

September 18, 2024



Executive Summary Report

The war in Ukraine changed the strategic landscape in Europe. Russia's full-scale invasion sparked the most serious crisis in Europe since World War II and shattered the post-Cold War international order. The war underscores that deterrence failed in the European theater, and the U.S.-led alliance in Europe is now facing unprecedented concurrent threats from Russian imperialism and China's rise. NATO nations are nervous – and they are responding.

This short paper, on the heels of NATO's Washington Summit 2024, provides several examples of how NATO civilian and military leaders are enhancing readiness and deterrence efforts.

Key Points:

NATO is the global “gold standard” in mutual defense alliances. For a broader context on alliances and partners, please see: [Bancroft GEOIntelligence White Paper on International Business Risk Through the Lens of Alliances and Partnerships](#).

After two decades of decline in NATO's defensive capability, Russia's full-scale invasion has unified the alliance and its partners – the transatlantic community is stronger than ever. The war revolutionized NATO's military strategy, moving the organization to a more capable war-fighting alliance and enhanced deterrence by denial. It also shifted the balance of power in Europe to the East, ushering in the beginning of a strategic realignment. Defense spending is up across the Alliance – expect this upward trend to persist.

NATO support to Ukraine continues. The alliance is forming a new model to provide a larger pool of high-readiness military forces than the current construct supports. NATO also committed to providing €40 billion to Ukraine in the next year, and nations continue to provide needed weaponry, most notably badly needed air defense systems. NATO will continue to support Ukraine without becoming a participant in the conflict. Ukraine will not be the 33rd member of NATO any time soon, but NATO continues to support Ukraine in its war with Russia.

Europe is a special case economically speaking, noting that most of NATO is comprised of European nations. Mutual investment is the backbone of the transatlantic economy and dwarfs trade in other places. The U.S. and Europe make up 33% of global GDP; 61% of U.S. investment is in Europe and 64% of European investment is in the U.S. This is four times all of Asia and 26 times more than China. Further, Europe accounts for 56% of U.S. income. The transatlantic economy generates \$5.9 trillion in sales and \$1.7 trillion in services. Thus, Europe and NATO have a symbiotic relationship critical to U.S. prosperity and mutual interests/security.

Europe and China are mutual top tier trading partners. As such, European nations have been reluctant to hold China accountable for its support of Russia. However, in a striking turn of events, during the recent 2024 Washington Summit Declaration, NATO spelled out in very clear language that it now holds China accountable for its support of Russia.

The defense and technology sectors are poised for continued strength over the next decade, given NATO Alliance's increased spending commitments driving demand. Global corporations will need to maintain strict compliance with U.S. sanctions on Russia and China, as NATO attempts to control the aggression through economic measures.



GEOIntelligence@bancroft4vets.com

NATO's Value Proposition:

NATO is the Western world's number one security guarantor of Western values, beliefs, and way of governance. Almost 70 nations, including 32 NATO members and about 35 partners, work together to undertake political and military actions to address shared global challenges, including those involving Russia and China. Although challenging and time consuming, this collective work is critical to global security, stability, and prosperity. Otherwise, China and Russia would be unconstrained in their global ambitions.

NATO remains vitally important to the United States, as both it and Europe face threats from Russia. Deterring and defending as aligned nations is more cost-effective and more efficient than acting individually.

Though Canada and Mexico are the United States' top trading partners, Europe is close behind when foreign direct investment, the profit of owned-affiliates, and trade in services are considered. If geo-political and security aspects are likewise factored in, Europe is the United States' most important economic partner. The U.S. and Europe are strongly linked across all elements of national power (Diplomacy, Information, Military and Economic, of DIME), especially to include economics – thus, the U.S. and Europe collectively secure and support each other's national interests.

Defense Spending:

In 2006, NATO nation's Defense Ministers agreed that each nation would spend an amount equal to 2% of GDP on defense. In 2014, at the NATO Summit in Wales, the NATO nation's Heads of States and Governments reaffirmed this pledge. This reaffirmation, of course, was in response to Russia's 2014 invasion and annexation of Crimea. At the time, only the United States, UK, and Greece met the spending threshold. Four consecutive U.S. Administrations worked to convince NATO nations to increase defense spending. Then a dramatic change occurred in 2022 with Russia's massive attack into Ukraine. Existential threats drive nations to take defense seriously; Russia reinvigorated NATO with that threat. As such, today, 23 nations are meeting the 2% threshold, and collective defense spending for the alliance increased by 18% in 2024.

Article 3 of the Washington Treaty:

Article 5 of the Washington Treaty is likely the most well-known portion of the treaty. In short, it states that "an attack on one NATO member is an attack on all." However, at this year's summit, NATO placed significant emphasis on the lesser-known Article 3. Paraphrasing, this article states that national resilience is essential for credible deterrence and defense. It calls for each nation to establish and retain the capability to respond to a number of challenges, to include an external attack. The idea is that nations defend themselves initially until the slower, but more powerful, NATO response arrives. As the threat from Russia grows, expect the pressure to solidify national resilience in accordance with Article 3 to increase.

Ukraine:

The recent NATO Washington Summit was good, but not great, for Ukraine. The Ukrainian Government wants NATO membership as a means to end the war. However, many NATO members, including U.S. and Germany, believe that NATO membership right now will not immediately end the war, it will simply expand it. Their concern stems from Article 5, mentioned above. Nations do not want to admit a new member that is at war into the Alliance, as it will logically commit all NATO nations to enter in the war.

The language in this year's summit declaration amounts to polite political stalling regarding Ukraine. It keeps Ukraine on track to eventual membership, but clearly does not offer membership before the war ends:

"Ukraine's future is in NATO. Ukraine has become increasingly interoperable and politically integrated with the Alliance. We welcome the concrete progress Ukraine has made since the Vilnius Summit on its required democratic, economic, and security reforms. As Ukraine continues this vital work, we will continue to support it on its irreversible path to full Euro-Atlantic integration, including NATO membership."

There were a few helpful outputs from the summit worth mentioning. For example, NATO announced that Allies intend to provide a minimum of €40 billion to Ukraine within the next year, for security assistance.

NATO also announced it will establish NATO Security Assistance and Training for Ukraine (NSATU) to coordinate the provision of military equipment and training for Ukraine. This 700-man command will operate in Wiesbaden, Germany, the home of U.S. Army Europe-Africa, and it will be commanded by a U.S. three-star general. This is in addition to the 300-man U.S. Security Assistance Group-Ukraine (SAG-U), also commanded by a U.S. three-star general that operates out of Wiesbaden. Reportedly, SAG-U will operate as the U.S. component of NSATU. NATO mentioned in its 2024 summit declaration that NSATU will not make NATO a party to the conflict.

Additionally, several individual NATO nations, but not the alliance as a whole, announced that they would provide Ukraine with additional air defense systems including more American-made Patriot systems, as part of an agreement pledged during the summit.

Finally, NATO stated that it intends to appoint a NATO Senior Representative in Kiev, Ukraine.

China:

China and Russia are not separate national security problems for the U.S. or Europe – they are shared challenges. A good counter-Russia strategy is also a good counter-China strategy. In the short term, to more efficiently constrain China in the Indo-Pacific, NATO and European allies should continue providing robust support to Ukraine. This will create a deterrent and demonstrate how a unified community of nations can rally together in support of international order. Europe has finally recognized this, and the language from the Summit declaration is refreshingly strong. Some of the content of the declaration follows:

“The People’s Republic of China (PRC) has become a decisive enabler of Russia’s war against Ukraine through its so-called ‘no limits’ partnership and its large-scale support for Russia’s defense industrial base. This increases the threat Russia poses to its neighbors and to Euro-Atlantic security...The PRC continues to pose systemic challenges to Euro-Atlantic security. We have seen sustained malicious cyber and hybrid activities, including disinformation, stemming from the PRC. We call on the PRC to uphold its commitment to act responsibly in cyberspace. We are concerned by developments in the PRC’s space capabilities and activities. We call on the PRC to support international efforts to promote responsible space behavior. The PRC continues to rapidly expand and diversify its nuclear arsenal with more warheads and a larger number of sophisticated delivery systems...[as such] we are boosting our shared awareness, enhancing our resilience and preparedness, and protecting against the PRC’s coercive tactics and efforts to divide the Alliance.”

It bears noting that Europe has influence on China. Europe and China are each other’s largest trading partner – hence, Europe has leverage if it chooses to use it.

Concerns about a potential U.S. policy shift:

Many leaders across Europe are concerned that a U.S. policy shift, and subsequent reduction or removal of U.S. support to NATO, will leave Europe vulnerable to Russian aggression. Comments by U.S. senior leaders about withdrawing from the alliance and not honoring Article 5 fuel this concern. To stave off this threat, the 2024 National Defense Authorization Act passed by Congress, prohibits the President from unilaterally withdrawing from NATO without approval of a two-third majority Senate vote.

Bottom Line:

NATO is growing more serious about the threat posed by Russia and is taking actions accordingly. Defense spending is up across the alliance. Expect this upward trend to continue.

NATO support to Ukraine continues. The alliance is forming a new unit to take over the role of the United States. NATO committed to providing €40 billion to Ukraine in the next year, and nations continue to provide needed weaponry, most notably badly needed air defense systems. NATO will continue to support Ukraine without becoming a participant in the conflict.

NATO now holds China responsible for its support to Russia through very clear language in the Washington Summit Declaration. While the declaration alone will not change China's behavior, time will tell if NATO acts in alignment with its language in the declaration.

Economic Perspectives:

The defense and technology sectors likely will remain strong over the next decade given the NATO Alliance's commitment to increased spending driving demand. Continued focus on compliance with U.S. sanctions on Russia and China by global corporations will be necessary as NATO attempts to control the aggression through economic measures. Additionally, strategies to de-risk the NATO countries' trade imbalance with China will be a priority to provide greater economic leverage for the alliance.

This information is being provided for information purposes only and should not be construed as an offer to sell or a solicitation of an offer to buy any securities. Nothing in the material should be interpreted as investment, tax, legal, accounting, regulatory or other advice or as creating a fiduciary relationship. Product names, company names and logos mentioned herein are trademarks or registered trademarks of their respective owners.

Unless otherwise specifically stated, any views or opinions expressed herein are solely those of the author and/or the specific area from which it originates and may differ from the views or opinions expressed by other areas or employees of Bancroft Capital, LLC. The information described herein is taken from sources which are believed to be reliable, but the accuracy and completeness of such information is not guaranteed by us.

Bancroft Capital, LLC is a member of FINRA and SIPC.