

Global Finance and Collective Security

Georgi Ivanov*

Centre for Security and Defence Studies, Norman Paterson School of International Affairs, Carleton University, Canada

The question addressed in this paper concerns the unexplored relationship between collective security alliances, the impact global financial flows have on them, and what security alliances, in turn, can do about that dependency. Put more simply, how do the mechanisms behind global financial flows affect international security and the functions of security alliances like NATO?

The uncertainty surrounding the global economic turmoil is placing both states and alliances under significant stress to re-organize by streamlining costs and minimizing the impact of the crisis on publics, capabilities and future growth prospects. This paper is rather expansive in the ground it covers, and it is divided into several sections. In the beginning, there is a discussion of the importance of global finance and an overview of the current system, along with some of the existing measures and challenges to managing the level of risk. I use the China-America relationship as a real-world reference to the deep connections that already exist between finance and security, and as manifested into one of the fundamental relationships of the international system. The next major section presents the perspectives of securitization and complex interdependence theories in an attempt to call for the need of a synthesis that will allow for predicting and internalizing the risks that global finance poses to collective security; implications are drawn immediately after. The final important component of the paper presents a discussion of the normative and practical measures that existing security alliances need to adopt and emerging ones have to embrace, in order to stay viable and relevant; before I conclude, a consideration of potential reforms for NATO shows how such normative considerations might turn out in practice.

The importance of global finance

The size of global capital flows is roughly equivalent to \$212 trillion in 2011 [1]. This number is approximately three times the size of global GDP [2]. The economic crisis that began with the collapse of Lehman Brothers in September, 2008, is the result of systemic overloads brought on by over-speculation, an accumulation of bad debts, and the gradual decline of the real economy in the United States. Lehman Brothers was the trigger that saw other major banks and corporations receive hundreds of billions in bailout funds to avoid total economic collapse. In a global perspective, there are even more stark imbalances: China's overwhelming currency reserves relative to other major powers in the global system, Beijing's ownership of a sizable share of American debt, the trade imbalance between the two countries, and on the other hand, Europe's debt woes and the speculation they bring about the very survival of the Eurozone [3]. Back in Washington, the recent Super committee's inability to agree on a deficit reduction plan has triggered \$1, 2 trillion in debilitating cuts across the board, with a notable reduction of military spending [4]. The purpose of these recent examples is to illustrate that global finance has incredible political, social and economic consequences that invariably affect military capabilities and their direct ability to meet security needs.

Neoliberalism, causes, attitudes, effects, regulations

The purpose of this section is to outline the current precedents and mechanisms behind the management of financial flows. It has

been recognized that the causes of the current financial crisis lie in the irresponsible level of risk taking and speculation on investments, unsustainable levels of borrowing, and regulation capture of national and international oversight bodies [5]. The neoliberal ideological environment, consciously ushered in with the 1980s through the Thatcher-Reagan reforms, was accelerated following the end of the Cold War in 1989 and the collapse of the USSR in 1991. The international environment at the time left the liberal democratic and capitalist system as the only coherent alternative in a disoriented world. However, the current crisis has revealed the systemic errors and limits of this model and prompted a search for a new paradigm of world economic organization.

Specifically, banking activities on the international level are controlled by the Basel II accords, specifying conditions on types of investment and level of reserve capitals among others, but it highlights that the loosening of regulations on the international and national levels and the inadequacy of monitoring capacities created dangerous precedents in respect to the volatility of the global financial system, borne from speculative behaviour around irresponsible risk-taking [6]. The neoliberal trend in the global economy made the flow of capital towards the world's developing regions easier than before. The practical outcomes of this trend are the rise of East Asia as the locus of global manufacturing and conversely, the stagnation and decline of manufacturing in North America. Access to easy credit, facilitated precisely by the aforementioned lax regulation and conducive politico-economic policy environment, made possible the creation of speculative balloons and macroeconomic imbalances that facilitate short term growth at the price of long-term stability [7]. The size of China's currency reserves and the overwhelming debt Europe and America find themselves under at the present time, are a result of these trends in the global economy in recent decades.

A worrisome trend in the global economy over the last 30 years has been ideological and intellectual. That is the dissemination of the neoliberal dogma among governments, educational institutions and financial sector institutions and the exchange of cadres between all three in key positions of influence and power. The phenomenon is known as the Wall Street – Treasury Complex, in which bank managers trade top floor offices for economic advisor positions to the President of the United States, or equally powerful position in the Treasury [8]. They

*Corresponding author: Georgi Ivanov, Centre for Security and Defence Studies, Norman Paterson School of International Affairs, Carleton University, Canada, Tel: +613-618-8672; E-mail: givanov88@hotmail.com

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can conversely return to previous assignments at investment banks on Wall Street or pick up a position in the higher education industry after a spell in government. Sustaining such practices helps create a unified and coherent version of neoliberal economics across education, industry and policy-making, which in turn make it acceptable as truth and norm. The revolving door complex is not effectively addressed, if recent European appointments are also taken to be the criteria: namely, former Goldman Sachs man Mario Monti becoming Prime Minister of Italy and Greece's Lucas Papademos, who has also been involved with the aforementioned institution [9]. At the same time, we must not forget the hypocritical role of Goldman Sachs in helping Greece conceal its debt problems through accounting machinations that produced false statistical data about the country's fiscal and economic parameters [10].

Important to mention here is also the role of rating agencies and their influence in sustaining investor confidence, when countries in precarious fiscal and monetary positions should have been placed in higher risk categories before, not after the crisis broke out [11]. Standard & Poor's, Fitch and Moody's are the three main credit rating agencies, and they have received significant amounts of bad press in respect to their responsibility for the crisis. While it is their job to assess the ability of countries, firms and institutions to service their debts and their capability of taking on new loans, I do not think they bear direct responsibility for the financial crisis. Conversely, rating agencies attempt to forecast the ratings of various international actors based on current trends. While they may have some degree of prior information about the potential fiscal problems of the major Western countries, their role as observers and issuers of ratings follows investor confidence, rather than when a state might implode as a result of overburdening debt. For this reason, I think that while rating agencies may have helped mitigate the effects to a certain degree, their marginal positions in respect to influencing decision-making factors does not give them direct responsibility for the development and the unfolding of the crisis.

Interdependence between finances and security – the China – America relationship

One of the core geopolitical tensions in global politics during the 21st century will be the relationship between China and the United States. Already, the multidimensional nature of this relationship is apparent both through the deep economic connection between the two countries and the simultaneous friction between Washington's Pacific hard power capacities and the rising assertiveness of China's foreign policy in the region [12]. In economic terms, China is one of the biggest foreign creditors to the United States, its vast foreign reserves are overwhelmingly denominated in the greenback and it relies on the American market to drive its export-oriented economy; conversely, American industry is simply not able to compete with its Chinese counterpart in terms of volume, effectiveness or price. In other words, a pillar of the global economic and financial system is formed by this very interdependent Pacific relationship.

From the perspective of international security from the hard-power perspective, America and China are competitors. America as of yet still maintains the world's largest ocean-going navy, which is also the only one in the world to have global reach at any point in time. In terms of military expenditure, Washington's share is nearly half of total world spending on defence [13]. However, China's foreign policy is growing

more assertive and this trend can effectively make the Asian giant a competitor to US hard power dominance in the Pacific. It is not a short-term prospect that will see this happen; however, the assertiveness of Beijing's foreign policy, exercised through more military spending, more conflicts with its neighbours in East Asia and a clearer stance on sovereignty disputes region are all signs of a coming regional power with potential global reach. Particularly symbolic is the acquisition by Beijing of the incomplete ex-Soviet aircraft carrier *Varyag* [14]. While it has little operational value in contrast to its American or European counterparts, the carrier shows a decisive shift in Chinese foreign policy that envisions a return for the Celestial Empire to the global stage.

It is these trends that worry Washington and precisely that it is not the current, but future Chinese potential that can become a direct competitor to American global interests. It can be expected that while the two countries will remain geopolitical competitors, their economic links are going to grow horizontally and vertically during the course of the 21st century and this trend of mutual dependency will constrain the degree to which they clash over questions of relative power.

The spending limits imposed on America from the ongoing debt crisis will also have a negative effect on total expenditures in the coming years and decades; that is, there will be a systemic shift towards spending less on defence, while we may see the needs for security provision to increase around the world. For both Washington and Peking, then, it might make more sense to engage in a Pacific collective security framework to avoid potential confrontation over security issues and contribute to the diffusion of regional and global tensions rather than sharpening them.

Conceptually, we must draw the connection in the Sino-American relationship between global finance and security. If the ongoing financial crisis has taught as anything about security, it is that military expenditure by states and the degree of collective security are both directly related to the health of the global economy; should the latter of those receive a shocking enough jolt from a crisis, the very existence of state sovereignty and the existence of international security architectures can be potentially threatened. In practical terms, the ability of the United States to maintain current expenditure, commitment and readiness levels for its military establishment will decline relative to other global powers, and together with the growth of emerging players, will leave a global security void to be filled.

The underlying premise of the example here is that geopolitical competition is not the best use of available resources, but rather, the promotion of collective security with a healthy respect for the impact of global finance is a more sustainable project for redefining security in the 21st century. The volatility of global capital flows and the immense consequences that we are seeing it has in a time of crisis mean that managing finance is above the capacity of any one state and we must look at more comprehensive risk management solutions on the international level. The level of financial integration between America and China, from the unsustainable American debt to China's disproportionate currency reserves produces systemic imbalances in the global financial framework that threaten its fundamental stability, and these imbalances are the main source of risk to the stability and predictability of the global economy – and from there, the stability and predictability of global security. In respect to the Pacific, in this century, the US and China form one of the core strategic multidimensional strategic relationships, whose economic consequences for the world

are largely clear, but whose security dimensions stand to produce new paradigms of security cooperation, borne from the long-term implications of today's global financial imbalances.

Theoretical considerations for linking global finance and collective security

It can be said that the US-China dynamic today in respect to security represents an incomplete evolution towards a new way to thinking and the question at hand is about coming up with a complex, interdependent definition of collective security, which incorporates financial security, and in turn opens up new avenues of thought about the risk management of global finances, as they relate to collective security. The purpose of this section is to offer some theoretical considerations behind the evolution of such a concept. As a first, step, we must adapt the same nuanced and integrated perspective to the limits of a heightened degree of multilateral cooperation in general. If the nation-state continues to be the innate unit of analysis for the international system, the actions of one state or another will have greater systemic effect than ever before, and this maxim will hold truer for the largest members of the international community. That is, the relative power of anyone state will impact the overall global vulnerability more or less, depending on the intensity of political, economic and military trends on the national level. In effect, a paradox emerges: an integrated world constrains the actions of the single state, but enhances the number of available multilateral options.

The extension of the above discussion should logically ask what can be the conditions of a new kind of security architecture in a multilateral world. A security alliance must have some way to exert control over capital flows, as they relate to security; given the wide-ranging impact that we have seen they have, this kind of arrangement goes through deep lateral and vertical cooperation with national and international monetary and fiscal organizations. The second condition is coming up with a definition of financial security that can be operationalized across the whole range of activities of any security alliance. The third condition is that once this definition is created and applied, it would cause a shift in orientation away from the predominance of the military focus in security alliances, and its incorporation into a much more broad and sophisticated interpretation of security and its practical challenges. Solutions will be more relative than absolute, and consensus may need to evolve into a more sophisticated form of decision-making that will take into account the opinions of a larger number of third parties and show their impact when it comes to carrying out said decisions

There are two theories I would consider synthesizing towards conceptualizing the integration of global finance with collective security alliances: complex interdependence and securitization, with an added dimension of supranationalism towards describing the institutional arrangements that would come with monitoring global financial flows; the last of these will be incorporated in the subsequent section of this paper. The most striking feature of complex interdependence theory is precisely the declining importance of coercive and military power to affect change on the international stage [15]. Instead, a lack of a clear hierarchy of relations and a multitude of communication channels create more ground for cooperation between states. In practice, increasing economic and other interdependence between states is critical in making cooperation and integration the norm of international relations. If we apply this thinking to the reality of the modern world, we do indeed see systemic interdependence between

major and minor powers alike: the aforementioned US-China relationship is a core dynamic of the modern global system in many respects – but an economic and financial one most of all, and the European Union is a historically unprecedented integration project in attempting to coalesce the diversity it embodies into a coherent continental governance structure. Again I will raise the point that the current financial crisis has produced negative effects on security expenditures and constrained the ability of collective security alliances to maintain their commitments and respond to future challenges in the international system. The very multidimensional character of the impacts of global finance demands a similar stance by evolving conceptions of security. The existence of risk management institutions and agencies to deal with the implications of global finance, such as the IMF and the World Bank, already attest to the recognition about the global impact of these flows and the global management tools needed to govern it. The task for the 21st century is two-fold then, in the spirit of this theory: today, our world is bigger and more interconnected without historical precedent, and this trend will continue in the coming years and decades. The growing interdependence between states is a result of this trend, to the point where challenges and solutions have an increasingly global nature and purely national responses are no longer fitting, nor adequate.

The second theoretical consideration to implicate is securitization [16]. It is a process-oriented conception of security that implicates constructivist and realist points of view, and is tied with the actions of a state to make an issue of some nature – be it political, economic or military – as a threat to the stability of some aspect of the state. The process is three-fold: recognizing an issue, the object it threatens and convincing a target audience of the validity of the assertion. The flexibility of the term also allows it to be misused for political purposes, as securitization of issues that do not represent legitimate threats may be used to get around what might otherwise be violations of international laws, regulations or norms. When talking about global finance and its impacts, however, securitization is seemingly a good idea. With the ability of global finances to compromise the integrity of states (e.g. Greece and Ireland), it is a legitimate argument that their securitization is a matter of not only national, but collective security: both countries cited in the brackets are NATO members. Applying the theory in practice, the threat is global finance, the object to be protected is collective security, and the audience to convince includes the taxpayer, the policy planner and the head of state. In other words, it is about a fundamental shift about the re-imagination of collective security through a focus of global finance.

In my view, the conceptual challenge is to create a synthesis out of these two theoretical approaches in developing a new, robust framework in respect to the impact of global finance on collective security. The risks are visible: it would be unprecedented for a member state to be unable to pay its dues to an alliance out of being unsustainable fiscally, and this is the precedent we might see develop around the current financial crisis, especially with Greece. The uncertain fiscal situation of the United States is also a cause of concern, because Washington is challenged not only by overall budget cuts, including cuts, but also by the re-orientation of American foreign policy away from Europe and towards the Pacific [17]. That is, the international security environment becomes unpredictable, if viewed from the viewpoint of finance as it currently stands. From a theoretical stance, I propose that we need to securitize global capital flows for the threat to security that they truly

represent, and apply a nuanced and complex perspective when relating them to security analysis.

Normative policy recommendations for collective security architectures

In the previous paragraphs, I outlined the conditions that will constrain the behaviour of collective security architectures when it comes to internalizing global finance into conceptions of security. In this section, I will talk about some practical measures that security alliances can affect to reflect the need to put reins on global finance. There are three dimensions to be discussed: normative treaty amendments, changes in the decision-making procedures and supranational authority.

Normative treaty amendments have much in common with the systemic financial reforms we are talking about today: for instance, constitutional constraints in states on how much budget deficits can be, certain regulations stipulating the degree of minimal bank liquidity, tighter credit lending rules, and reigning in speculative risk taking on financial markets. I see two options here. The first one is to change the normative treaties of existing and emerging security architectures to incorporate specific financial requirements that member states need to meet and accession requirements for any aspiring members. In this way, it would be possible for a security alliance to at least monitor global financial trends and how its members fit into the grander global financial scheme. The second option is to create tight partnerships between collective security alliances and international financial institutions, such as the International Monetary Fund and the World Bank, and create common security policies that would be applicable to all states with overlapping memberships. While the second option is more logistically complex, it is more likely to be better enforced given the higher number of stakeholders in a design of its kind. There is, however, another implication in this discussion, and it is about giving collective security alliances the power to affect financial flows, not only the ability to monitor them more closely. The justification is that capital flows have adverse effects on security alliances and may threaten their very existence, and by extension it is logical that they have control over the variable in question. In this respect, the normative provisions of a founding treaty can feature penalties for a member who does not maintain financial discipline, or engages in risky behaviour directly or indirectly by hosting third parties behaving in a similar manner. There are two further related options here: penalties can be either distributed on an internal basis in the alliance, or done in concert with other international institutions responsible for monitoring and managing capital flows and state behaviour in respect to them.

The second aspect of reform concerns decision-making. This is where a true revolution in the practical approach to collective security might occur. Currently, salient decisions are performed internally, through consensus, qualified majority voting, or some other procedural means among the members. As per observed earlier, however, the impact of global finance is not constrained to collective security. Effectively, decision-making must incorporate a much wider diapason of institutions and stakeholders and give them critical influence on the outcome of the internal decisions by a given security alliance. The reason is that global interdependence, financial, economic and political, is far greater than the extent of the *raison d'être* and objectives of collective security alliances as they currently exist. It would be myopic to think that these alliances exist independent of the world around them and

that it does not have any effect on them beyond their adjustment to its behaviour. If finance is incorporated into security, it may mean a re-thinking of membership to include international financial institutions, banks, states on other continents and supranational regulatory bodies. In other words, the military dimension of politico-military alliances will be still relevant, but far lower on the priority scale, to be superseded by a much-needed multidimensional conversation on what is the place of a security alliance in the world, how it relates with it and vice versa, and how do global finances figure into its operation and reason for being.

There is one last practical consideration to discuss: a supranational review authority. A lack of accountability is one of the contributing factors in facilitating the current global financial crisis, and especially visible when considering that entire states were allowed to become bankrupt. A strong, independent supranational review authority with the capacity to enforce and sanction financial discipline in all members of a collective security alliance will provide key auditing services to making sure that these new rules are kept, and prevent the recurrence of opaque and destructive behaviour. The institutional designs can vary: it can be a global organization monitoring all existing and emerging security alliances, or each alliance can have its specific body to be the members' financial discipline auditor. In a global age, this option may be the best available tool to internalize financial flows, make them predictable, and prevent them from ever threatening the stability and predictability of global security again.

Implications for practical recommendations

Our current global climate is one of uncertainty, retrenchment and public distrust in governments and institutions. For the measures in the previous section to take effect, qualitative change in the way national and global politics are handled needs to happen. The recurring theme throughout the previous section is that national sovereignty will be severely limited in favour of deep and comprehensive horizontal and vertical multilateral management mechanisms. It is unlikely that at this point in time, any major state in the international system will sacrifice its autonomy from other players in the system for the advancement of our political condition as a whole. In effect, what we need is a critical mass of forward-thinking politicians, who also may be willing to commit political suicide, to produce policies that may not meet public approval, but will put in place a long-term focus and trend to produce a more stable international system that will be less vulnerable to systemic shocks than its contemporary counterpart. Collective security alliances will not disappear, but they also cannot afford to remain ignorant to the dangers that global finance poses to their very survival as such – thus, at least they must be able to monitor global financial flows and how members fit in that context, and at most, control and sanction their members' financial behaviour.

Case example – next steps for NATO

The current financial crisis hit NATO rather hard in respect to the constraints the debt crisis has imposed in Europe and in the US. On the Old Continent, Greece, Portugal, Ireland, Iceland, Romania and Hungary received either bailouts or transfer loans to prevent them from collapsing entirely. Italy and Spain are burdened with debt themselves, and doubts persist on their ability to stay fiscally afloat. As a backdrop, the free speculations on the future of the Eurozone do not help NATO's general position. Across the pond, Washington is dealing

with a worsening economic situation, a seemingly insurmountable level of national debt and a budget deficit that tops a trillion dollars.

If we apply the above prescriptions, the first step would be to apply the Maastricht criteria for applying for the Eurozone word for word in the Articles of Agreement of the Alliance, and make them a precondition for membership as well [18]. In this way, NATO can implement a crucial guarantee on assuring the financial security of the Alliance. This step proceeds with establishing close relationships with the IMF, the Federal Reserve, the European Central Bank and the governance organs of the EU to make sure that more extensive requirements for global capital flows are in place and are monitored to a degree that will not allow the compromise of the integrity of any single member-state; as it stands, this is the case of several states that are also members of NATO. Once such predictability is established, NATO will have a much better chance of anticipating a crisis and preparing to meet it, rather than scrambling to respond in the aftermath of one, while gambling with its survival on account of several bankrupted member-states.

The second step, in respect to decision-making, is to expand the Euro-Atlantic Partnership Council and make it as salient as the North Atlantic Council, if not give it more weight. Alongside, the NATO-Russia Council must also receive much higher priority and alongside it, all Partnership for Peace countries. The reasoning behind that is on account of the interdependence that already exists between Russia and Europe, the growing strategic value of PfP countries in economic and political terms, and the fact that the crisis impacted everyone, not just NATO or the countries around it. Effectively, when we talk about finances, NATO must expand its engagement with third parties, states and global institutions alike, if it is to effectively internalize the systemic risks of global finance.

An auditing agency is the final instrument that NATO must apply to ensure that it is largely immune from shocks to the global financial system. An internal one would be more effective than an external agent, but it must still be strong and independent of third-party influence if it is to do its job and prevent any member from running away from financial discipline. In this respect, it must also apply a much broader array of financial criteria, such as bank liquidity and budget deficits to form a fair and realistic assessment of a member's financial health, in order to avoid the re-emergence of cases like the Greek scenario. The existence of such an agency would even catalyze reforms in the very thinking about defence and future NATO strategic doctrines would include a thorough assessment of global financial trends, members' places in them, and what the objectives for each one would be in respect to the overall aims of the Alliance for that period of time covered by the strategic review.

Overall, what is clear is that if NATO is briefly taken as a model for how security architectures can evolve to incorporate financial governance, then we are looking at both quantitative and qualitative change for the North Atlantic Alliance on an unprecedented level in the history of global multilateralism as a whole.

Conclusion

The premise of this paper was to present an analysis on the impact of global financial flows on collective security alliances and present possible reforms that would enable said alliances to control the systemic risk they incur along with the economic consequences of these capital flows. The first half of the paper outlined that global financial flows are important for the wide-ranging politico-social-economic

impact they have, as witnessed by the debt crises in Europe and the United States. The second portion outlined the relationship between America and China as an illustration of a dynamic that underlies the global financial and economic system, while simultaneously producing notable security tensions; both of these aspects must come to a compromise at some point during this century. The subsequent section considered complex interdependence theory and securitization and put forward the need to synthesize these two approaches towards producing a unified framework that is able to, at first, not only account for the dynamic between America and China, but also be applicable to reforms in existing security architectures and explain the emergence of new ones. The next section introduced some of the normative and practical measures that can potentially be applied by a hypothetical security alliance towards monitoring and controlling global finance in assuring its own survival interest. The final section loosely applied these theoretical proposals to a brief case study of NATO into what can be said are medium and long-term policy goals that would not only make the Alliance flexible, but also relevant in this century, and perhaps, beyond. Overall, this is an exploratory piece tackling an as of yet unexplored relationship that will be crucial to understand in the emerging multipolar world – we must spend much more time and effort talking about it.

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