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Simply Gone

AFTER THE TSUNAMI BIRD FLU ECONOMIC IMPACT MIS-SELLING EUROPE

pressures of adjustment within the system too painful to endure, it is unlikely its departure from the eurozone would be the only one. It is not just Italy which has been losing competitiveness at an impressive rate since the introduction of the currency. So has the Netherlands. The Dutch have now embarked on their own long, hard slog to make themselves competitive again, and perhaps, with their quasi-Germanic grit, they could see it through.

In Spain, costs have been racing away nearly as rapidly as Italy's. For the moment the country can continue to grow, but in a few years it may find itself precisely where Italy is today, facing a decade of austerity. This can happen to any member state where costs get seriously out of line.

And what about the new entrants to the EU? The east European countries have formally undertaken to join the eurozone once the convergence criteria have been met, and some may do so in the next few years. These countries' economies, as Italy was, are typically more inflationary than existing members, and they could find their ambitions to match western living standards, following a couple of decades of rapid growth, halted by austerity policies forced on them as a result of EU membership. Is it conceivable that such a development will be acceptable to them? If they fail to draw the correct lessons from Italy's experience since 1999 and join the eurozone nonetheless, their membership may not last very long.

Once one country has left the euro, members facing many years of corrective policies will approach their problems with a quite different mindset. Whether or not it is a preferred policy, withdrawal is bound to present itself as a possible option. In some cases it will not happen, but in others it may well. The financial markets would react far more quickly to the possibility of departure in the new circumstances than they are likely to at present, again increasing the chances the eurozone will fragment.

A monetary system which removes control of interest and exchange rates from individual governments, and which at the same time includes members with relatively fragile political regimes, and allows free movement of capital, is unlikely to survive indefinitely. The creation of the euro was supposed to help bind members of the EU together as an important step to ever-closer union. But it is at least as likely to prove a source of instability. The zone may not finally disintegrate but, given the pressures, the euro club may well be significantly smaller in ten years than it is today.



EUROPE ENLARGEMENT AND THE EU

James Pettifer

Remaking Europe

By deciding to open membership talks with Turkey, the European Union has torn up a longstanding approach to dealing with nearby Moslem nations. Instead of containment at arms length with buffer states, Europe is proposing an embrace. The process will also alter links with Balkan states, offering new influence to central Europe.

IN A NOW FORGOTTEN WORK, 'BUFFER STATES OF THE BALKANS', SIR HARRY Gregson wrote in 1939 that 'the Serb loves the all-powerful nation, as he loves the all-powerful politician'. Former Serbian President Slobodan Milosevic is the most recent example, but following his political demise, Serbs and all the other Balkan nations have been encouraged to love the European Union (EU) as the modern successor to the all-powerful European powers.

In turn, the European public was expected to welcome the Balkans. The rejection of the EU constitution by French and Dutch voters in May and June has cast a shadow over this established, but complacent perspective. European public opinion on Balkan enlargement has not been tested as it has over Turkey, but there is little reason to suppose there is any greater popular appetite for it.

In the aftermath of the wars of Yugoslav succession, the region is seen at the popular level in most European countries as a backward, difficult peninsular, with few assets. There are potentially many liabilities, such as unwanted migrants, organised crime, a substantial number of Moslems and a majority peasant population.

Balkans Too

The agreements to admit Bulgaria and Romania are supposed to come into operation within a year, but on almost any objective assessment both countries have a very long way to go before achieving even the required basic minimum institutional development, legal reform, rule of law and business transparency.

There is little sign that the large amount of new legislation being passed in the two countries has changed business, the legal system or relations between the state and the citizen. The practical difficulties in stopping the accession process may lead to these nations being admitted, with the institutional failings glossed over, but a large question mark remains over Serbia and the western Balkans, particularly Albania and Macedonia.

This was recognised in recent speeches by Serbian President Boris Tadic, who said that, 'Europe will not be complete without the Balkans', and by Albanian President Alfred Moisiu, who argued that the western Balkan region should be considered for accession as a whole. Yet to open talks would be to abandon almost all meaningful criteria for EU membership.

Macedonia has just been granted candidate status. However, if talks begin, they would breach a key EU criteria that new members cannot be admitted when they are in dispute with neighbours – over the name with Greece, and where the aftermath of the 2001 war has yet to be fully resolved. The future of Serbia-Montenegro is very unclear. Economic life in Albania is improving dramatically



for the top third of the population, but the majority is in severe poverty and institutional change is very slow.

These questions could have remained unanswered, if the Balkan candidate nations continued as essentially semi-Christian buffer states between Christian Europe and the Moslem east, in line with the traditional international relations model.

The accession process could have been extended more or less indefinitely, with some EU funding to assist market access and infrastructure development, but without offering exaggerated prospects of political union. In particular, the threat of mass population movement into northern Europe associated with full membership rights could have been avoided.

This approach was central to the founding of the first Yugoslavia after the 1919 Treaty of Versailles and accounts in part for western tolerance and special relationship with Josip Tito's communist regime. As a state it had a special role in the control of regional peoples, particularly those professing Islam, and a way of containing its spread into Europe.

Bosnia Barrier

The possibility of full membership for Turkey, even after the rejection of the Constitution has broken this mould, especially when seen alongside the opening for inclusion of Croatia. It marks Croatia as the decisive, perhaps overwhelming victor of the wars of Yugoslav succession.

The previous decision not to start admission talks with Croatia was revoked in a deal to pacify Austrian opposition to the opening of negotiation with Turkey. The British position that Croatia and Serbia should move in parallel towards the EU was ditched, a decision that may have serious long-term implications for regional stability.

Croatia is already a regional economic magnet, while Serbia continues in the relative doldrums. Both countries have interests in Bosnia, yet its future with the EU is totally unresolved. It was, until very recently, the only country in the region with no accession process under way. An economically booming Croatia is bound to offer attractions for the Croatian part of Bosnia. The issues of legality, justice, democracy and the rule of law in Croatia are also inextricably linked with Bosnia.

Now the European Commission has agreed to open talks on a Stabilisation and Association agreement. The plan needed the approval of all 25 members and was carried despite issues like that of Radovan Karadzic indicted for war crimes, but not so far in the hands of the International Criminal Tribunal for the former

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Yugoslavia at The Hague. From the point of view of Zagreb, the arrival in custody of General Ante Gotovina, accused of war crimes, has removed one of the last difficult issues with the EU.

The decision, in defiance of European public opinion, to open talks with Turkey, with its odd mixture of wild reform utopianism, ignorance of military realities – because of the renewal of the Kurdish insurgency and the genuine national security difficulties the Turkish army has, is likely to heighten expectations in the Balkans.

EU talks are supposed to buttress moderate political forces, particularly through economic incentives and funding during accession. The decision on Croatia is entirely understandable at one level, and will strengthen the current moderate nationalist government in the short term. But on a three to five year view, the economic effects are likely to strengthen, not reduce, nationalism as Croatia grows into a dominant mini-regional state. Serbia's status is

about to be further reduced by the 'loss' of Kosovo in the forthcoming political talks. That will only increase Croatian regional predominance.

It remains to be seen whether the Austrian scheme for an EU special relationship or privileged partnership with Turkey, short of full membership, will survive. It is likely it will. Anti-Turkish forces will make every effort to turn the negotiations into a very lengthy and tortuous process. They will calculate that, in all probability if sufficiently extended, the process will run into the sand. There is perhaps reason to suppose that, in the medium term, Ankara may feel it is better to settle for the half of the EU cake which is highly economically beneficial, but without full membership.

Again, seen on a three to five year view, it is Austria and the so-called Hapsburg regional focus that is the real victor of the Turkish dramas. Croatia, unlike virtually all other Balkan candidate countries, does have the institutional development and economic dynamism to meet EU accession criteria easily, and the issue of war crimes is now only likely to be a minor background factor. It will be hard for internal opponents of membership to do much to delay it.

Yet the Austrians and like-minded nations, probably including the new German government, can easily find ways to delay progress with Turkish negotiations. There are many factors that will justify this, such as the total failure of all Turkish governments to come to terms with historic problems for example the Armenian issue, and difficulties with Cyprus, the role of the National Security Council, the constitution, population movement and visa issues, the Kurdish insurgency and agricultural finance. There is hardly a single aspect of EU activity or institutional practice where membership would not involve dramatic change if Turkey is admitted.

Presumably those pressing most strongly for Turkish membership – Britain and the United States – hope the talks will be a catalyst for these internal changes. But there is no sign whatsoever that these hopes are other than utopian. On the big issues, all efforts to reform the Common Agricultural Policy founder, the Turkish military cannot surrender much more of its traditional special role without seriously inhibiting its capacity to contain Kurdish insurgents, and there is no realistic hope that Europeans will be willing to welcome a Moslem-majority nation the size of Turkey.

The Turkish decision has handed regional influence over the northern Balkans back to Austria and its friends in a way that has not been seen in the region since the Hapsburgs sought to expand southwards from Trieste and Istria in the early twentieth century.

