



Compass 2020

Germany in international relations
Aims, instruments, prospects



The European Union and the Post-Communist Sphere

Integration, European Neighbourhood
Policy and Strategic Partnership

Michael Ehrke

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The Compass 2020 project represents the Friedrich-Ebert-Stiftung's contribution to a debate on Germany's aims, role and strategies in international relations. Compass 2020 will organise events and issue publications in the course of 2007, the year in which German foreign policy will be very much in the limelight due to the country's presidency of the EU Council and the G 8. Some 30 articles written for this project will provide an overview of the topics and regions that are most important for German foreign relations. All the articles will be structured in the same way. Firstly, they will provide information about the most significant developments, the toughest challenges and the key players in the respective political fields and regions. The second section will analyse the role played hitherto by German / European foreign policy, the strategies it pursues and the way in which it is perceived. In the next section, plausible alternative scenarios will be mapped out illustrating the potential development of a political field or region over the next 15 years. The closing section will formulate possible points of departure for German and European policy.

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Abstract

With the Eastern enlargement of the EU, the Eastern Bloc – once perceived as homogenous – was divided into two segments: the Central European EU member states and the non-member states in East and South Eastern Europe. Whereas a *virtuous circle* of transformation and integration is anticipated for the new members, the EU's relationship with the non-member states can only be labelled "uncertain". What constitutes this uncertainty is the direction the countries in East and South East Europe will take, what threats may emanate from states, societies and economies that are defective, what the costs for the EU will be as a result of illegal transactions and acute conflicts, the nature of the EU's future energy policy and which actors (elites) it will have to deal with.

After the last enlargement round, the EU evolved three policy approaches towards the post-communist region: in South East Europe, the enlargement process has been grinding to a halt, but is in principle to be continued; for Eastern Europe (and the Mediterranean) the European Neighbourhood Policy was conceived and the question of EU membership omitted for the time being; and relations with Russia are to be continued under the banner of a "strategic partnership" in order to accommodate the special status of the Russian Federation. But the EU's Eastern policy is only a harmonious and differentiated strategy at first sight, in tune with the diverse nature of its neighbourhood region. It is also a strategy of damage limitation that vacillates between the principles of the Treaties of Rome and assurances given on the one hand and the fear of new and unpopular enlargement on the other.

The future of the EU's Eastern European policy will depend on whether and to what extent the *virtuous circle* envisaged for Central Europe can stay the course. The first scenario assumes that Central European economies continue to be modernised by foreign capital, that efforts to overcome the extreme dualism in these economies are also successful, modern job opportunities can be created and political dissatisfaction and apathy overcome. This would lead to a situation where prosperity in Central Europe would spread to the rest of the post-communist region, where the elitist groups would gradually start to initiate reform processes based on the Central European model.

A second scenario assumes that the Central European course of development fails, bringing in its wake an increase in the influence of anti-European-populist forces. Russia, on the other hand, succeeds on the basis of its resources of energy and raw materials in creating an integration sphere of its own, cut off from competition from the West, while at the same time benefiting from the global energy and raw materials boom (the Eurasian Miracle).

A third scenario is based on the assumption that Central Europe prospers, but Eastern and South Eastern Europe stagnate, meaning that living conditions on the two sides of the Eastern border diverge. The EU's Eastern border becomes a sort of frontier between the systems, thus providing the basis for a specific type of economy aimed at overcoming the division by illegal means (the limes and the barbarians).

I. From Opposing System to Exporter of Instability: the New Perception of the “East”

With the collapse of the Soviet Union, the area over which it ruled became an immediate neighbour of the EU. In the Cold War decades, neighbourhood could only be meant in the geographical sense: interaction over the Eastern border was kept to a minimum. The almost impregnable Iron Curtain prevented the cross-border movement of people, commodities, capital and information, but it also protected the EU from the dangers emanating from the economically unviable Eastern bloc, held together by political repression. With its collapse, the biggest threat vanished: the worst case of a war conducted with nuclear weapons. At the same time a number of economic and political cooperation options opened up. But the new opportunities brought new uncertainties which now resulted not from the confrontation of two opposing systems but from the interaction over increasingly penetrable borders. Chernobyl could be described as the defining moment, anticipating the negative face of the new East-West relations. This time the threat did not come from a political opponent with modernized weapons but from the fallout from defective or crumbling regimes.

I.1 Eastern Enlargement and the EU’s New External Border

At the end of the Cold War, the Eastern bloc, hitherto perceived as homogenous, divided into two segments: on the one hand the states the EU credited with a perspective and who also aspired to this goal, and on the other hand, those states not accorded this perspective and not likely to acquire it in the foreseeable future. The new division into two parts is not without a historic foundation: it presupposes a separate historical identity for *Mittleuropa* which had also distanced itself from Russia and later from the Soviet Union. The Hungarian historian Jenő Szűcs drew up an outline of the “three historical regions in Europe” in the 1970’s showing *Mittleuropa* as an entity *sui generis* on the grounds of the economic, social and cultural affinity between all its parts.¹ For the dissidents of the time too, *Mittleuropa* was the point of reference which seemed to underpin their call for democracy and the rule of law.² But *Mittleuropa* disappeared in that precise moment when it became associated with the EU. The EU is a union of Western democracies that does not cater for historical idiosyncrasies. The special status the Central European dissidents claimed for their region was acceptable as long as the region was part of the Soviet hegemony. After integration into the West, it became an anachronism or shrank to the dimension of a EU regional sub-group, comparable with the Scandinavian or Mediterranean members states.

The decision by the EU to absorb eight former communist countries into Central Europe was motivated less by historical than by security considerations. The wars in Yugoslavia and in the Caucasus had brought home dramatically the conflict potential latent in post-communist transformation countries. In integrating the post-communist countries of Central Europe, the EU was using its strongest foreign policy weapon in order to defuse this conflict potential in its immediate neighbourhood. The Union stabilized its Eastern neighbours in absorbing them and bringing their institutions into line with its own. The underlying assumption was the integration of Central Europe would bring about prosperity and create a variety of economic, political administrative networks, with the result that violent domestic and intergovernmental conflicts would in future become unlikely. Basically the EU’s Eastern enlargement repeated the process involved in its own founding: peacemaking by merging economic – but not only economic – interests.

1] Jenő Szűcs, Die drei historischen Regionen Europas, Frankfurt a.M. 1974.

2] György Konrád, Die Erweiterung der Mitte. Europa und Osteuropa am Ende des 20. Jahrhunderts, Vienna 1998.

Ideally the integration of Central Europe was to release the following chain of actions:

- the approximation of institutional frameworks in Central Europe will lower the risks for international transactions, especially for foreign investments;
- foreign investments will bring about the modernisation of national productive capacities and their integration in European (or global) production and marketing networks;
- integration in external markets, backed by EU structural funds, will create prosperity and encourage social integration by making available modern commodities, services and jobs;
- economic and social integration enhances the satisfaction of the population and ensures their acceptance of the democratic and capitalist system.

Today, almost 17 years after the system change and three years after the accession of the Central European states to the EU, the question can be asked as to whether and to what extent this chain of action, this *virtuous circle* of European integration and internal transformation, has in fact come about. The answer is ambivalent. Large sectors of the local economy were modernised by foreign investments and absorbed into the international markets at a comparably high technological level. But modernisation created dualistic structures, not integrated economies. Because of the low level of employment intensity in the modernised economic segment, only a minority in the population benefited from export-oriented growth sustained by foreign companies. Hence the absence of the hoped for political dividends of prosperity backed up by statistics if not actually 'felt' by the majority. The acceptance by the population of its own democratic system is weak, as regularly demonstrated by surveys and most indicators of political participation (election turn-outs, party memberships, citizens' initiatives, NGOs and social advocacy organisations). Thus it is still too early to speak of a successfully concluded process of transformation and integration.

In the old EU too, Eastern enlargement is seen at best as a mixed success. The comparative unpopularity of the Union revealed in the referenda on the EU constitution in France and the Netherlands is also blamed on the new members. Increasing social tension in the old member states is also attributed to enlargement – as if the harmony of a once idyllic community had been disturbed by Polish plumbers and Hungarians abattoir workers. Social tensions do not result from enlargement, however, but from the fact that economies with different income levels and social standards are linked worldwide and in Europe by *markets*. Thus the integration of countries with different income levels in one regulated community is not a problem, but an important step towards a solution. It makes it possible to find a common solution to the unwanted consequences of market integration, which is easier than if there were no common institutions.

But enlargement was and is unpopular and is seen by the general public in Western Europe as a typical blunder by a European bureaucracy that has lost contact with the grass roots. Political action has indeed become more difficult in an enlarged Union. The gap between levels of development has widened following Eastern enlargement and the greater number of actors involved – and the resultant greater clash of interests – means that the demands made upon a common "management of diversity" have definitely increased. Eastern enlargement has made any further rounds of enlargement seem less likely or has deferred them until some distant date.

I.2 Uncertainties in the Post-communist Neighbourhood Region

The integration of Central Europe made the EU's Eastern border into a kind of border between the systems. Systems on the other side of the border are largely defined as negative. The countries of East and South East Europe do not conform to the standard of modern capitalist democracies. Yet these countries are not typical third world or newly industrialised countries either (the Mediterranean, not the Eastern border, is the border between the EU and the third world). It is not clear whether and how swiftly the post-communist countries of East and South East Europe can emulate the transformation of their Central European neighbours, whether they are stuck or stagnating in some transitional phase or whether in all or some of them a *new*, stable economic and social order, a new constellation between the spheres of politics, economics, society and justice is starting to emerge. The keyword that defines how the EU sees the post-communist region is therefore *uncertainty* – in relation to future developments in the region, but also the actual threats it poses.

Defective Regimes

Regimes to the east and south of the EU are notable mainly for their defectiveness. States are defective if they do not possess adequate democratic legitimation on the input side and on the output side fail to deliver certain services and benefits that a modern state is expected to provide. The most important thing it can provide is security as a public good available to all its citizens in equal measure. Linked to this is the creation and maintaining of a judicial and contractual sphere largely free from political or coercive intervention in which economic transactions and social interaction can take place. This sphere is either non-existent in the countries south and east of the EU or is not sufficiently protected – a situation often described by the term “corruption”.

Indicators that assess the quality of governance illustrate the deficits in post-communist states. The method developed by the World Bank for this purpose may be controversial, but it is at least a starting point. World Bank data measure government conduct in six categories: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. On a scale reaching from -10 (worst possible governance) to + 10 (perfect governance), the post-communist states together rate much lower than Western Europe, but vary considerably among themselves, with Central Europe and the Baltic states at the top of the hierarchy, followed by South East Europe, the Western Balkans and Eastern Europe.

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Central Europe and Baltic states	3,71
Bulgaria, Rumania, Croatia	0,12
Western Balkans	-4,00
Russia, Belarus, Ukraine	-4,66
by comparison: Germany	8,33

Integration, European Neighbourhood Policy and Strategic Partnership

Defective states are the result of defective societies. Communism was only the final phase in a historical process that prevented the formation of a “civil society”, an economic and social sphere not dependent on the state. It took centuries for this autonomous sphere to evolve in Western Europe and it is the foundation both for democracy and capitalism.

This long period of development could not be achieved in the seventeen years since the collapse of Soviet hegemony. Instead the Eastern and South Eastern transformation countries inherited the patronage networks and client-focussed circles which were also informally in place under communism. The weakness of “civil society” often deplored in the West is only a bi-product of an underdeveloped bourgeois society.

Post-communist societies are also defective in other senses. The traumatic experience of social collapse and an anarchic process of transformation destroyed or undermined what was left of the social solidarity which had grown during the communist era – either in opposition to the regime or in the niches it offered. Breakdown and transformation brought social anomie in their wake, a social lawlessness which allowed the elite to grow rich unhampered by any normative restrictions and apparent in the majority of the population in the form of high crime figures, alcoholism, the spread of AIDS and other indicators of social decline. The minimum of trust needed by a functioning market economy and functioning democracy alike could not develop in a climate of lawlessness. The absence of “organic solidarity” in turn brings about a recourse to personal, family, ethnic, religious and clan networks, which again stand in the way of the development of modern social relationships.

Defective economies

Defective states and societies in their turn lead to defective economies, since they are not able to create the conditions under which the vast majority of the population can earn a proper income by legal work or legal investments. Most of the population is experiencing a critical downgrading of living standards – even in comparison to the period of communist rule. The elite find it more attractive to accumulate income from the privatisation and redistribution of former state assets than to create new production capital. The degeneration of some economies to raw material export economies exacerbates this trend towards *rent-seeking*. At the same time – and linked to this – risky but profitable illegal transactions can be more attractive than transactions in the legal economy. A large part of domestic product is earned in a legal grey area or illegally.

Non-conventional transactions.

The overall situation of the states, societies and economies in the East and South East of the EU is perceived as defective and makes the region a potential *exporter of instability* for the EU. This export can be unintentional, in the form of fallout from economic, social, technical or health disasters – as after Chernobyl or as a result of the financial crisis in Russia in 1998. Exporting instability can also be deliberate. Its medium is transnational, illegal or semi-legal transactions. *The Eastern and South Eastern external border of the EU is the basis of an economy governed by parallel trade.*

Together with North America and East Asia, the EU is one of the three transnational regional economic systems within and among which a large part of conventional transactions – legal, quantifiable transactions fiscally and statistically ascertainable – are conducted.³ The EU is a part of the formal centre of the global economy. The periphery, to which for this purpose East and South East Europe also belong, is only integrated into this centre in certain areas like the export of raw material for instance, and not by trade and investment relations between equals. This also means that the economic actors on the periphery have the advantage of being uncontrollable outsiders, capable of occupying the illegal niches in the centre. Non-conventional transactions such as parallel trade ob-

3] On the following see Mark Duffield, Internal Conflict. Adaptation and reaction to Globalisation, Corner House Briefing 12. <http://www.thecornerhouse.org.uk/item.shtml>.

tain their profits from the price differences in the various regulated areas. Trade benefits quite naturally and by its very nature from local and regional price differences. But in the case of parallel trade, this advantage can only be gained if the law is broken. Its traditional form is smuggling with legal commodities, but it also includes trading with illegal goods such as drugs, toxic waste, human organs or weapons, trade with goods protected for ecological or consumer protection reasons by patents, brand names or copyrights, and trade with human beings (prostitution, illegal labour migration). It entails service networks in the demand countries (prostitution, drug trafficking) and the laundering of profits. Parallel trade is unproductive but profitable. Since it involves high risks, it is usually the domain of ethnic, religious, family or clan networks in which trust between the various members means that costs and risks can be minimised.

These transnational, non-conventional transactions are generally regarded more as a sort of alternative form of business rather than a branch of the economy in their own right. However, Barnett Rubin has demonstrated with the example of Afghanistan under Taliban rule that an entire national economy can be integrated into the global economy by means of illegal transactions.⁴ The share of criminal transactions in the domestic product of Albania is estimated at 50 percent.

Conflicts which are frozen or acutely violent

The EU's East and South Eastern neighbourhood harbours a number of open or smouldering conflicts whose fallout are also transnational and can potentially spread instability into the EU. Some examples are the status of Kosovo, the "Albanian question" (relations between Albania, the Kosovo-Albanian majority in the population and the Albanian minority in Macedonia) the status of the "entities" Bosnia-Herzegovina, the frozen conflicts between Moldavia and Trans Nistria, Armenia and Azerbaijan, Georgia, its renegade regions and the Russian Federation and also the only current conflict that is acute, the second Chechnyan war. Conflicts of this kind entail enormous costs in human, economic and environmental terms. They export instability in the form of refugees, they destabilise the countries and economies involved and are the cause of political and social regression processes. Yuri Andrienko and Louise Shelly show the force of the spill-over of the Chechnyan wars currently in criminalising Russian society.⁵ Violent conflicts force the external stabilising powers to commit considerable personnel and financial investments, as in the *de facto* protectorate of Kosovo and Bosnia and in extreme cases to military intervention. The EU is particularly vulnerable to the follow-up costs and problems resulting from these conflicts because they disturb the balance of power between the member states, force the EU to militarise its foreign relations and can also tarnish its self-image as a "force for peace".

Violent conflicts are also a driving force behind the export of instability because they are closely related to the illegal parallel trading already mentioned. Sometimes the conflicting parties finance their disputes with illegal transactions, sometimes the networks involved in illegal trade benefit from the favourable conditions created by violent conflicts, such as the occasional astronomical price discrepancies between combat zones and those zones not currently affected by fighting. In conflict zones, trading with weapons, military services, stolen and ransacked property, the evasion of embargoes, seizure of international aid and sale of security are especially attractive sources of income. The link between the financing of the Yugoslavian wars and criminal networks surrounding the battle zones

4) Barnett Rubin, The Political Economy of War and Peace in Afghanistan. Paper presented at the meeting of the Afghanistan Support Group, Stockholm, Sweden, 21 June 1999.

5) Yuri Andrienko and Louise Shelley, Crime, Violence, and Political Conflict in Russia, in: Paul Collier und Nicholas Sambanis (Ed.), Understanding Civil War, Washington (World Bank) 2005.

has been vividly described by Xavier Bougarel.⁶ Conflict zones are the centres where the networks that have an interest in continuing instability and that are responsible for non-conventional parallel trade are born, socialise and multiply.

Energy Supply

The collapse of the Eastern bloc and its internal supply and subsidy systems means that the energy and raw material reserves of the Russian Federation – and in future of the Caspian Sea region – became available to the markets of the EU. The EU currently gets 25 percent of its crude oil and 40 percent of its petroleum gas imports from Russia. In this way dependence on the Middle Eastern problem area was lessened.

The EU's reliance on the raw materials of its Eastern neighbours becomes stronger, however, in an economic situation where global demand for energy and raw materials is rising and raw material markets have once again – as in the 1970's – become sellers markets.

In spite of a favourable diversification of sources, the EU's dependency on the post-communist region for energy poses a dual problem. *Firstly*, energy supplies from the East are not organised in a way that reflects the EU's preferences, i.e. by free markets that include freedom of investment for Western enterprises and through a multilateral regulatory regime. The Russian Federation will not open up unreservedly to the free market but will use its energy and raw materials reserves to serve its geopolitical ambitions. This makes the temptation greater for some EU member states to conduct their energy policy according to geopolitical considerations too. The politicisation of the energy market on both sides poses a threat to the unity of the Union in a key policy area and particularly affects relations between old and new members. It creates new uncertainties and raises the question of the possible political price the EU and its members will have to pay for the security of energy supplies. This geopolitical approach also goes against the grain of a Union that was founded in the spirit of the civilising effect of the markets and the multilateralism of liberal regulatory regimes. The *second* point in this context is that the transit areas gain in geopolitical importance by the geopoliticisation of the energy markets and the close alignment of Eastern European and Central Asian energy reserves to the EU market. The conflict zones in the Caucasus and Central Asia thus gain a "global political" dimension. Markets are structured and distorted by the forming of global axes (roughly: USA – Turkey – Azerbaijan – Georgia versus the Russian Federation – Armenia – Iran) making them an unpredictable area of conflict.⁷

The Unpredictable Elites

Uncertainty also governs the EU's relations with the elite groups which emerged in the post-communist region during the transformation process. It is not clear what convictions, mores and predispositions EU policies on foreign affairs, enlargement and neighbourhood will encounter in dealing with these local elites.

In the entire post-communist region, the emergence of local economic and political elites took the form of a *self-transformation of former communist political and functionary elites*. This does not mean that newcomers – witness the role of emigrants in the Baltic States and of imported elites in East Germany – cannot occupy high ranking positions in politics and the economy. Generally speaking, however, the leadership groups who

6] Xavier Bougarel, Zur Ökonomie des Bosnien-Konflikts zwischen Raub und Produktion, in: François Jean und Jean-Christophe Rufin, Ökonomie der Bürgerkriege, Hamburg 1999, P. 191–218.

7] c.f. Uwe Halbach, Erdöl und Identität im Kaukasus, in: International Politik und Gesellschaft 1/2003.

dominated the communist youth movements in the whole of Central, East and South East Europe in the 1980's are largely identical with the current *Who's Who* in politics and the economy.

The fact that the political and economic elites have evolved from the old communist functionary elites does not mean, however, that there are no democratic, pro-European and pro-capitalist ruling groups who could be reliable interlocutors for actors in the EU. These forces are there in nearly every country in the post-communist region, albeit with varying degrees of influence. But they coexist with other elite factions. Four types can be identified as models:

- In Central Europe, the transformation process was dictated by the rapid privatisation of state assets and the massive influx of foreign capital. This resulted in the local elites forming or reforming in close association with foreign investors. The former communist functionary elites had both the inside knowledge and the required political connections enabling them to act as intermediaries between international investors and local politicians. Naturally there are also independent entrepreneurs in Central Europe who knew how to fill the niches overlooked by international corporations. What Lawrence King termed the *comprador intelligentsia* dominates, however, that ruling class who owe their influence and wealth to their intermediating activities for international corporations.⁸
- In those countries where the collapse of the old system took the form of a war or civil war – in the Balkans or in the Caucasus – the formation of new elites took place in close association with a “violent entrepreneurship”, that social group who had understood how to turn violent conflict to their economic advantage.
- Some Eastern European countries are dominated by *oligarchs*. Oligarchy owes its existence to the uncertain legal situation during the initial phases of transformation. The oligarchs had to be able not only to take over and privately run large state economic complexes, they also have to look after the security of their transactions themselves, which means simultaneously taking over the state functions of the police and judiciary. One characteristic of oligarchs is that they can assert themselves against organised crime and do so without the effective support of the state. In the West they often carry the image of “anarchists”. Yet we should not forget that in one country today seen as a success story, the elites emerged under similar circumstances: the USA, where the *robber barons* in the 19th century laid the foundations of American capitalism.
- A fourth type of transformation elite is the *bureaucracy* that was able to survive the change of systems without reform or completely re-form, often in association with the violent entrepreneurship and organised crime or, as in the Russian Federation, with the oligarchs.

It is only in the *comprador intelligentsia* that the EU meets representatives of an elite whose interests largely correspond to the interests of its own elite and who are receptive to EU initiatives and are, to a certain degree, capable of consensus. The nature and beliefs of these ruling groups resembles those of the West European *mainstream*; their radical market orientation is stronger than in Western Europe. They are virtually immune to any social democratic attempts to fence markets in. The EU will be able to gain support from the *comprador intelligentsia* mainly for the type of initiatives which amount to “negative integration”, the reduction of trade and investment barriers and expansion of

8] Lawrence P. King, *The Basic Features of Postcommunist Capitalism in Eastern Europe: Firms in Hungary, The Czech Republic, and Slovakia*, New York 2000.

the “four freedoms” (free movement of people, goods, services and capital). This will not be so easy as regards consolidation of political integration, development of a European social model or a common foreign and security policy.

The interests of the other three types of elite are diametrically opposed to EU interests. The violent entrepreneurs have an interest in the continuation of borders whose unlawful crossing constitutes their primary source of income. They have no interest in the emergence of efficient constitutional states or a formal taxable and regulated economy. The clash of interests applies to the oligarchs in a modified form: provided their profits come from income from raw materials, they have an interest in favourable outlet markets, but not – and this also applies to foreign enterprises – in open markets and multilateral regulatory regimes. If they operate outside the energy and raw materials sector, their interest lies more in protecting their activities than in open markets, where they could probably not (yet) compete. And the bureaucrats view the EU primarily as a geopolitical competing project, an actor succeeding the West they formerly opposed in attempting to spread its influence to the post-communist region.

II. European Foreign Policy: three Approaches to EU Eastern Policy

There are doubts as to whether the EU conducts a foreign policy at all. The Common Foreign and Security Policy is a fragile enterprise, since the veto of just one of the 27 member states is sufficient to block any joint initiative. The Polish veto recently put paid to a long-term partnership agreement with the Russian Federation. In contrast to the EU’s weakness in traditional foreign policy, *enlargement policy* was and is a genuine European and relatively successful foreign policy approach in the past. The EU was much more successful in integrating, stabilising and bringing democracy to its southern and eastern periphery than the USA in the Caribbean and Latin America.⁹ This would suggest continuing the enlargement process in order to have protection against potential instability and threats from the post-communist neighbourhood region. This, however, is not considered a possibility, in the medium term at least, in the light of the EU’s internal situation, seen as critical, the “mixed” results of Eastern enlargement described above and the strain over 40 members would place on institutions. At the same time, the EU cannot wall itself off. Segregation is neither desirable nor possible in a globalised world. But more importantly, walling-off applied consistently would rob the EU of all the chances offered by the new opening of its Eastern border. Thus all that remains is a compromise solution: a neighbourhood policy that goes beyond traditional inter-government foreign policy but can function without any membership perspective.

The European Union pursues three specific concepts towards its Eastern and South Eastern neighbours:

- The process of enlargement is intended to continue in South East Europe, but threatens to stagnate after the accession of Bulgaria and Rumania.
- For Eastern Europe, but also for the southern and eastern Mediterranean, the concept of European Neighbourhood Policy was formulated – something that is less than integration but more than traditional foreign policy.

9] Europe’s mid-life crisis, *The Economist*, 17.3.2007

- Russia was accorded a special status with the Strategic Partnership. Here – on the part of the EU and its member states – traditional foreign policy dominates.

The EU's new "Ostpolitik" seems at first sight to be a rational and differentiated approach to a neighbourhood region that has set itself apart. In reality, however, it is an attempt to contain damage, both externally and internally. The EU's new Eastern policy is walking a tightrope: on the one hand, the Treaties of Rome offer "all European states" membership, provided they fulfil the conditions set down in the Copenhagen criteria. An open break with the enlargement perspective would undermine the EU's international credibility. On the other hand, the EU does not want to ask too much in the form of an active enlargement policy either of itself nor its member states. The hesitancy with which the integration of the Western Balkans is proceeding and the at least temporary withdrawal of a European perspective for Eastern Europe are signs of a reluctance to risk waking the sleeping dog of xenophobic populism. The EU is performing a balancing act between its principles and the assurances it has given on the one side and the opportunism dictated by internal political necessities on the other. Under the prevailing conditions it needs to be as open towards its neighbours as its internal situation allows and at the same time pay due heed to the reservations of the opponents to enlargement.

In so doing the EU, in its relationship with the post-communist region, is doing precisely what it is trying to protect itself against: it is exporting instability. By its very existence and quite apart from the interventions of the past, the EU has become an important domestic political factor in all countries of Eastern Europe. The "European perspective" is the anchor to which pro-European and reform oriented forces are clinging. Yet this anchor no longer offers any security. Just as EU actors have little idea of where the frontiers of the Union will ultimately be drawn, the forces of reform in the region know equally little about what they can expect from the EU in the longer term.

II.1 South Eastern Europe: Continuing the Integration Process

In its statement at Thessaloniki in 2003, the EU assured all countries in South East Europe of a membership perspective. This assurance is crumbling, but has not been formally retracted. There is to be enlargement without a European constitution and any enlargement (after Croatia) will have to be approved in France by a referendum. Membership is therefore by no means certain for the Western Balkan countries and in particular for those forces who are EU oriented.

The fact that the offer of membership for the Western Balkan countries is formally upheld is due in no small degree to the EU's inauspicious involvement in the regional conflicts of the past. The EU was incapable of preventing the war in Yugoslavia and it could not contain the war after it could no longer be prevented. The traditional instruments of sanction turned out to be blunt weapons and the EU was neither in a position to make a credible threat of military force nor carry this out in practice. It was the USA that ended the war in Bosnia and carried the main burden of the Kosovo war. It was not until the war had ended that the EU was able to play a role in Kosovo and Macedonia as a peace keeping power. Here it developed a new approach which could be described as typically European. As part of the *Stability Pact*, it pursued a strategy towards the entire region in which the prevention or consolidation of conflict, economic integration (the whole of South Eastern Europe became a free trade area under the mantle of the stability pact) and democratisation became interrelated.

But the EU counterbalances this regional approach with a policy of membership according to the regatta principle, with each country implementing the *acquis* individually and ac-

ording to its abilities before becoming a member of the EU. The EU does not negotiate with the region as a whole, but bilaterally with each single country. The path to membership consists of a series of steps for each country: from a feasibility study to an association agreement, then candidate status, then membership. Since the states in the region take these progressive hurdles at different paces, approximation to the EU according to the regatta principle results in a hierarchy among these states as to how they are institutionally linked to the EU reaching from full membership (Greece and Slovenia, Bulgaria and Romania as from 2007) from candidate status without a date for membership (Croatia and Macedonia) association status (Serbia, Albania) and pre-association status (Bosnia) down to no formal link at all (Kosovo). This means that with every new membership, the wider the gap between those states outside the EU and their neighbours. As the number of Balkan countries becoming EU members grows, the more precarious the situation for those who are not yet part of the Union but are surrounded by members newly advanced by the EU. Integration according to the regatta principle thus leads to a new segmentation of the region, including growing importance for the borders.

Rapid integration of the Western Balkans could be under threat from both the countries in the region and by the EU. The countries in the region either do not fulfil the Copenhagen membership criteria or inadequately. They pose considerably more problems than was the case for Central Europe prior to membership:

- In Central Europe the process of nation-building had been completed *before* the region joined the EU. In the Balkans there are still status problems and ethnic conflicts.
- In Central Europe democratisation had been accomplished at least formally long before membership. This either does not apply at all or only in limited terms to the West Balkan nations. Although the governments in the region were elected in free and fair elections, the institutional stability in some countries is not guaranteed.
- In Central Europe the economic transformation from planned to market economy was completed long before membership. This is not the case in the Balkan countries either. *A functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union are not in place.*

The countries of the Western Balkans are thus, unlike those in Central Europe, not “normal” states but – to put it positively – political entities in the process of formation. The accession of political entities of this kind would – as the International Commission on the Balkans established¹⁰ – confront the Union with a new challenge. The Union itself would have to assist in the nation building process, it would have to use membership negotiations as a vehicle to lead the Balkans on the path towards a “normal” statehood. This task is a demanding one, not least because the complete establishment of normal statehood following membership would be followed by the delegation of sovereign rights associated with statehood to the Union. But the Union would not appear to be equipped for this kind of complicated development policy programme at the present time.

10] International Commission on the Balkans, *the Balkans in Europe's Future*, April 2005

II.2 Eastern Europe: European Neighbourhood Policy – between Integration und Traditional Foreign Policy

The European Neighbourhood Policy is a reaction to the consequences of the enlargement round completed temporarily in 2004 and finally in 2007. It reacts to three new situations.¹¹ *Firstly*, the inclusion of new Central European members also means intensified exclusion of their neighbours. The new EU external borders threaten to compromise cooperative relations precisely between the new members and their neighbours. Hence, and *secondly*, the new members have formed a lobby with the aim of placing relations with their neighbours on a new footing. The existing tools of partnership and cooperation agreements no longer formed an adequate vehicle for this. *Thirdly*, the EU, for the reasons named above (relative unpopularity of the EU, stagnation of the constitution process, institutional overstretching), no longer saw itself in a position to be able to offer countries east of its external borders a membership perspective. Neighbourhood policy does not apply to Eastern Europe alone, but also to the southern and eastern Mediterranean region. These two different regions are being put into the same basket. The EU has de facto no "Ostpolitik" tailored to the specific situation of the post-communist region but merely a bundle of action plans that address individual states bilaterally.

The European Neighbourhood Policy was first introduced in a communication from the Commission to the Council and Parliament¹² and in a Strategy Paper¹³ and officially pursues three goals. Firstly it has a security policy motivation and is designed to ensure that the EU is surrounded by a "ring of friends". Secondly it offers the Eastern European countries improvements in accessing the common market. The Neighbourhood Policy created incentives to realise or accelerate free market reforms. The instruments of this policy are the actions plans targeted to the individual neighbouring states and technical aid, for which a new financing instrument will be created in 2007. Thirdly, the Neighbourhood Policy is designed to bring the EU's Eastern neighbours closer, without actually offering them membership.¹⁴ It offers "participation without inclusion" (Kai-Olaf Lang).

The EU's objective here is to make the virtuous circle described for Central Europe also work for the area to the East of its external borders. This approach is based on the assumption that the Central European model – modernisation of the economy with foreign direct investment – can be repeated, without the membership perspective. But it is precisely this perspective that combines the advantages of a low wage location with those of a *low risk area* and makes it possible to compensate cost disadvantages in comparison to non-European locations.

Overall the neighbourhood policy leads to a dilemma which can be termed "dilemma of success" (Kai-Olaf Lang). Either the incentives of the EU would have no effect, in which case the EU's external Eastern border would remain a kind of border between the systems. Or the chain of effect would function: a real approximation process would be triggered by trade and foreign investments. This would mean, however, that sooner or later there would be no argument left for refusing the Eastern countries EU membership. One unexpressed hope is that this effect would take place so far into the future that the question of enlargement could be approached under totally altered conditions.

11] Kai-Olaf Lang, The European Neighbourhood Policy. Where Do We Stand, Where Are We Heading, Paper for the conference "Ever Expanding Union?", Friedrich-Ebert-Stiftung and Central European University, Budapest, February 2007.

12] Commission of the European Communities, Communication from the Commission to the Council and the European Parliament: Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours, Brussels, 11.3. 2003.

13] Commission of the European Communities, European Neighbourhood Policy. Strategy Paper, Brussels, 12.5. 2004.

14] See Susann Milcher and Ban Slay, The Economics of the "European Neighbourhood Policy": an Initial Assessment, Warsaw 2005.

II.3 Russia: Strategic Partnership – the Dominance of Traditional Foreign Policy

Basically EU policy towards the Russian Federation is a version of neighbourhood policy labelled “Strategic Partnership” because of Russia’s special status as a regional major power.¹⁵ EU policy towards the Russian Federation consists mainly of giving incentives to pro-market reforms and triggering a virtuous circle of foreign trade, foreign direct investments and socio-economic developments.

The EU’s largest neighbour is a special partner in the sense that it does not fulfil one of the central preconditions of enlargement and neighbourhood policy: in the Russian Federation there is neither an “objective” interest nor the political will on the part of the relevant political forces to participate in the European integration process. But the (presumed) wish to participate is one of the basic assumptions of EU foreign policy – even if it should prove unrealisable because the conditions for membership are not fulfilled or because the EU sees its absorption capacity overstretched. The elites in the Russian Federation, however, are not only not interested in EU membership but are in the process of building their own economic and political integration area to rival that of the EU. This rivalry revolves around geopolitics and economic and political systems. It is about the control of regions and about two different political, legal *and* economic constellations.

Russia is currently pursuing a strategy that recalls that of the Tsar era or Japan during the Meiji restoration. Economic development is not left to the play of market forces but pushed forward by the united forces of the government and some state or private corporations. In so doing, Russia can – according to the pattern described by Alexander Gerschenkron – exploit the advantages of a latecomer who is not bound by the constraints of any international arrangements. This statist strategy that also uses free market elements, albeit subordinated to political considerations, is accompanied by a “controlled” and thus limited democracy. A model of this kind is seen as hopelessly anachronistic because of its inefficiency. Russia, however, has one asset that neither the Tsars nor the Japanese had: it has vast energy and raw materials reserves whose value will increase in the long term and is thus able, at least temporarily, to live with inefficiency and finance costly development programmes with profits from energy and raw materials – thus in a way combining the advantages of Japan and Saudi Arabia.

With a partner like the Russian Federation, the EU must uphold ordered neighbourly relations, it must seek consensus in international conflicts from the Middle East to Kosovo, it must act strategically in the sense of taking its partner’s interest into consideration. But it can no longer assume that it will be able to impose its own development, modernisation and enlargement dynamism on its partner.

III. Scenarios

This survey and the dilemmas described can be translated into scenarios. The difficulty is that the likelihood that these scenarios will occur depends on conditions which themselves cannot be the subject of discussion. One main precondition is that climate change does not make all assumptions about future development irrelevant. Another precondition closer to the topic discussed here is that the EU does not regress into a free trade zone or fall apart. In the following only three scenarios are sketched in relation to the post-communist region. In the first, it is assumed that the *virtuous circle* integration

15] See Matthes Buhbe, Grundzüge einer deutschen Russland-Strategie, Friedrich-Ebert-Stiftung, Kompass 2020, Berlin 2007.

policy pursued by the EU prevails and can spill over to cover the entire post-communist region. The second scenario assumes that the Russian statist programme has at least a temporary chance of succeeding. A third scenario is based on the supposition that no stable economic and political structures are established on the other side of the Eastern border.

III.1 The Virtuous Circle integration policy prevails

The *virtuous circle* of transformation and integration spills over to the entire post-communist region. This fulfils one important assumption: the virtuous circle in Central Europe itself is not disrupted, the membership crises of 2006 are quickly overcome. *The economic success of the new member states enhances the attractiveness of the EU for the entire post-communist region.* This success is based on several suppositions which are interconnected. *The first* is that the flow of foreign capital does not cease. But foreign capital is no longer attracted by privatisations, which are largely completed, neither are there massive new greenfield investments. New investment primarily takes place as reinvestment of profits earned within the country. In the new member states a cycle of investment and reinvestment is becoming established that has its own momentum and this makes possible integration in European markets and sustained export-oriented growth. Admittedly, the cost advantages of the countries in Central Europe are shrinking in comparison to non-European locations but this is made up for by the improved environment for investment and reinvestment: the training standards of staff, the physical infrastructure, the efficiency of state administration and macroeconomic stability. However, the inflow of foreign investment as a necessary factor cannot *on its own* suffice to support the kind of economic growth from which the population as a whole will benefit.

The *second factor* is that in this scenario, it is possible to reduce economic dualism and create more modern jobs. The productivity of companies on the spot is brought up to the level of transnational firms and integrated into their networks. This is preceded by an economic paradigm change. Since the market alone cannot ensure that local SMEs and micro enterprises partake of the dynamism of export oriented transnational companies, an extensive and differentiated range of promotion instruments is developed – although instruments of this kind in no way comply with the ideological preferences of the *comprador intelligentsia*.

Thirdly, regressive political tendencies are prevented. It is recognised *that the threat for Central European democracies does not only come from the economic but above all from the political sphere.* Learning processes on the part of the political classes on the one hand and stronger self-organisation among the population on the other lead to extreme nationalism becoming marginalised; disenchantment with politics and political apathy decline. At the grass roots, an active civil society and an institutionally embedded economy have a stimulating and restraining effect on politicians, “at the top” the political class learns to distinguish itself more as a representative of society and not, as previously, concentrate exclusively on itself and the political opponent.

The influence of prosperous, politically stable and socially inclusive democracies in Central Europe spreads into the post-communist neighbourhood region in the EU. But in the neighbouring countries, reform processes cannot be initiated before the pro-European elites have undergone a learning process. The reforms called for by the EU are no longer seen solely as a vehicle with which to achieve membership. There is recognition of the fact that they are in the countries’ own interests – quite apart from membership. Corruption is not only opposed because that is what the EU wants, but because of the realisation that corruption is harmful to the economy and to society. The elites on the other side

of the EU's Eastern border begin to behave as if membership is sooner or later inevitable, but proceed on the basis that the reform course adopted is in their countries' own interests with or without the membership promised or envisaged for the very distant future.

Naturally the virtuous circle is not identical throughout the sub-regions of the post-communist area. Countries in the Western Balkans have the "European perspective", they can assume that their efforts will at some point be rewarded by membership, albeit later than they had hoped. Those among the elite in the Balkans who favour reform claim their most important successes in the fight against corruption and organised crime. Improved legal stability, more efficient administration and progress made in privatisation attract foreign investments to the region. It is not, however, possible to construct those export complexes which would have integrated the economies of the Western Balkans into European markets on an equal footing. The countries of the Western Balkans still remain reliant on two external sources of income: the export of manpower, whose transferred funds help to cover the chronic deficit in the balance of trade and on the other hand, public aid, primarily from EU funds. The dissolution of the protectorates in Bosnia and Kosovo also releases funds that can be invested in the economic support of the Balkan nations. In respect of their dependency on the export of manpower and public funds, the Balkan countries are basically no different from other peripheral regions in the EU such as the Mezzogiorno or East Germany but in the fight against organised crime they prove to be more successful than the EU founder member Italy.¹⁶

Successful domestic reforms in the Western Balkans lead to opposition in the EU to the accession of further member states being dispelled. One prerequisite for this is the relatively problem-free solution of the Kosovo question. Externally Serbia opposes independence for Kosovo, but this is really a façade. When it comes down to it, the ruling elite will not jeopardise good relations with the EU – and the healthy flow of EU funds – given the fact that the population would see independence for Kosovo as a loss but subordinates this to pressing economic problems. In Bosnia an interethnic coalition asserts itself with the result that the inefficient and costly protectorate structures can be removed. The EU combines membership negotiations assumed with all countries in the region with a generous economic development programme and an intensive exchange programme that helps to overcome the prevailing isolation of some countries.

In those Eastern European countries and in Russia, for whom no "European perspective" was initially conceded, the reform process takes a different course. Moldavia is caught up in the Rumanian economic miracle, and in the Ukraine and in Belarus, after the fall of Lukashenko, the oligarch-dominated economy proves to be both capable of reform and compatible with the institutional standards of the EU. And what's more, the oligarchic economic structure proves ex post to be advantageous because, thanks to the oligarchs, production complexes have been retained that would have been phased out in Central Europe. It is these complexes that prove to be especially profitable in the changed economic situation. Ukraine profits from the heightened demand for raw materials and heavy industry products. The modernisation of the oligarch controlled conglomerates, and particularly the modernisation of coal and metal mining called for by the EU and European companies turn the Ukraine into an attractive trading partner for the EU and an important source of supply for the Western European automotive, metal and electrical industries. Because of the newly development technology of CO₂-free coal burning, Ukrainian coal from the East of the country becomes a coveted export for the West. EU funds turn the Danube into a pan-European trading route comparable with the Rhine. Parallel to an export-led modernisation of "oligarchic" corporations based on raw materials refining, a wave of foreign investment flows into the

16] A more detailed description of Balkan scenarios can be found in Britta Joerißen's *Der Balkan. Von Krieg, Frieden und Europa*, Friedrich-Ebert-Stiftung, *Kompass 2020*, Berlin 2007.

Ukraine, a part of which seeks to exploit the still low labour costs but the majority of which is directed towards the country's potentially large domestic market.

In the light of the growing economic and increasingly also administrative and political interlocking between the Ukraine, Belarus, Moldavia and the EU, but also thanks to positive experiences with the Balkans, a growing number of forces in the EU support the membership of the Ukraine, Belarus and Moldavia. But EU membership for these countries and for the countries in the Caucasus is ultimately only made possible by the fact that relations with Russia are placed on a new foundation.

The Russian project of geopolitics based on energy and raw materials exports breaks down in the face of the system's inefficiency. Exports of energy and raw materials lead to a massive revaluation of the ruble, with negative effects on all other export branches. The state protects domestic markets and subsidises manufacturing industry with its income from exports, thus causing it to lose its international competitiveness. Some large European, American and Japanese enterprises set up in Russia to benefit temporarily from the lucrative domestic market. The big state and private crude oil and natural gas companies themselves, however, become gigantic albeit inefficient conglomerates that swallow a large portion of export profits. As crude oil and gas prices fall due to energy savings in Europe, the USA and Japan, the Russian energy sector is faced with bankruptcy. But Western experts and companies assist with the unbundling, restructuring and modernisation of GASPROM. The abolition of protectionism called for by international finance organisations brings about a temporary crisis in the manufacturing industry which is, however, speedily overcome with the aid of increased foreign direct investments.

The new openness in the economy is linked on the one hand to fresh advances in the move away from controlled democracy and on the other hand to EU standards being gradually adopted. Cross-border transactions increase. Russian membership of the EU is not yet on the agenda but talk shows and magazines in Europe make increasing mention of the Russian role in European history and the Russian contribution to European culture. The question is increasingly raised as to how the EU is to survive the competition from the USA, China and India without the wealth of Russia.

III.2 Eurasian Miracle

The Central European countries do not succeed in recovering from the membership crisis. Economic systems stay divided, despite statistically convincing growth successes the population is not participating in the dynamism of the modern sector, acceptance of democracy remains poor. Membership of the Euro zone puts pressure on government budgets, those social protection mechanisms that had survived transformation are cut back, the social situation for broad sectors of society becomes more critical. But the social issues are not taken up by the left but by the right, especially the extreme right. Foreign companies, the EU and foreign infiltration are generally seen as the root of all evils, an ideal, national world and the solidarity of an ethnic community are conjured up as an antidote. In elections, in which an ever decreasing number of people participate, forces growing in extremism emerge as victors. Rejection of European initiatives and sabotage of any further integration steps become the hallmark of Central European governments who – under pressure from even more extreme forces – vie with each other in demonstrating their hostility to Europe.

The prospect of EU membership becomes increasingly unattractive for the reform oriented elite in East and South East Europe. Furthermore, there is nothing an EU increasingly occupied with itself and its new Central European members fears less than further

enlargement. Membership of the Western Balkan countries is postponed indefinitely, the scant funds available for the neighbourhood policy are cut back.

In this situation, hopes – not only in East and South East Europe but also in Central Europe – turn increasingly towards the East. Growth in Russia, Eastern Europe and Central Asia nearly matches that of China. Profits from the export of energy and raw materials are used for an import-replacing industrialisation process which, protected by high tariff barriers, is less efficient in international comparison, but creates job-intensive industries that target the domestic market. At the same time, oligarch-run companies in Russia and the Ukraine benefit from the international raw materials and energy situation and also from the global boom in heavy industry. Industries that were phased out in Central Europe – with disastrous effects on jobs – become internationally competitive, unlike protected home market industries. Because of its high-level employment in import-replacement industries, the population participates in the growing affluence and passively accept the curbs on democracy.

Low-priced energy and raw materials are one of the instruments that Russia uses to bind the Western CIS countries more closely to itself. A far-reaching development programme is developed for Central Asia, financed from the profits from oil and gas exports. But it is not material enticements alone that makes Russia more attractive to its neighbours, it is the “Russian model” presented as an alternative model to globalisation: prosperity that although more modest than that in Western Europe, is accessible for the majority of the population; industry that is not internationally competitive but which meets all social needs (albeit at a low level); accompanied by income from exports that flows into populist social and employment programmes. Western commentators proclaim that the Eurasian boom may well only be a flash in the pan, that Russia and its neighbours are on the same path into the abyss as that taken by the Soviet Union. But a well gauged use of the market at home plus high energy prices on world markets gain time for the “Eurasian Miracle”. No one can say how long this model will be viable, but there is no end in sight for this miracle – as long as oil and gas prices rise (and the reserves do not dry up).

The boom is accompanied by the formation of an association of states in Eastern Europe and Central Asia dominated by Russia that is held together on the outside by collectively high protective tariffs and internally by oil and gas flows controlled by Russia. This Russian integration policy is garnished with a new, explicitly anti-Western Pan Slavism that is critical of the West and which bears fruit in the Balkans. The Russo-Serbian alliance in particular, based economically on Russian oil and gas supplies (that Serbia passes on at a profit) is increasingly seen as an alternative to EU integration. At least Bulgaria, Macedonia and Bosnia consider participating. The Balkans are divided by a new line of conflict between Europhile and Russophile nations. But pro-Russian forces are also gaining ground in the Slavic nations of Central Europe.

European companies gain from the Eurasian boom by direct investments in Eastern Europe, Russia and Central Asia. But trade flows dwindle – apart from the energy and raw materials exports from the Eurasian region. Foreign trade largely becomes *managed trade*, a bureaucracy supported by a state-dependent entrepreneur class and trade unions loyal to the state decides which foreign commodities and services can be sold on the Russian and increasingly on the Eurasian market. These are also exclusively products which cannot (yet) be produced in the Russian sphere of integration and which are not in competition to local providers. The border between the EU and Eastern Europe becomes a boundary between the economic systems of two differently structured trade blocs.

III.3 The Limes and the Barbarians

Central Europe continues to grow and aligns with its Western European neighbours. This accentuates the differences between the two sides of the Eastern and South Eastern border. No stable economic and political constellations develop on the other side of the border. The EU is not able to extend its modernisation model beyond its own borders and no coherent alternative structures are developed there. Instead what is left of the state economy coexists with unbridled private capitalism. There is no legally protected classic market for non-violent, voluntary transactions, the private sector is controlled by power groups that are intermeshed both with the state bureaucracy and with organised crime. East and South East Europe are transformed into a mosaic of different forms of rule ranging from the puny semi-democracy in some Balkan countries to the controlled democracy of Russia down to blatant autocracies.

The most important kind of legal transaction linking the EU with its post-communist neighbours is crude oil and natural gas exports. But the energy and raw materials sector does not create an integrated economy, it remains an archipelago of oil and gas fields isolated from the surrounding area and connected by international pipelines to its outlets. It does not stimulate any modernisation of the economy as a whole, nor does it create any equitable exchange relationship between the raw material producers and the EU, meaning that modernisation by foreign trade and foreign investments also fails to occur.

The pipelines system is the foundation for a warlord economy. Protection of the lines of transport is an important source of revenue for local potentates who take over the policing and military role of overtaxed states. Naturally there is fierce competition for these protective functions: between emergent states in which security forces often act like warlords, and the warlords themselves who produce an ethnic, national, religious or any other spin to give themselves domestic and external legitimisation. Thus there is no end to the violent conflicts in the crude oil and natural gas transit countries which are disguised as conflicts of identity but in reality are about acquiring the income from oil and gas.

Second in importance as a European market outlet is the market for illegal commodities and services made costly by regulation and other forms of protection. Since these transactions by definition go unrecorded, it remains unclear which of the two markets has the highest turnover. The nations in the post-communist region cannot and will not keep illegal parallel trade under control, sometimes the ruling parties and bureaucracy are themselves involved.

The transnational criminal networks with safe rear ground in their home countries thus spread into Central and Western Europe. Migration that is criminally motivated combines with massive legal, i.e. legally motivated migration to the West. In addition to energy returns and income from illegal parallel trade, transfers from emigrant workers are the third external source of income for the post-communist region. Illegal and legal transfers form the basis for short-term pseudo-prosperity, backed primarily by the building sector, where a large part of the activities that are officially legal serve the interests of money laundering.

Public opinion in the EU is dominated by the topic of protection of the Eastern and South Eastern external borders. Visa policy has led to the paper border being virtually closed and now a majority of the population is calling for the construction of a physical protective wall based on the US-Mexican model. The common foreign and security policy deteriorates into a "Limes policy", with the physical repulsion of the barbarians and the bribing of their chieftains on the other side of the border entering into a costly alliance – as with the Roman limes. Internal preoccupation with the Eastern border changes the identity and self-image of the Union. No one talks about a peace or civilian power any more. And no one anymore asks what costs the EU more: the protective wall, the rise in energy prices following the

conflict about transit, the costs of violent local conflicts, the follow-up costs of criminal parallel trade and unregulated labour migration and above all the indirect costs resulting from the loss of legal trade and investment possibilities – or the price that should have been paid for a broadminded enlargement policy in the first decade of the 21st century.

IV. Possible Courses of Action

1. The membership option is a unique foreign policy instrument and is the EU's most potent foreign policy weapon. This weapon should not be abandoned even if enlargement rounds are unpopular in Western Europe. This is not a plea for unconditional, infinite expansion. But the opportunity to enable (at least) "all European states" to become members is the cornerstone of the EU's international credibility. This option should be upheld in principle and explicitly even if membership is not possible in the short term.

2. Political actors should not allow themselves to get confused by the apparent contradictions between further development versus enlargement, political union versus extended free trade zone. It is true that some member states support rapid enlargement in order to prevent a further development of integration and a political union. The enlargement rounds of the past have nevertheless possibly contributed more to political integration of *the union* than internal economic integration. The enlargement rounds were always political projects of the Union as a reaction to changes on the other side of the external borders. Unfortunately, history will not wait until the EU's integration process is fully completed before it is compelled to act. The collapse of the Soviet Union and the wars in Yugoslavia were oblivious to the fact that the EU was not yet ready internally to act as a global force.

3. Membership in the EU, as the current situation for new members in Central Europe shows, is a necessary but insufficient prerequisite for a successful process of catching up economically and for consolidating democratic processes. Since the chain reaction that was hoped for – membership; foreign investments; prosperity – has only yielded mixed results, the countries in Central Europe need continuing support and this should not lag behind that granted to Spain, Portugal and Ireland.

4. The EU's set of regulation instruments was developed for the needs of advanced industrial nations and should be adapted to the needs of new members. This applies also to the Maastricht criteria that refer one-sidedly to the stability requirements of advanced economies and are not oriented to the growth requirements of new members.

5. The EU should pursue a strategy towards all countries in the Western Balkans that emphasises to the outside world that a "softening" of the Copenhagen criteria will on no account be tolerated. At the same time all actors should be aware that these countries will not meet the criteria in the foreseeable future. Membership negotiations, that should be initiated soon, must be used to prepare the development policy of these countries to enable them to meet the criteria and thus be eligible for membership.

6. *In Europe*, the European Neighbourhood Policy should not be formulated as an alternative to membership but as a necessary interim solution, with membership at the end of the interim. Neither should Eastern Europe and the eastern and southern Mediterranean be lumped together in one policy parcel. A Mediterranean strategy that should include Israel and Palestine should be formulated on a separate basis from the Eastern Neighbourhood Policy.

7. The costs of each step towards enlargement should be compared with the costs that would result *in the longer term* if this step were not taken.

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