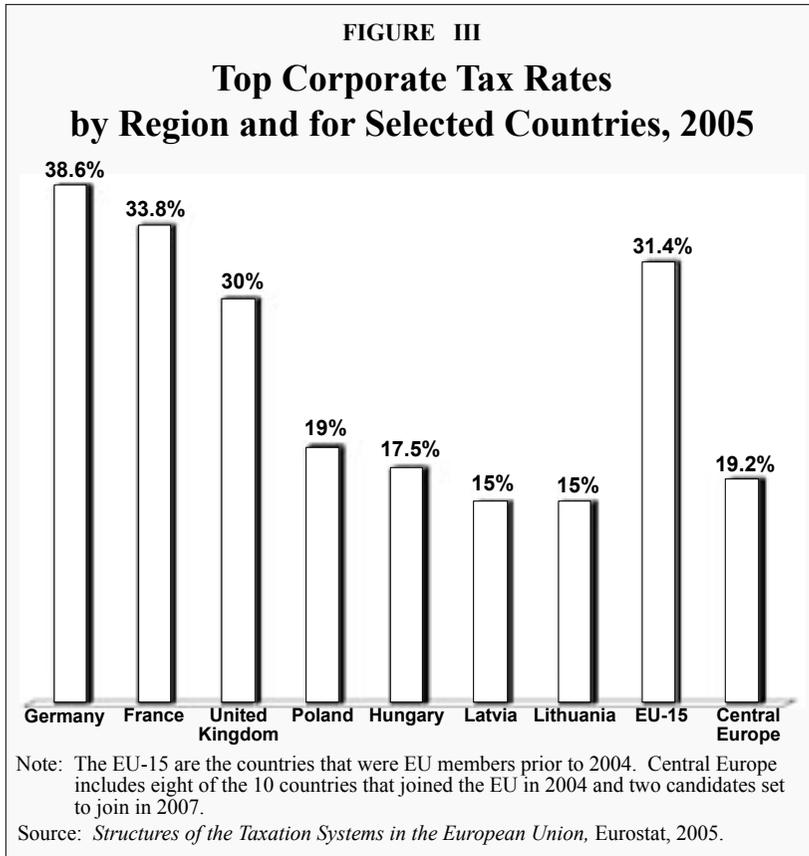
Pro-Growth Economic Policies

The first and in many ways strongest draw for U.S. companies to Central Europe is the widespread free market economic policies of the region's governments. For a U.S. company looking for places in the world to invest, there are few regions where the policy environment is as conducive to making money as Central Europe. At a time when the countries of Western Europe are introducing measures — high corporate tax rates, 35-hour work weeks and corporate defense tactics — that drive away international companies, Central European countries are doing the exact opposite, implementing measures like the flat tax and government incentive packages that are intentionally aimed at attracting and retaining foreign (and especially American) investment.¹²

Low Taxes. Low taxes have been a pillar of economic policy in Central Europe. For countries attempting to discard a system which rested above all else on the principle of a confiscatory public sector, the implementation of a liberal fiscal policy agenda represented perhaps the single most important symbol of national recovery and integration into the Western free market system. It was also very good for business. In the early 1990s, governments in Estonia, Latvia and Slovakia began experimenting with flat corporate tax rates as a way of luring Western companies eastward to shore up the recently-dismantled socialist infrastructure. In the period since, the trend has accelerated, with many Central European countries now operating on a flat tax system. Today, the region offers some of the lowest tax rates found anywhere in the world.

- Even in the two countries with the highest taxes in the region — the Czech Republic at 26 percent and Slovenia at 25 percent — current rates are still lower than in most of Western Europe.
- In Romania, Hungary and Slovakia, the rates are 16, 17.5 and 19 percent, respectively.
- In Latvia, Lithuania and Bulgaria — the three countries with the lowest tax rates in the region — the top effective rate on corporate income is 15 percent.¹³

Overall, the average corporate tax rate in Central Europe is 19.2 percent, compared to 31.4 percent in the EU-15.¹⁴ [See Figure III.] The trend toward lowering the corporate tax burden continues:



- In 2004, Poland cut its top corporate rate from 27 percent to 19 percent.
- In the past two years alone, the Latvian rate has fallen by 10 percentage points.
- In Estonia, there is no corporate tax at all on reinvested profits.¹⁵

Efforts are also underway to lower tax rates in the Czech Republic and Slovenia.

The region's low-tax environment gives it a significant advantage in tax competition, not only when compared to nearby Western European countries, but to many East Asian countries as well — not to mention the United States, where the top corporate income tax rate is 35 percent.¹⁶ For American companies doing business abroad, lower corporate taxes translate into higher profit margins, growth and expansion, which in turn creates more jobs — not just in Central Europe, but in the United States too.

Incentives to Invest. Another example of Central Europe's pro-business mentality is the willingness of the region's governments to offer generous incentive packages to foreign companies that will open shop on their soil. As an increasing number of American businesses are discovering, these packages go beyond the normal range of enticements offered to companies by governments in Western Europe or East Asia. The incentive packages offered to U.S. businesses by Central European countries usually include some combination of tax breaks, job creation grants, worker-retraining subsidies and even free land and buildings.

And while some of the region's countries have now been forced to lighten their offerings to comply with EU regulations, overall their business hospitality is warmer than almost any other region.¹⁷ In the Czech Republic, for example:

- A typical package includes corporate tax relief for up to 10 years, simplified customs procedures, duty-free machinery imports, tax deductions for new equipment, real estate tax

relief, job-creation subsidies for every Czech citizen hired and free worker-training programs.¹⁸

- Additional subsidies are available for companies in the service sector, as well as software, high-tech and research and development firms.
- Poland offers many of the same incentives, as well as reimbursements for everything from social insurance contributions to commuting and accommodation costs for new employees.¹⁹

In addition, Poland and a few other countries in the region offer especially attractive incentives for companies willing to invest in their poorest districts, including outright exemptions from corporate, local and property taxes.²⁰ One notable example of this policy is in Slovakia, where, in an effort to attract a foreign automobile manufacturing plant to one of the country's lowest-income districts, the government went so far as to build schools and a hospital in the candidate city, along with a 26-mile stretch of highway connecting it to the capital.²¹

The desire of many Central European countries to attract American business is so great that companies sometimes find themselves at the center of highly-competitive “bidding wars” in which two or more governments compete to offer the most attractive package of incentives. For example, when the U.S. software engineering firm SEI decided to open an office in the region, it received incentive-laden proposals from three cities: Debrecen, Hungary; Brno, Czech Republic; and Ljubljana, Slovenia. The winning bid went to Debrecen, which provided a job creation grant of \$6,000 per worker per year and an annual training subsidy of \$850 per worker.²² From the standpoint of an American business like SEI, these generous incentive programs — together with the region's low corporate tax rates — give Central European countries a considerable edge over

FIGURE IV
Hourly Wages in Selected Countries
 (in U.S. dollars)

	<u>Middle Manager</u>	<u>Engineer</u>	<u>Accountant</u>	<u>Factory Worker</u>
Germany	\$40.40	\$38.90	\$26.40	\$18.80
Hungary	\$7.44	\$5.09	\$4.62	\$1.96
Czech Rep.	\$6.81	\$5.38	\$4.10	\$2.81
Poland	\$6.69	\$4.32	\$4.03	\$3.07
Slovakia	\$5.48	\$4.15	\$3.37	\$2.21
Romania	\$3.23	\$2.58	\$1.23	\$1.41
Bulgaria	\$2.80	\$1.43	\$0.83	\$0.73
China	\$4.42	\$3.50	\$3.20	\$0.80
India	\$3.13	\$2.40	\$1.93	\$0.43

Source: Compiled by Ariba Inc. and quoted in *Business Week*, December 12, 2005, page 51.

their competitors in other parts of the world and make the region an ideal place to invest.

A World-Class Workforce

A second ingredient in Central Europe's recipe for economic success — and a major reason for its attractiveness to American businesses and importance to the U.S. economy, more generally — is the availability of an inexpensive, highly-skilled and entrepreneurial-minded workforce.

Affordable Labor. The low cost of labor in Central Europe is one of the leading factors prompting U.S. companies to invest in the region. In virtually every profession, from factory workers to engineers, wages are significantly lower in Central Europe than in the United States or Western Europe — and in some cases, even lower than in China or India. For example:

- A Hungarian factory worker earns about \$2 an hour, compared to almost \$19 an hour for the same position in Germany.²³ [See Figure IV.]

- A Bulgarian engineer earns \$1.43 an hour, compared to almost \$39 an hour for his counterpart in Germany and \$3.50 an hour in China.
- A Romanian accountant makes \$1.23 an hour, compared to \$26 in Germany and \$1.93 in India.

The American company SEI pays workers at its Hungarian branch about \$8,000 a year, whereas pay for workers in the United States or Western Europe would be probably five to seven times that amount.²⁴ Looking forward, wages are likely to stay low across the region for decades to come. By 2020, according to the United Nations Conference on Trade and Development, Central European wage rates will still be 50 percent to 70 percent lower than wages in Western Europe.

Skilled Labor. Central European workers are not only more affordable than their Western European counterparts, they also tend to be better educated. Owing largely to the high quality of its public education system — one of the few contributions of the socialist system — workers in the region are, as one commentator put it, “good for much more than assembly.”²⁵ In fact, taken as a whole, the Central European region produces more college graduates each year than most of their Western neighbors — especially in vital fields like math and engineering.²⁶ For instance:

- In 2003, the region’s universities turned out 41,000 graduates with degrees in science, math and computing, and 97,000 graduates with degrees in engineering, manufacturing and construction — compared to 29,000 and 52,000, respectively, in Germany.
- Across all disciplines, Poland produces 460,000 new university graduates every year — one of the highest rates in the world.²⁷

Significantly, a high proportion of these graduates speak English. According to data from the European Commission, English is the

most frequently studied foreign language in Central European secondary schools, with rates as high as 86 percent in Estonia and 88 percent in Slovenia and Romania. By comparison, German — the language of these countries' closest Western neighbor — rarely attracted more than 50 percent of pupils, while almost none chose to learn French.²⁸

Entrepreneurial Spirit. While low wages and high education rates are important to U.S. companies investing in Central Europe, the quality that most distinguishes the region's workforce from those elsewhere is the ambitious, entrepreneurial spirit of its people.²⁹ Due in large part to the long economic hibernation imposed by communism, Central Europeans seem to understand and embrace the capitalist work ethic to a fuller extent than Western Europeans and even many Americans.

One measure of their attitude toward work can be seen in the rate at which they are creating new businesses. As a recent German study found, people in the region — thanks in part to low regulatory burdens — are starting businesses at a rate that outpaces most other parts of the globe. In fact, one Central European country — Hungary — even outranked the United States in this area, placing third in the world behind New Zealand and India.³⁰ But perhaps the clearest measure of the region's work ethic can be seen in how many hours they spend working. At a time when the average German works about 1,400 hours a year and the average American works 1,800, Central Europeans are clocking in at an average of just under 2,000.³¹

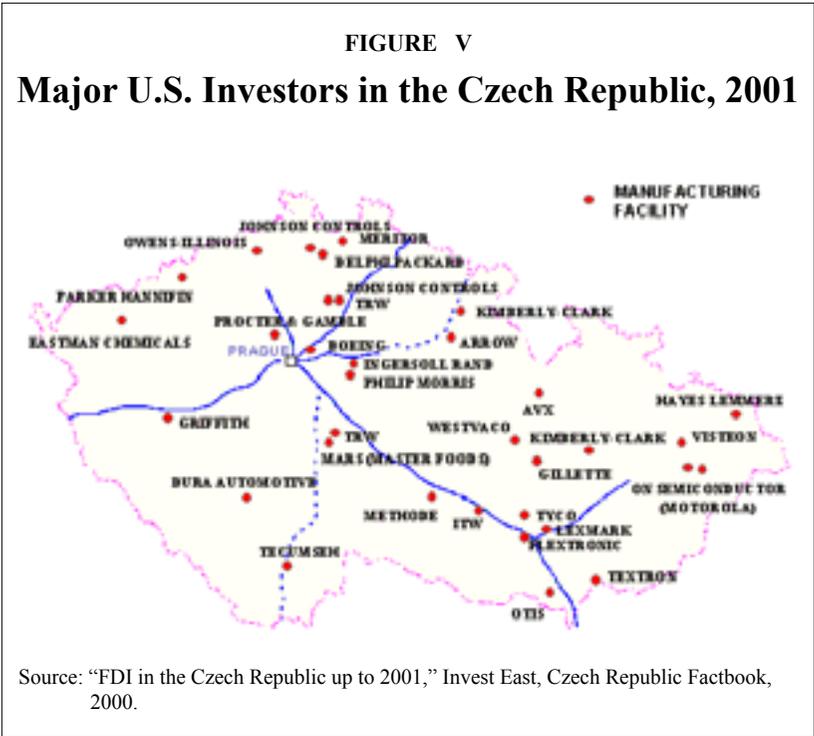
A Hub for U.S. Businesses in Europe

Looking forward, Central Europe is likely to be a vital resource for the United States — both as a source of labor and a growing market for American products. But the region is also economically important to America for another reason — its proximity to markets in other regions. Looking at a wall map in the boardroom of a U.S.

supply chain company, Central Europe is, well, central. In fact, in logistical terms, it would be hard to find a place that is better suited geographically to the role of commercial hub as Central Europe.

- To the west, 459 million European consumers live in an area smaller than the United States — most of which can be covered in a day’s truck ride from Prague.³²
- To the east lie the emerging markets of Russia, Ukraine, Belarus, Georgia and Turkey — representing a combined population of around 280 million consumers.

As Ronald Weiser, the U.S. Ambassador to the Slovak Republic recently said, “It is a lot easier to sell products to people in Kiev from your office in Krakow, Bratislava or Budapest than it is from Kansas.”³³ One might add that the distance between these Central European cities and their wealthy neighbors in Western Europe has grown considerably smaller in the wake of their accession to the



EU, which created a consistent legal and administrative framework and made cross-border shipping easier than ever before.³⁴

In addition to the obvious advantage that the region offers U.S. companies in transporting goods to nearby markets, Central Europe's geographic position also makes it a key location for companies doing business in the rapidly expanding service sector, which now makes up about 70 percent of the U.S. and European economies. An IBM customer support center in Hungary, for example, can provide service to consumers in Germany or Sweden — or for that matter, New York — easier than a call-in center in India. Part of the reason is that Central Europe is only separated from Western Europe by one time zone and from the U.S. East Coast by seven — compared to 10 from India. But another part of the reason is that their cultural similarity to the West makes it easier for Western Europeans and Americans to interact and do business with Central Europeans than with Indians or Chinese.³⁵

Central Europe: Good for the U.S. Economy

In sum, the economies of Central Europe possess a number of special attributes — a pro-business policy environment; an affordable, well-educated, entrepreneurial-minded workforce; and a central geographic location — that distinguish the region, not only from its Western European neighbors, but also from emerging giants like China and India. This has significant implications for American businesses, the U.S. economy and the future of the U.S. economic model more generally.

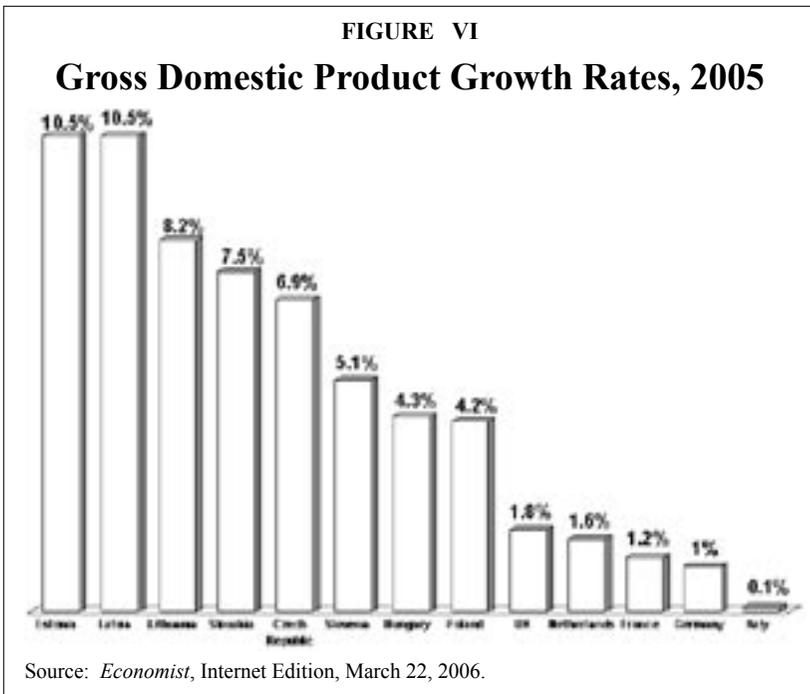
Good for U.S. Businesses. From the standpoint of American companies, the unique combination of factors present in Central Europe makes it one of the world's most profitable places to invest — a fact attested to by the number of U.S. businesses operating in the region:

- In Poland in 2004, there were 118 top American companies, with \$6 billion in total capital invested.³⁶

- In the Czech Republic, American companies — including Conoco, Philip Morris, Citibank, Procter & Gamble and Pepsi-Cola — had invested \$2.2 billion by 2004. [See Figure V.]
- In Hungary, the United States contributes a third of the country's total foreign investment, with major American companies like General Electric, Bristol-Myers Squibb, Coca-Cola and General Motors leading the charge.³⁷

Altogether, Americans invested \$2.6 billion in the Central European region in 2004. This figure is significantly lower than the amount of U.S. capital invested in Western Europe in the same year (about \$90 billion), but more than Americans invested in India.³⁸ However, as the economic stability of the region increases (post-EU enlargement) and its purchasing power grows, so too does the willingness of U.S. companies to invest there. The result is that American capital is flowing into the region at an historic rate. Between 2000 and 2004, U.S. FDI increased by 56 percent in Poland, 71 percent in Hungary, 78 percent in the Czech Republic and 75 percent for the region as a whole.³⁹ Much of the latest growth in U.S. investment has come in the so-called “knowledge sectors” — software, computer engineering and high-tech research and development. Lured by the region's growing output of skilled graduates, U.S. technology companies are funneling into Central Europe in ever-growing numbers. In Poland alone in 2005:

- Hewlett-Packard announced plans to invest \$54 million in the construction of a new 1,000-employee information technology (IT) outsourcing center.⁴⁰
- LG Philips announced plans for a \$430-million, 3,200-employee plant to build flat screen TVs.
- IBM announced that it would construct a new 200-employee software development lab in Krakow.⁴¹



Similarly, in the Czech Republic, the influx of U.S. technology firms is transforming Prague into one of Europe's leading technological centers, with investments in software development rising by 150 percent in 2004. But growth is not restricted to the high-tech field; the numbers are climbing in manufacturing as well. Indeed, Americans may be surprised to find just how many of their favorite products — from washing machines to toilets — are made in Central Europe.⁴²

Good for American Workers. In all of these areas, Central Europe is more important to U.S. companies than ever before, generating billions of dollars in new revenue every year. However, the region's significance goes beyond its capacity to bolster the profit margins of major corporations; it is also good for American workers and the national economy as a whole.

Contrary to the claims of outsourcing critics, the ability of American companies to hire overseas labor at a cheaper rate rep-

resents a major boon for the economy. The reason is simple: By tapping into Central Europe's comparative advantage in labor, the United States is able to specialize in the areas where it operates most efficiently — like technological innovation and starting new businesses — which allows for greater productivity (and wealth creation) on both ends.⁴³

For example, if a new American software company did not have access to low-wage software coders in Hungary and Romania and was forced to rely on higher-wage coders in the United States, overall start-up costs would be considerably higher, reducing the likelihood of starting the business to begin with.⁴⁴ Thus, cheaper labor in Central Europe means that more companies are likely to be created in the United States, which translates into more American jobs. In addition, more U.S. capital flowing into the region means that Central Europeans earn higher wages, which in turn stimulates economic growth and boosts local purchasing power, creating new markets for U.S. goods and therefore more jobs back in the United States.

Good for Europe's Economy. While the revenues that Central Europe generates for U.S. companies and the jobs that it helps to create for American workers contribute significantly to the U.S. economy, perhaps the region's greatest economic benefit to the United States lies in its potential ability to impact the economic future of its Western European neighbors. For years, Western European economies have languished under protectionist, high-tax policies that impair private-sector job and wealth creation:

- EU countries have not created a single, net private-sector job since 1970, compared to 50 million jobs added in the United States, according to a recent report from the Organization for Economic Cooperation and Development (OECD).⁴⁵

- Since the early 1990s, unemployment in Western EU countries has averaged 11 percent, compared to 4.8 percent in the United States.
- As a result, per capita GDP in many of the largest Western European countries has fallen to levels below where it stood in the 1970s.

Unless it changes course, Western Europe is headed for economic decline. In fact, at the current rate, a recent French study predicts that the EU's share of the world economy will fall from its current level of 22 percent to 12 percent by 2050.⁴⁶ During that same period, its GDP growth rate will level out at 1.1 percent, while GDP growth in the United States and China reaches 2.3 percent and 2.6 percent, respectively. The report also predicts a widening distance between the United States and EU in technology and capital accumulation. Overall, if present trends continue, the report predicts that, "the EU will weigh less heavily on the process of globalization and a slow but inexorable movement onto history's exit ramp is foreseeable."⁴⁷

By comparison, recent economic performance in Central Europe has been marked by steady growth:

- The average Central European GDP growth rate in 2003 was 4.93 percent — more than triple the 1.37 percent average in Western Europe.⁴⁸
- The largest Central European member of the EU (Poland) has enjoyed higher growth rates than the largest Western member (Germany) for each of the past nine years, and had a GDP growth rate of 4.2 percent in 2005.⁴⁹ [See Figure VI.]
- In 2005, labor productivity growth in Western Europe was a disappointing 0.5 percent, compared to 6.3 percent in Central Europe.⁵⁰

To be sure, Central European economies have problems of their own — especially high unemployment, poverty and excessive public debt — and by no means offer a cure-all for Europe’s economic problems. However, the extent to which the EU is able to reverse its downward economic spiral may depend on the effort that Western European countries make to imitate the pro-business, pro-growth economic policies of Central Europe.

From an American perspective, any movement in this direction would be beneficial. The reason is that the gradual deterioration of the EU economy is harmful, not only for Europe, but for the United States.

- A recent trade report pointed out that “more than twelve and a half million Americans and Europeans owe their livelihoods directly to the \$2.5 trillion transatlantic commercial relationship.”⁵¹
- For the past decade, Europe has accounted for half of the total earnings of U.S. companies.
- Nearly three-fourths of all foreign investment in the United States comes from Europe.

As a result of U.S.-European economic interdependence, policies implemented on one side of the Atlantic usually have consequences on the other side. The higher the corporate tax rate in Europe, the less profit a U.S. business makes. In general, the more the United States and EU share a pro-free market policy agenda, the less likely they are to be drawn into economic and even geopolitical conflict.

While serious efforts at reforming Western European economies have so far failed to bear fruit, many economic analysts believe that a fundamental shift away from the European social market model in favor of more liberal economic policies (like those found in Central Europe) is inevitable.⁵² Already, many Western European countries

have begun to adopt policy changes which — though incremental — signal they are taking notice of the Central European example. Both Austria and Germany have reduced their corporate tax rates to make their economies more competitive with the new powerhouses of the East.

Clearly, the United States has a vested interest in seeing this process continue. Ultimately, the economic importance of Central Europe to America may lie in its ability — through strong economic growth, jobs and wealth creation — to provide a powerful counter-example that galvanizes Western Europe into reform. Doing so will require these countries to persist in their pro-market economic policies against the occasional pressure of Western European governments. If they are able to succeed and ensure that the economic influence in Europe flows from East to West and not West to East, both the United States and Europe as a whole will be better off in the end.

II. Sharing the Burden: Why Central Europe Matters to the United States Militarily

When the United States invaded Iraq in the spring of 2003, it received the public support of all 10 countries in the Central European region. In the months that followed, nine of these countries — Poland, Hungary, the Czech Republic, Slovakia, Estonia, Lithuania, Latvia, Bulgaria and Romania — sent troop contingents to the war zone. In January 2006, the tenth — Slovenia — announced plans to do the same.⁵³ Altogether, these Central European troops make up a third of all non-American coalition forces in Iraq, providing an invaluable component of the U.S. Army's war-fighting and peacekeeping activities in the country.

Despite the scale of their contribution to the war effort and the fact that 37 of their soldiers have now been killed in action, the presence of Central European forces in Iraq has attracted little attention in the United States.⁵⁴ While Americans have grown accustomed to the sight of British troops fighting alongside the U.S. military, many are surprised to see this role being played by militaries which, until recently, were adversaries of the United States. Leaving aside questions about the wisdom or legitimacy of the Iraq War, the fact is that Central European countries undertook enormous risks in supporting the United States during a time of crisis.

As the battles around Basra and Baghdad have shown, Central Europeans are emerging as some of America's most important military allies — members of a steadily-shrinking circle of European countries still willing to stand alongside American troops in battle. As such, their significance to Washington extends well beyond the material support provided in Iraq. In the years ahead, Central European countries are likely to play a pivotal role in America's regional and international security strategy in three vital areas as: 1) a source

of professional, well-trained troops capable of joint expeditionary deployment with U.S. troops, 2) geographically-important sites for the forward deployment of American forces, and 3) potential hosts of the U.S. Ballistic Missile Defense System.

Willing and Capable Allies

The recent performance of Central European militaries — all of which are members of NATO — has demonstrated their ability to do what many Western European countries are no longer capable of doing: deploy advanced military assets to far-flung theaters of operation in support of U.S. forces. When combined with the pro-American political disposition of most of the region's governments, Central Europe's growing military competence puts its countries in



a unique position to assist the United States in meeting overseas military challenges. The benefits of this emerging reality for America are already on display in Iraq. They are likely to grow more pronounced in the years ahead, as Central European militaries continue on their current path of reform and modernization and become better-equipped to share the burden with the United States.

Making a Difference in Iraq. Most Americans would probably be surprised to learn the extent of Central Europe's contribution to America's effort in Iraq. At the beginning of 2005, there were about 6,000 Central European soldiers serving in Iraq.⁵⁵ Of these, roughly half were Polish, making this country the largest continental-European contributor to the war and the third largest overall behind the United States and Britain.⁵⁶

Due to the size of its troop contingent, Poland was placed in command of the Multinational Division Center-South — one of the four administrative sections into which Iraq was divided after the invasion. This 31,000-square-mile tract of land (a quarter of the size of Poland) stretches from the Iranian border in the north to Saudi Arabia in the south, encompassing four Shiite Muslim provinces south of Baghdad that center on the now-infamous holy city of Najaf. [See Figure VII.] The fact that the U.S. military gave the Poles custody of such a vital region is a testament to their proficiency as soldiers and administrators.

Though small in comparison to U.S. troop numbers, the Central European contingents have demonstrated a high degree of specialization, skillfully exploiting a number of vital niche capabilities:

- Polish troops excel in special operations. In the very first operation of the invasion, the elite GROM unit seized the port city of Umm Qasr — a strategically-placed Persian Gulf shipping facility without which the coalition would not have been able to deliver humanitarian aid and supplies to the rest of the country.⁵⁷

- A second Polish specialty is peacekeeping — a skill they have honed over the years in deployments to Bosnia, Haiti, Lebanon, Cypress and elsewhere.⁵⁸ In recent months, they have been engaged in the critical task of training Iraqi security forces.
- The Czech military possesses special expertise in chemical warfare. During the opening stages of Operation Iraqi Freedom, the 460-man joint Czech-Slovak chemical warfare battalion monitored incoming Iraqi Scud missiles for chemical weapons agents, thereby protecting coalition forces and civilians alike against contamination.⁵⁹
- Estonia's small contingent of light infantry is highly skilled in reconnaissance and guerilla warfare, earning high praise from U.S. commanders for its ability to ferret out large weapons caches, as well as its adeptness at gathering intelligence in the rough neighborhoods of western Baghdad.⁶⁰

By focusing their energies on these highly specialized and much-needed tasks, the Central Europeans are able to compensate for the small resources at their disposal and add a greater overall value to coalition efforts than their numbers would suggest. This provides three tangible benefits for the United States:

- First, it reduces the demands on the U.S. garrison, freeing up troops — by one count, as many as 10,000 — to concentrate on the types of missions they do best, like large-scale offensives.⁶¹
- Second, it reduces the financial burden that the occupation places on the United States. The Polish contribution alone — roughly \$600 million a year — has so far saved American taxpayers about \$1.8 billion.⁶²
- Third, and perhaps most importantly, by adding a non-American face to the occupation, the Central European presence bolsters the legitimacy and effectiveness of the

overall mission in Iraq. Having experienced the effects of foreign occupation firsthand, Czechs, Poles and Estonians are more sensitive to the psychology of the local populace and have gained enormous popularity within their sectors.⁶³

Beyond Iraq. Clearly, Central European countries — most notably, Poland — have made an indispensable contribution to the U.S.-led invasion and subsequent reconstruction of Iraq. However, for American defense planners, the military significance of these countries extends beyond the impact they are making in this particular campaign. In the current geostrategic environment, it is becoming more and more obvious that the United States has neither the ability nor the inclination to shoulder the full burden of providing global security and stability. Whether it takes the form of a Middle Eastern war, a humanitarian disaster in the Horn of Africa or a tsunami in the Pacific, crises emerge on an almost annual basis which require the involvement of the U.S. military. With the tempo of American troop deployments already pushed to the max by Iraq and Afghanistan, these perennial challenges threaten to over-stretch the resources of an already heavily-burdened U.S. military establishment.⁶⁴

As some of the few forces in the world that are capable of joint deployment with U.S. forces, Central European militaries represent an important resource for the United States in responding to future crises. This is especially true of the Polish armed forces, which undertook fundamental internal reforms as part of the country's accession to NATO. The Polish military is currently implementing far-reaching changes aimed at improving its readiness for the kinds of asymmetrical threats envisioned in the 2006 U.S. Quadrilateral Defense Review. In so doing, Warsaw is gradually bringing the structure, doctrine and technology of its forces into lock-step with those of the 21st-century American military. This process will be further accelerated by continued exposure to American forces

and equipment in Iraq and other future joint deployments, by the integration of Polish forces into the U.S. battlefield command and control system, and — hopefully — by U.S. military modernization assistance.

Through this process, the Polish army — like that of the British — is developing a grasp of advanced modern war-fighting methods. In both logistical and tactical terms this is a far cry, not only from the cumbersome, armor-heavy Warsaw Pact military doctrines of the Cold War, but from the resource-starved parochialism that pervades the militaries of most of their Western neighbors. This sets the Poles apart as one of a very small number of militaries that are capable of interfacing effectively with the rapidly evolving U.S. military in expeditionary operations.⁶⁵ In the years ahead, Poland therefore has the potential to become a kind of “second Britain” — a close ally possessing a highly professional military that is a skilled, reliable partner to U.S. service personnel in times of emergency.

A Base for Forward-Deployed U.S. Forces

In addition to Central Europe’s importance as a source of well-trained allied forces, the Iraq War also highlighted the military significance of this region in another way: as a potential forward base of operations for U.S. forces in the Middle East and Central Asia. Currently, the United States has about 62,000 troops in Europe — most of which are stationed in Germany.⁶⁶ However, as the Iraq War demonstrated, the usefulness of these bases to the United States is diminishing as the center of gravity in military operations shifts eastward and the political reliability of Germany and other Western European governments during times of crisis is increasingly in doubt.

In response to this emerging reality, the Pentagon made the decision to shift the U.S. military presence in Europe eastward. The plan — part of a larger blueprint for the redeployment and reduction of U.S. military force levels worldwide — envisions the

gradual transfer of five armored brigades from their current location in Germany to new bases in Central Europe:

- In Romania, the United States has signed a deal that will allow the stationing of American troops in two strategic locations: the Kogalniceanu airfield (near the Black Sea port of Constanta) and Fetesti, a city 124 miles east of Bucharest.⁶⁷
- In Bulgaria, an agreement has been reached for the use of the Bezmer airfield and the Novo Selo firing range, which is situated near the southern border with Turkey.

Once operational, these four new U.S. installations in Romania and Bulgaria — together with Poland’s Krzesiny military base — will constitute the first permanent American military presence in former Warsaw Pact countries and will be the backbone of the U.S. Army’s new Eastern European Task Force.⁶⁸ This force will eventually consist of “a self-contained and rotational Brigade Command Team (BCT),” which will deploy “in and out of several [Central European] locations.”⁶⁹ With it will come “command and control components, training facilities, pre-positioned stocks of heavy equipment, and power projection infrastructure.”⁷⁰

For nearby residents, these new bases are seen as a godsend, bringing desperately needed Western capital and jobs to local economies.⁷¹ For the U.S. military, this new arrangement offers at least five distinct advantages over the current Germany-centered base structure:

- First, as Janusz Bugajski has pointed out, the new bases — which are closer to potential hotspots than any other permanent U.S. military installations — would provide the United States with greater strategic flexibility.⁷² From their positions on the Black Sea in Romania, American forces will be 1,000 miles closer to Baghdad than they were at the Patton Barracks in Heidelberg, Germany. This proximity

to the Middle Eastern/Mediterranean “arc of crisis” makes Central Europe a pivot point for deploying forces in pursuit of America’s global strategy in the War on Terror.

- Second, unlike current U.S. bases in Germany, the new ones in Romania and Bulgaria are located in countries that are likely to back the United States in future international crises. This will help to ensure that, in the event of a politically-contentious conflict, the movement of U.S. forces is not inhibited by diplomatic constraints — as it was by Turkey during the Iraq War.
- Third, the new bases will save the United States money. Currently, the Pentagon spends \$7 billion a year maintaining 26 installations in Germany.⁷³ As part of the eastward redeployment, most of these are likely to be closed (Ramstein Air Force Base will remain). When combined with other base restructuring in East Asia, this reduction in the American military’s European footprint will save U.S. taxpayers almost \$50 billion over the next 20 years.⁷⁴
- Fourth, the new bases will facilitate the U.S. military’s movement toward a leaner, nimbler overseas troop presence. Known as “lily pads,” the installations in Romania and Bulgaria (and later Poland) are part of a new deployment model aimed at bringing U.S. forces to bear more rapidly than was possible under the old Cold War-era base structure. One of the most obvious benefits this new approach brings for the United States will be the reduction in the number of U.S. forces in Europe — from 62,000 to 24,000 troops.⁷⁵
- Fifth, U.S. troops will have access to better training facilities in Central Europe than they had in Germany, which has little available space for large-scale maneuvers. Access to these training grounds will enable U.S. forces deployed to

the European theater to maintain a high readiness status without having to return to the United States for large exercises. By training alongside one another, U.S. and regional forces will also achieve a higher level of interoperability, increasing the preparedness of Central European forces for future conflicts.

In the years ahead, these bases will play a crucial role in ensuring that U.S. forces — along with their Polish, Romanian and Bulgarian allies — are able to respond rapidly and decisively to crises that threaten mutual national interests.

A Shield for America

In addition to joint deployments and strategic U.S. military bases, a third facet of the U.S.-Central European military relationship — cooperation on the U.S. Ballistic Missile Defense System — has the potential to benefit the United States at an even more profound level: the protection of the American homeland itself.

For more than 20 years, the United States has been working to develop a ground-based missile defense system capable of intercepting and destroying airborne missiles en route to the United States and its allies. In order to operate effectively, this evolving technology requires not only missile stations in the continental United States, but forward-deployed radar and interceptor sites situated as close as possible to potential launch sites. To protect America's West Coast and Asian allies, the United States has the advantage of being able to augment its California-based silos with batteries in Alaska and sea-borne interceptors placed on Aegis cruisers in the Sea of Japan and North Pacific.⁷⁶ To protect America's East Coast and NATO allies, the United States needs to build sites somewhere in Europe. However, to date, few Western European governments have been willing to host the system.⁷⁷ France and Germany are adamantly opposed to construction of the system, not only on their own soil, but on the territory of other EU member states.

Until it finds a way to plug this gap in the missile defense system, the United States will not be able to extend its umbrella to cover the Eastern seaboard.⁷⁸ This is where Central Europe comes in. In 2004, the United States began negotiating with four potential host countries — Poland, the Czech Republic, Hungary and Romania.⁷⁹ At present, the most likely sites for the construction of the system will be in Poland:

- In November 2005, Poland's newly-elected, center-right government publicly expressed its willingness to host the U.S. anti-missile stations.
- As part of a proposed agreement, the United States would have access to locations for two to three radar sites and at least one interceptor site in the mountains of southern Poland.
- Already, Lockheed Martin and Boeing — the American companies developing the anti-missile technology — have signed Memorandums of Understanding with PIT, Poland's leading defense electronics company.⁸⁰

If approved, the new sites — which would be completed sometime between 2008 and 2010 — would make Poland the host to the largest number of U.S. missile defense sites outside the United States.⁸¹

While a number of technological and political issues remain to be resolved, Poland is so far the only major continental-European state to express a desire to provide permanent bases for the missile defense system.⁸² If constructed, the Polish sites would present the United States with a number of important benefits. Most importantly, the new missile bases would provide coverage for Europe and the United States from two distinct missile threats: an intentional launch from a rogue state in the Middle East or North Africa and an accidental launch — most likely from Russia or a former Soviet satellite state in Central Asia.

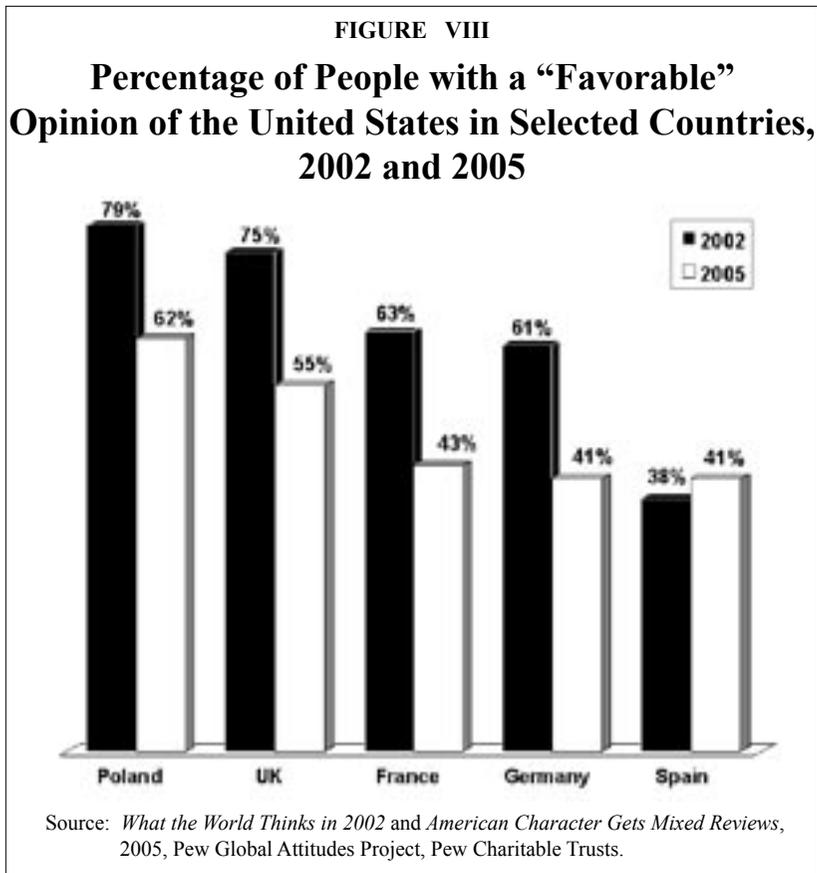
- An intentional launch is an ever-growing threat to the United States as a result of the fragmentation of command and control structures and proliferation of Soviet-era weapons systems, the spread of Islamic radicalism and the failure of the Nuclear Non-Proliferation Treaty (NPT).
- An unintentional launch could involve Russian missiles fired in error as a result of Moscow's decaying early-warning system.⁸³
- In both cases, Poland's geographical proximity to the regions in question makes it ideally-suited to performing the critical "third stage" of missile defense, which involves the initial detection and interception of a hostile missile during the vulnerable boost phase following launch.⁸⁴

In the not-so-distant future, the security of millions of American citizens — not to mention Western Europeans — may come to rest at least partially in the hands of Poland and other Central European countries. As in other areas of military cooperation, the main benefit that accrues to the United States through cooperation on missile defense is strategic flexibility. In much the same way that the presence of Polish troops in Iraq and the availability of Romanian bases on the Black Sea enhance America's ability to project *offensive* power, the opportunity to construct anti-missile bases in Poland enhances America's *defensive* capacity. Together, these two components help to create a more credible deterrence to aggressor states and substantially bolster Washington's effectiveness as a regional and global power.

III. Swinging the Balance: Why Central Europe Matters to the United States Geopolitically

In a recent article about U.S.-Central European relations, former U.S. Deputy Assistant Secretary of State for Europe Ronald Asmus described a political cartoon whose caption read, “Eastern Europe — Isn’t that where the wars start?”⁸⁵ The cartoon, which appeared in an American newspaper in the early 1990s, accurately sums up the pivotal geopolitical role that Central Europe has played in recent history as a tinderbox for regional — and even global — conflict. In the past century alone, Central Europe has served as the flashpoint for three major wars — two hot and one cold — each of which required the deployment of large numbers of U.S. troops to Europe.⁸⁶ For most of the second half of the 20th century, Central Europe was therefore a key focal point of American geopolitical thought — the one region in the world where the next world war seemed most likely to begin.

By contrast, since the end of the Cold War, Central Europe’s geopolitical importance has diminished greatly, and the region seems to rank as one of the least significant for analysts to consider in mapping future global trends. With the collapse of the Soviet Union and Central Europe’s absorption into key Euro-Atlantic institutions, the region is safer and more prosperous than at any point in its history. War is no longer a realistic possibility in the region. From an American perspective, Central Europe is no longer a zone of potential conflict; nor do its countries possess the size or wealth to be considered first-rank allies like Germany, Britain or France. As a result, the focus of U.S. foreign policy has shifted to regions and states that qualify as either serious threats or major partners.



However, the region’s geopolitical importance to the United States is greater than it may appear at first glance — and is steadily increasing.

Geographically, Central Europe sits at a crossroads between three regions — Western Europe, Russia and the Middle East — that are critically important to American economic and strategic interests. Standing on the ground in Sofia, an American diplomat is less than a thousand miles from the West Bank and barely 1,300 miles from Baghdad; from Warsaw, he is less than a thousand miles from four of the world’s seven great powers.⁸⁷

Politically, the countries of the region are among the most pro-American in the world — a fact which, by itself, makes them

a valuable resource for U.S. policymakers confronting the challenges of an increasingly multipolar world.

Together, with their steadily expanding economic portfolios, growing capacity for military power projection and new-found role in major Western institutions, these geographic and political factors make Central European countries increasingly important allies for the United States — not only in regional affairs but in the wider international arena. In the years ahead, the region's countries — especially medium-sized powers like Poland and Romania — are positioned to play a significant role in advancing U.S. interests in at least three vital areas: 1) as a pro-American caucus within the EU, 2) as key partners in the spread of stability and democracy to Eastern Europe and Central Asia, and 3) as allies in the wider international arena.

A Pro-American Caucus in the EU

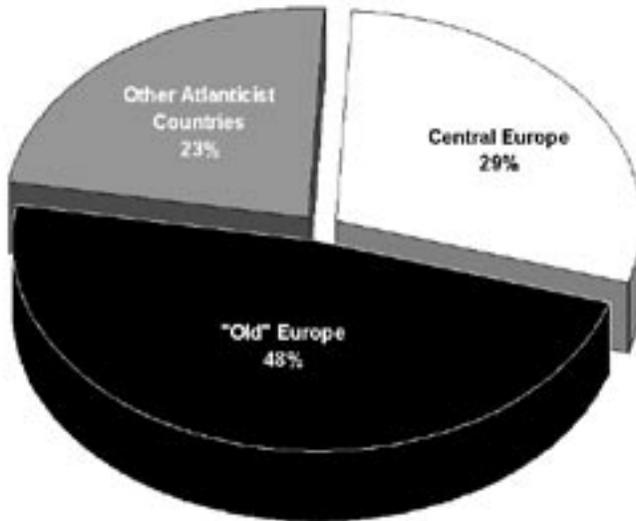
The geopolitical area in which Central Europe is perhaps most important to the United States is its potential ability to influence the policies of the EU. For years, American policymakers lobbied the EU to allow the Central Europeans into the club. These efforts — which culminated in the May 2004 enlargement of the EU — have produced a political and economic bloc that extends from the Atlantic Ocean to the Carpathian Mountains (and will soon stretch all the way to the Black Sea).

- With a population of 455 million, and a combined GDP of \$12.5 trillion, the post-enlargement EU is the world's second largest economy and America's biggest trade partner.⁸⁸
- Despite the recent setback of French and Dutch rejection of the proposed EU constitution in popular referendums, the EU still has the ability to substantially reinforce or undermine U.S. interests across a range

of important issues — from commercial aircraft and agricultural subsidies to software patents and arms sales to China.

From an American perspective, much therefore depends on the direction the EU takes — both in terms of its attitude toward the United States and its internal economic and political complexion. In both areas, the accession of the 10 new Central European member states to the EU augurs well for the United States.⁸⁹ As some of the most pro-American and pro-free market countries in the organization, the new Central European member states may help prevent the EU from taking a turn down either of two equally undesirable geopolitical paths: rivalry with the United States or decline into relative weakness and isolation from world affairs.

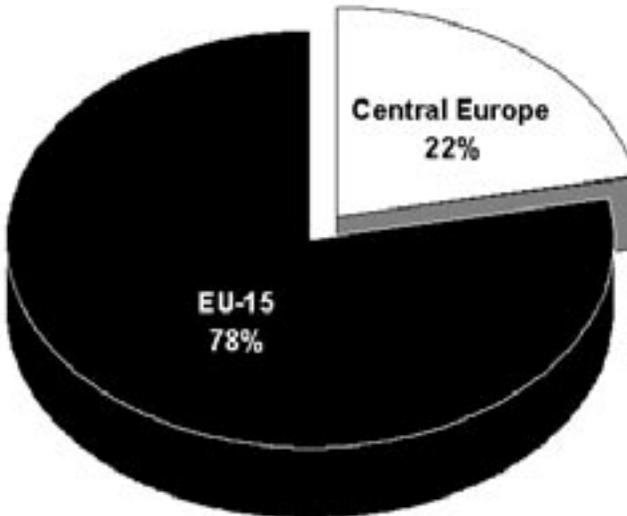
FIGURE IX
Voting Strength of New Europe
in the European Council



Notes: Atlanticist countries are traditional U.S. allies — Britain, the Netherlands, Italy and Denmark. "Old" Europe is the 11 other members of the EU prior to 2004.

Source: *Treaty of Nice in Perspective, Volume I* (British Management Data Foundation, 2001).

FIGURE X
European Union
Population by Region, 2001



Note: The EU-15 are the countries that were EU members prior to 2004. Central Europe includes eight of the 10 countries that joined the EU in 2004 and two candidates set to join in 2007.

Source: Based on *Treaty of Nice in Perspective, Volume I* (British Management Data Foundation 2001).

Preventing Trans-Atlantic Rivalry. Since the earliest days of the EU project, there have been advocates of using the organization to construct a European “counterweight” to American power — a so-called “third force” in world politics capable of standing up to the United States and advancing a purely European interest:

- In France — the most often-cited example of anti-U.S. posturing — the government has long been publicly committed to positioning the EU as a “major pole of equilibrium” in world politics capable of counterbalancing the United States.⁹⁰

- In Germany, a number of leaders have sought to align the country's foreign policy with that of France on major international issues and, to quote former Chancellor Gerhard Schroeder, establish a "more integrated and enlarged Europe to offset U.S. hegemony."⁹¹
- Both France and Germany have sought to establish strategic links between the EU and Russia and China. The French government has hosted "strategic talks" with these two powers on an almost annual basis for more than a decade, usually producing joint communiqués that proclaim their common goal of creating a "new world order" with explicit "power centers besides the U.S."⁹²

In the past, these efforts have been sporadic and largely ineffectual, occasionally assuming an operative quality. But as America's global influence has grown since the end of the Cold War, anti-Americanism in Europe has intensified, gradually taking the form of broad-based opposition to U.S. policies.

- In recent years, the EU has challenged the United States on a range of international policy issues, from genetically modified foods and steel tariffs to the Anti-Ballistic Missile Treaty, International Criminal Court and Kyoto Protocol.⁹³
- The culmination of this trend came in the spring of 2003, when France and Germany — together with a handful of smaller Western European states — formed an informal coalition with Russia in an effort to thwart the U.S.-led war in Iraq.

In contrast to prevailing Western European views, the countries of Central Europe are largely pro-American in outlook and tend to be supportive of U.S. foreign policy initiatives. This Atlanticist orientation stems in part from America's historical role as the champion of Central European democracy and self-determination and

as the only major power never to have posed a threat to any of the countries of the region.⁹⁴

One measure of the depth of this pro-American sentiment can be seen in the fact that the public approval rating of the United States has traditionally been higher in Poland — at nearly 86 percent in 2000 — than in any other European country, including Great Britain.⁹⁵ Although U.S. popularity has declined worldwide, it is still relatively higher in Poland than in other EU nations. [See Figure VIII.] In light of America’s popularity in the region, it came as little surprise when all 10 Central European countries defied France and Germany to publicly support the United States during the Iraq War:

- In February 2002, the region’s three largest countries — Poland, the Czech Republic and Hungary — signed a letter backing the United States’ decision to invade Iraq.⁹⁶
- A week later, a second letter of support was signed by the so-called “Vilnius Ten” — consisting of the seven additional Central European countries (Estonia, Latvia, Lithuania, Slovakia, Slovenia, Bulgaria and Romania) plus southern neighbors Croatia, Macedonia and Albania.
- All 13 countries maintained their position in spite of heavy pressure from Western European countries for them to reverse course, including admonitions from French President Jacques Chirac to “keep quiet” and veiled threats that the countries — eight of which were about to be absorbed into the European Union — would either be prevented from joining the EU or deprived of future EU financial assistance.⁹⁷
- And — as we have seen — all 10 Central European countries backed up their diplomatic statements with action by sending troop contingents to Iraq.

The willingness of the Central European countries to support the United States in Iraq — which earned them the epithet “New Europe” from the Bush administration — clearly demonstrated their value as allies to the United States in general, and specifically within the EU. Had these 10 democracies sided with France and Germany, America’s “coalition of the willing” would have been a thin band indeed. Without their support, the United States may still have been able to invade Iraq, but it would have lacked a considerable degree of the international legitimacy it has enjoyed with them onboard. And although the unpopularity of the war has eroded America’s public approval ratings even in countries like Poland, the percentage of people who view the United States favorably in these countries is still higher than in Western Europe.⁹⁸

Changing the Balance of Power within the European Union. The true significance of Central Europe’s alignment with the United States in the crisis leading up to the Iraq invasion lies not in the impact that it had on the outcome of the crisis but in the precedent that it set for future intra-EU affairs. By refusing to adapt their positions on the war to that of Berlin and Paris, the Central Europeans sent a clear signal that — in matters of war and peace — Germany and France do not speak for them or for the EU as a whole. Nor can French and German leaders ignore Central Europeans when they say “no.” Individually, Central European countries are weak, but the region as a whole carries a punch well above its weight in European decision-making bodies:

- Collectively, Central European countries hold almost a third of the total votes in the European Council.⁹⁹ [See Figure IX.]
- Central Europeans occupy more than a quarter of the seats in the European Parliament.
- The combined voting weights of Central European and Western European Atlanticist states, like Britain and the

Netherlands, represent between 50 percent and 60 percent of the votes in both the Council and Parliament.¹⁰⁰

- These figures are especially dramatic when one considers that Central European countries only make up 22 percent of the EU's total population [See Figure X.] and barely 4 percent of its GDP.

The presence of Central European votes in the Council and Parliament therefore has the potential to push the intra-EU balance of power over the tipping point in America's favor — depending of course on the political and national breaks in a given issue area. In the future, the presence of this largely Atlanticist lobby in European councils could provide a number of important advantages for the United States:

- First, it decreases the likelihood that the EU will be able to implement policies that are intentionally designed to damage U.S. interests. An example of this type of policy was the attempt by France and Germany in 2005 to sell advanced weapons technology to China — a move which could undercut America's security interests in East Asia. In the future, Central European — especially Polish — opposition could help block these kinds of efforts and prevent their adoption at the EU level.
- Second, it will help ensure that the ongoing development of an autonomous EU defense capacity — the European Security and Defense Policy (ESDP) — proceeds in a way that does not damage trans-Atlantic military links. In keeping with their forward-looking defense policies, most Central European countries — especially Poland — share America's concern for bolstering Europe's military capabilities, and have little

interest in seeing any entity emerge that will compete with NATO for resources.

- Third, it increases the likelihood that the EU will support the United States in future international crises. As new power centers arise in world politics that are capable of challenging American preeminence economically and even militarily, the United States will need strong allies. The presence of a pro-American Central European voting bloc within the EU Council and Parliament has the potential to swing the EU in America's favor — which could make all the difference in whether the United States succeeds or fails in a trade dispute, humanitarian mission or even armed conflict.¹⁰¹
- Fourth, it increases the likelihood that the EU will not only be *willing* to side with the United States in a future crisis, but *capable* of doing so. Militarily, countries like Poland — together with Britain — may offer the only hope for Europe should it need to deploy advanced military assets to distant theaters of conflict — an important means of lessening the military costs of U.S. global leadership.
- Fifth, it makes it more likely that the European continent as a whole will recover from its current economic nosedive and retain its status as an engine of global economic growth. The ability of Central European countries to do this stems in part from their tendency to oppose the introduction of new, growth-sapping regulations at the EU level and in part — as we have seen — from the model they provide for reform in Western Europe. Revitalizing the EU economy is important to the United States geopolitically because — by reducing the tendency towards protectionism and economic isolationism — it increases Europe's stake in the existing international economic order and lessens the financial costs of U.S. global leadership.

In sum, the presence of Central European countries in the EU makes it less likely that the Europe of tomorrow will define itself in opposition to the United States and more likely that it will not only share American values but be capable of shouldering part of the military and financial burdens of global leadership. In addition, by playing the role of a pro-free market, pro-U.S. lobby within European decision-making bodies, Central European countries will make it unnecessary for the United States to attempt to intervene more directly in EU affairs. Whether U.S. interventions were to take the form of “cherry-picking” the EU for coalitions of the willing or more intrusive attempts to thwart the integration project itself, such policies would be guaranteed to galvanize even greater European opposition to the United States and generate deeper disunity in trans-Atlantic affairs — to the detriment of the entire world.

A Democratic Bridgehead

A second geopolitical area in which the countries of Central Europe are important to the United States is their joint efforts to bring stability and democracy to the countries of Eastern Europe and Central Asia. In recent years, four post-Soviet states in these regions — Ukraine, Kyrgyzstan, Georgia and Belarus — have undergone (or are currently undergoing) political revolutions in which authoritarian regimes have been deposed and replaced with democratically-elected governments:

- In the so-called “Rose Revolution” of 2003, the people of Georgia overthrew President Eduard Shevardnadze and — following national elections — replaced him with Mikhail Saakashvili.¹⁰²
- In the now-famous 2004 “Orange Revolution” in Ukraine, authoritarian President-elect Viktor Yanukovich was ousted from office and replaced with Viktor Yushchenko.¹⁰³

- In Kyrgyzstan’s 2005 “Pink Revolution,” student activists overthrew the government of President Askar Akayev and called for free elections.
- In Belarus’ so-called “Denim Revolution,” attempts are underway to hold fair elections and unseat authoritarian President Alexander Lukashenko.¹⁰⁴

Known collectively as the “color revolutions,” these student-led uprisings have the potential — in spite of occasional setbacks — to fundamentally reshape the political and economic institutions of these former Soviet republics and bring them into the Euro-Atlantic fold. For the United States, accomplishing this task is important for three reasons: 1) as a component in the larger effort to promote the spread of democracy and free markets, 2) as a means of moderating Russian influence in the region, and 3) as a way to staunch the destabilizing westward flow of narcotics, crime and illegal immigration. In each of these areas, Central European countries share America’s core interests in the region and are already proving to be indispensable allies in accomplishing U.S. goals. For example:

- Central Europeans are leading the effort to ignite democratic reform in the former Soviet Union by sharing the experience of their own successful transitions and by using their positions in the EU and NATO to lobby the West for assistance to the reform movements.¹⁰⁵ In both cases, the push for democratization is more palatable for the transition countries — not to mention for Moscow and Brussels — when it comes from Central Europeans than when it comes from Washington.
- By aiding the eastward spread of democracy, Central European countries are also helping to roll back the de facto Russian sphere of influence that currently exists in the region.¹⁰⁶ In recent years, Moscow has used an increasingly intrusive array of tactics — planned coups, state coercion and vote-fixing — to reassert dominance over the govern-

ments of its ex-satellite states in hopes of controlling their foreign, security and energy policies.¹⁰⁷ Central Europe's increasingly successful response has been to assist pro-Western factions in Kiev and Minsk, while using their EU membership to galvanize resistance to Russian bullying at the Europe-wide level.¹⁰⁸

- A related area of concern for the United States and EU in the ex-Soviet republics is Russia's growing control over regional energy markets. Currently, Russian state-controlled energy giants Gazprom and Lukoil supply a large portion of the natural gas and oil consumed in Europe — as high as 60 percent in Germany and 90 percent in Poland.¹⁰⁹ Europe's dependence on these energy supplies — most of which flow through pipelines transecting Ukraine and Belarus — provides Moscow with a powerful political weapon that can be used as leverage in its dealings with the EU and by extension, the United States. Central European attempts to spark internal reform in the transit countries — together with their efforts to diversify energy sources, construct independent pipelines and promote an EU-wide energy security policy — may help prevent the EU from becoming a hostage to Russian energy in a future crisis.¹¹⁰
- Central Europe is also playing an instrumental role in stabilizing the EU's eastern borders with Ukraine and Belarus, which for decades have been a gateway for drugs, crime and human trafficking into Europe and, in many cases, the United States. Already, Poland, the Baltic States, Slovakia and Hungary have placed unprecedented controls on their porous eastern borders, and Romania and Bulgaria have stepped up anti-crime measures.¹¹¹ In 2007, the eight new member states will join the EU's stringent Schengen border agreement, further strengthening Europe's eastern bulwark.

From a U.S. perspective, the progress made by Central European governments in spreading democracy to their neighbors, resisting Russian assertiveness and securing the EU's eastern borders are welcome multipliers to U.S. efforts in the region. For years, Washington has sought to unseat the pro-Russian nationalist-populist regimes that hold power in many of these countries, not only because of their oppressive policies at home, but also because of their potential to obstruct U.S. military operations in Central Asia — an increasingly important sector in the War on Terrorism — and their hostile stance toward NATO, the International Monetary Fund (IMF) and other Western institutions. To bring about regime change in these countries, the United States has supplied money and support to pro-Western dissidents and social movements — a policy which tends to produce more resistance than progress.¹¹² U.S. policymakers have therefore come to rely heavily upon the efforts of America's allies in Central Europe, who not only have the desire (their own national interests are at stake) but also the credibility (as former Soviet satellites themselves) and the ability (as members of the EU and NATO) to bring about lasting political and economic reforms in the region.

Global Allies

Clearly, Central European countries share fundamental interests with the United States across a range of important geopolitical issues — not only at the EU level but also in Europe's periphery. However, their importance to the United States extends beyond the regional sphere to include major issues in the wider international arena. This is partly due to factors within Central Europe itself — specifically, its recent economic revival. But it is also due in part to changes in the larger international system. According to a recent report from the U.S. National Intelligence Council (NIC):¹¹³

- World politics is currently undergoing a period of fundamental re-adjustment more dramatic than at any point since the end of World War II.

- The key trends in this process are “the relative decline of U.S. power” and the rise of “new major global players” — especially in Asia — that “will transform the geopolitical landscape, with impacts potentially as dramatic as those of the previous two centuries.”¹¹⁴
- As the American century draws to a close, the United States will find itself “an important shaper of the international order, but not its architect.”¹¹⁵

In short, a change is underway in the international system — a shift away from American primacy — or “unipolarity,” as it is called and toward a more diffuse, “multipolar” configuration, in which multiple power centers jockey for position and influence.

In this new environment, the United States is likely to find its options in the economic, diplomatic and military fields constrained by the actions and interests of other states. While the United States will remain “first among equals,” it will not enjoy as much freedom of unilateral action as it did during either the Cold War or the 1990s, and will find it necessary to work more closely with its allies to achieve its goals. The small- and medium-sized states that escaped its attention in the past will become more important players — especially those that historically have shared American values and with which the United States has historically maintained close relations. Chief among these will be the countries of Central Europe, which possess both the willingness to support the United States in times of crisis and — increasingly — the economic and military capability to back up their good intentions with action.

Though it is important not to overstate the role they will play in future world affairs, it is not unreasonable to expect that Central European countries — especially Poland — will punch

above their weight in years to come on a number of issues outside their region that are of vital importance to the United States:

- As has already been noted, Central Europe's newfound position of influence in the EU will enable it to act as a bridge between Brussels and Washington, bringing the trans-Atlantic community closer to consensus on a range of controversial international issues — from Chinese arms sales to Russian oil.
- Central Europe's role — alongside Britain — as a trans-Atlantic “bridge” will become even more important in future years should the EU develop a functioning Common Foreign and Security Policy (CFSP) or manage to speak with a united voice on the United Nations Security Council.
- Central Europe's influence may also be crucial in reconciling U.S.-EU differences in other international forums, such as the World Bank (where Europeans hold 8 out of the 24 executive seats, compared to one for the United States), the International Monetary Fund (where the EU has an aggregate voting power of 33 percent, compared with 17 percent for the United States), and the World Trade Organization.¹¹⁶
- On the crucial issue of enlarging the EU and NATO, the United States' policy — which favors ongoing enlargement as a tool for stabilizing Europe's eastern neighbors — is in lock-step with that of most Central European governments.¹¹⁷
- In the War on Terror, as we have seen, Central European countries have aided America's global efforts with unflinching diplomatic support and modest military assistance — not to mention intelligence-sharing. All of these elements — which are in short supply in other parts of the globe — could prove critical to the success of future U.S. missions.

- Central Europe has the potential to play an especially decisive role in the Greater Middle East. As the United States has learned in Ukraine and Belarus, efforts to stabilize and democratize a formerly authoritarian state are aided by reference to a workable model of political and economic transition in other countries. Central Europe's experience in these areas has already paid dividends in Iraq, where Central European non-governmental organizations (NGOs) — especially from Hungary, Slovakia and Lithuania — are helping the new government develop strategies for successful transition.¹¹⁸

In these and other areas of major international concern, the countries of Central Europe — though small individually — will figure more prominently in the geopolitics of the 21st century than they did in recent decades. Through their membership in international organizations and as individual powers, these countries have the potential to act as important components of American efforts in both the so-called “center” of world politics — relations among advanced industrial nations — and the “periphery” — relations with the developing world. In the first category, they may prove to be useful partners for the United States in such vital tasks as maintaining U.S.-EU relations, managing the rise of China and hedging against the resurgence of Russian nationalism. In the second category, they are likely to be reliable allies in the War on Terror and accelerants in the spread of democracy to Eastern Europe, Central Asia and the Middle East. In both areas, the availability of a bloc of 10 reliable allies will be of considerable geopolitical value to Washington in the new century and assist the United States in navigating the shoals of multipolarity.

Conclusion

Donald Rumsfeld's description of Central Europe as the "New Europe" during the Iraq crisis may not have been the best way to win friends in other parts of Europe, but his comment captures an important truth: The ex-communist democracies of Central Europe have come of age. Though they are not grabbing the headlines the way they did in the early 1990s, the countries of this region are gaining in significance in ways that have important economic, military and geopolitical implications for the United States. Looking forward, Central Europe is unlikely to have either the geopolitical importance of the Middle East or the economic significance of China. Instead, as we have seen, its importance to the United States lies in the unique potential that its countries have to tip the scales in America's favor across a range of important issues:

- Economically, the willingness of Central European governments to adopt policies that favor economic freedom has the potential to tip the scales of the European economy away from the crippling 1970s-era policies that still characterize the economies of much of Western Europe, and in the direction of free market reform, liberalization and growth.
- Militarily, the willingness of Central European countries like Poland to implement next-generation reforms and host U.S. military bases has the potential to tip the logistical and strategic scales for American soldiers in the Middle East; while its willingness to host U.S. anti-missile defenses may make the crucial difference in whether the system is capable of defending America's East Coast.
- Geopolitically, Central Europe's Atlanticist voice in international organizations has the potential to tip the scales in America's favor, not only in the intra-European balance of power, but in efforts to spread democracy to Eastern

Europe and Central Asia, and in future international hot-spots like Iran.

In each of these three areas, the United States is confronted with nothing less than the task of maintaining the international economic and political order that has been in place since the end of World War II. And in each, it is no exaggeration to say that the world is hanging in the balance — between free markets and protectionism, between stability and instability in the Middle East, between a democratic and undemocratic Ukraine — and could easily swing in a direction unfavorable to the United States. In such a setting, the support of 10 countries with a population of 100 million represents an unmistakable advantage for U.S. businesses and policymakers. This is especially true in the case of Poland, which is emerging as a medium-sized power with a capacity for overseas power projection and intra-regional leadership. Poland, together with its neighbors, represents a potentially reliable base of support for the United States — an informal bloc of allies who are willing — and increasingly able — to backstop U.S. policies on the international stage. While there are a handful of countries or regions that possess one of these traits, there are very few that possess both.

In spite of these emerging realities, the importance of Central Europe is not sufficiently appreciated in Washington. At the very moment when U.S.-Central European relations should be reaching their high-water mark, America's awareness of its need to maintain close relations with the region is at its lowest ebb. In spite of providing substantial support to the U.S. effort in Iraq, countries like Poland have yet to see their relationships with Washington upgraded to the status of close allies. Polish companies have been neglected in the distribution of contracts for the reconstruction of Iraq. The Polish military has failed to receive the long-awaited modernization assistance. And unlike the French or Germans, Poles and Czechs are still required to apply for visas when traveling to the United States. As a result, in Warsaw, Prague and Budapest,

there is a growing perception of a lack of reciprocity in America's dealings with the region. This perception is not limited to government chanceries; in the streets, America's public approval rating — though still high in comparison to other regions — has now reached an all-time low.¹¹⁹

America's failure to reward its Central European allies for their assistance in Iraq represents a clear case of short-sightedness on the part of the U.S. leaders. However, it is only a symptom of the problem, which may be defined as a more or less complete lack of interest in Central Europe by the U.S. foreign policy establishment. Simply put, with America's attention absorbed in Iraq and — to a lesser extent — China, there is no room on the radar screen for quiet places like Central Europe. If the United States wants this region to remain a source of dependable partners in the future — if it wants to see these countries continue adopting economic policies that benefit U.S. companies, supplying military units for foreign wars and thwarting EU policies that damage American interests — it needs to act. Three adjustments need to be made in order to move the United States away from its current tendency to neglect the region:

- First, over the short term, the United States needs to take concrete steps to shore up its relations with important allies in the region. To begin with, U.S. policymakers should address key areas of concern — reconstruction contracts, military modernization assistance and visas — that have arisen in the aftermath of the Iraq invasion, and be better attuned to the need for an occasional *quid pro quo* in the future.
- Second, the United States needs to develop a coherent strategy for remaining actively engaged in the region. One important component in such a strategy would be an effort to bring America's foreign aid outlays in line with its foreign policy goals. There is no reason that Egypt should

receive almost \$2 billion a year in aid, while Poland — a battle-tested ally — gets a handful of aging C-130s.¹²⁰

- Most importantly, over the long term, America needs to commit itself to devising, launching and winning a battle for the hearts and minds of the people and governments of Central Europe. Such an effort is conspicuously absent in the current context, and will be necessary if the United States is to remain engaged — not only in Central Europe, but in Europe as a whole.

However, while eschewing the temptation to neglect the region, the United States must also avoid the opposite extreme of treating its Central European allies as client states that are expected to line up behind U.S. policy initiatives as a matter of course. Thus:

- At a fundamental level, the United States must relinquish the “hub-spoke” mentality that often characterized its dealings with allies during the Cold War. Such an approach is guaranteed to eventually provoke dissent among a group of nations that is instinctively averse to attempts at control from a foreign capital.
- While viewing Central European countries as natural allies, U.S. policymakers must not fall into the trap of taking their support for granted or seeing them as a prop to American unilateralism. Like all foreign powers, Central Europeans will sometimes disagree with the United States. Part of being a good ally means that the United States must listen to their concerns and be receptive to their influence.

Overall, the United States should move away from the two extremes of neglect and hegemony and toward a collaborative approach in which it “tends the seedbed” of support in Central Europe and other regions like it. If America manages to develop a consistent policy toward Central Europe along these lines, it has the opportunity to create a kind of “special relationship” with

countries like Poland. If it does not, future U.S. policymakers may find that while the countries of this region still share many core American values, they will be less and less inclined to take risks in supporting the United States in future crises — especially in the EU — and more inclined toward regional introspection. Such an outcome would needlessly deprive America of the support of some of its most natural allies and would surely constitute one of the more spectacular failures of U.S. foreign policy in recent history.

Notes

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Founded in 2006, the Center for European Policy Analysis (CEPA) is a Washington, D.C.-based foreign policy research institute dedicated to the study of Central Europe. CEPA provides a forum for scholarly research, writing and debate on key issues affecting Central European countries, including their membership in the European Union and their relationship with the United States. CEPA is an affiliate of the National Center for Policy Analysis (NCPA).

CEPA aims to produce practical, workable proposals for setting policies and reforming institutions. This includes finding solutions to problems faced by the Central European community of nations, promoting a more active Central European voice in trans-Atlantic affairs and reinvigorating U.S.-Central European relations.

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The countries of Central Europe are among America's most reliable allies and a growing market for U.S. trade and investment. But in recent years, this region has been largely ignored by the U.S. foreign policy establishment. *Tipping the Scales* explains why Central Europe matters to the United States, why EU enlargement did not mark the end of history in the region, and why U.S. policymakers should seek a deeper level of engagement with the region and its leaders.

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