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PANORAMA

INSIGHTS INTO ASIAN
AND EUROPEAN AFFAIRS

EUROPE – SURGING AHEAD



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Editor: Dr. Wilhelm Hofmeister
Sub-editor: Megha Sarmah

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Tel: (65) 6227-8343
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Europe—Surging Ahead



Konrad
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Preface

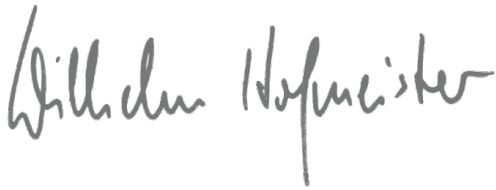
Has Europe failed? If one reads some of the critical comments of recent years, this impression may actually arise: The eurozone crisis and the debt problems of some member states of the European Union have prompted predictions about the end of the euro and the return to national currencies. The economic and financial situations of some EU member states remain tense; there are high rates of unemployment; and, above all, there is some disagreement over the necessary measures to reduce budget deficits and stimulate sustainable economic growth. Prior to the elections to the European Parliament in May 2014, the strengthening of nationalist and anti-European parties had been expected to wield corresponding consequences in the policy making of the community. The annexation of Crimea by Russia and the conflict between Ukraine and Russia have produced different reactions and perceptions by the EU members, which clearly illustrates the difficulties in the formulation and implementation of a common foreign and security policy. Does all this together mean that the project of ever closer European Union is unrealistic, and that EU member states should instead rely more on national forces again and seek to step away from integration into common European structures and institutions?

This question can be quickly and easily answered: for the members of the European Union there is no alternative to the EU. Even the larger countries in the community are too weak to face the global challenges alone. In Germany, for example, lives only about one percent of the world population. That is not enough to exercise a minimum influence on the important issues of the international system. If the Europeans want to have a say on the big global issues – environment, financial markets or security – then this is only possible in the framework of European cooperation and of the European Union. Only a strong Europe can shape the lives of future generations.

European integration is not the surrendering of national interests, but a joint action that takes into account the diversity of interests. The processes and methods of understanding on common solutions are sometimes lengthy and often accompanied by controversies and conflicts. However, one must not mistake this with failure or an end of the European Union. Again and again the Europeans have been able to use crises and conflicts for the adaptation and expansion of cooperation. One consequence of the eurozone crisis, for example, was that new and far-reaching instruments were created rapidly to meet the fiscal problems and to exercise solidarity with those countries that were particularly affected by the financial problems. The European elections have produced a result which indeed increased the number of critical voices and the polyphony within the European Parliament, but overall, it did confirm the pro-European forces.

The European Union is a diverse community of states with different interests, different experiences with the community and receiving different benefits from the integration. For this issue of *Panorama: Insights into Asian and European Affairs*, we

have asked authors from different European countries to analyze the European integration and the European Union from their points of view. We added some more articles that are dedicated to current topics like the elections to the European Parliament, the Asia Europe Meeting (ASEM) of leaders from both continents in October 2014 in Milan, Italy, as well as the cooperation between the two regions in security affairs. Everything indicates that in the future Europe will continue to wield its influence in international politics and be a reliable partner for Asia. There is definitively no reason for Euro-skepticism.

A handwritten signature in black ink that reads "Wilhelm Hofmeister". The script is cursive and fluid, with the first letters of the first and last names being capitalized and prominent.

Dr. Wilhelm Hofmeister
Regional Director

Finding a Role for the Asia-Europe Meeting (ASEM) in a “Crowded” Environment

Yeo Lay Hwee

INTRODUCTION

The Asia-Europe Meeting (ASEM) was launched in 1996 in an era of proliferating regional, inter-regional and trans-regional forums, summits and meetings. This proliferation was in part a result of the end of the Cold War which brought about optimism with regard to international institutions and strong belief in multilateralism. At the same time, free of the “rigid” bi-polar structure, states and regional entities also rushed to create different frameworks for dialogue and cooperation.

This remarkable growth of global, inter-regional, and regional institutions has unfortunately not led to better global governance or our collective ability to address global challenges and problems created by our growing interdependence. This was due in part to the rise of emerging or re-emerging powers such as China, India and Russia, and the fact that many countries, while integrating economically into the globalized structure, continued to harbour the Westphalian view of a world driven by territorial states with jealously guarded sovereignty, and zero-sum politics driven by nationalism.

While the US emerged as the unchallenged sole superpower in the early 1990s, by the first decade of the 21st century, US power had been sapped by two long-drawn wars in Afghanistan and Iraq, and its financial and economic power dented by the global financial crisis. While it remains the world’s foremost military power and is still the largest economy globally, it no longer exercises dominant hegemonic power. We are therefore entering a rather uncertain period in search of a new order – transiting from a world centred on US and Western primacy to perhaps a much more decentralized world. This transition is driven by the diffusion of power brought about by the gradual shift of power and wealth to the East, and hastened by developments in information and communications technology and the rise of social media. We are also entering a much more complex and paradoxical world with increasing globalization and economic interdependence juxtaposed with political fragmentation.

What we are witnessing will be a period of geopolitical fluidity and ambiguity. What do all these portend for a dialogue framework such as ASEM which brings together an incredibly diverse group of countries comprising the EU and its member states, Switzerland, Norway, Russia, Australia, New Zealand, ASEAN and its member

states, China, Japan, Korea, Mongolia, Bangladesh, India and Pakistan? What other emerging trends would impact on the development of ASEM, and how can ASEM stay relevant in an increasingly crowded environment which has seen the remarkable proliferation of summit meetings and the tendency for nation states to engage in what some scholars have called “forum shopping” – “a strategy in which actors pick and choose among the mechanisms that best fit their individual political agenda” (Forman and Segaar, 2006: 213).

ASEM – CURRENT STATE OF PLAY

ASEM as an official forum currently comprises a series of meetings at summit, ministerial and senior officials’ level. It spans a variety of policy portfolios from the initial years with its focus on economics and finance, to one with a broader spectrum now involving culture, education, environment, immigration, labour and employment affairs, and transport and communications ministries. More recently, city mayors and provincial governors from ASEM member states have also been encouraged to meet to discuss challenges arising from urbanization and broader issues of governance.

Under the official ASEM flag, there are many initiatives by various member states which usually take the form of conferences, seminars and workshops involving dialogue amongst officials, technical experts, academics and policy analysts. Again the topics discussed have proliferated from human rights, social dialogue, inter-cultural and inter-religious dialogue, to various issues related to the environment and sustainable development (forest management, water management, air pollution control, etc.), economic development (green businesses, innovation) to challenges with regard to disaster reduction and relief, risk management, etc. The Asia-Europe Foundation (ASEF) as a “flagship” institution launched in 1997 to help engender more linkages between Asia and Europe beyond the official level, has increasingly been involved in many of these conference and seminars, besides their own initiatives such as the Asia-Europe Higher Education Programme, ASEF Editors Roundtable, ASEF Public Health Networks, Asia-Europe Museums Networks, etc.

There were and are also initiatives beyond such conferences and seminars or one-off events/activities such as the creation of various centres and platforms for research collaboration. The very first such centre, for example, was the Asia-Europe Environmental Technology Centre (AEETC), an initiative by Thailand and supported by the EU. The AEETC (launched in 1998) together with many other initiatives were proposed in the immediate “euphoria” of the inaugural summit in Bangkok. Unfortunately the AEETC did not survive long after the initial enthusiasm and seed funding from Thailand and the EU. In the meantime, others have sprung up within the last few years – from ASEM Aquaculture Platform (2004-2013) to the ASEM Water Resources Research and Development Center (began in 2011) and to the most recent ASEM SMEs Eco-Innovation Center (2012). Whether the ASEM Aquaculture Platform

will be sustained beyond the funding from the FP7 programme is still not clear. The other two centres, one with strong support by China and the other by Korea respectively, might have a better chance of surviving beyond uncertain funding.

Beyond these official initiatives and activities, ASEM has also spawned its own non-official “side” meetings involving businesses such as the Asia-Europe Business Forum (AEBF), civil society and non-governmental groups such as the Asia-Europe People’s Forum (AEPF), and politicians within the Asia-Europe Parliamentary Partnerships (ASEP)

Yet, despite this plethora of meetings and activities, ASEM continues to be criticized for being “invisible”. The somewhat “nostalgic” narrative of ASEM as symbolizing Asia’s and Europe’s rediscovery of each other, and the more pragmatic portrayal of ASEM as the weakest link of the triad (North America, Europe and East Asia) that needs to be strengthened for a more peaceful and prosperous world that garnered media attention and created an initial excitement with regard to ASEM’s potential has all but fizzled out. After nine summits and umpteen ministerial meetings and dialogue, ASEM seems lost in a sea of ever more forums and summits in both Asia and Europe. Knowledge about ASEM is low or non-existent in most ASEM member states; and media coverage of ASEM summits and ministerials and ASEM-related events has been patchy.

Besides being invisible and unable to generate media or public interest, political interest in the ASEM process has also waned. In fact, the latter was perhaps one of the key reasons for the lack of public awareness and media interest. ASEM is just one of the many forums and summits that political leaders are nowadays inundated with. The paradox of course is that as Asia and Europe grow in importance to each other because of increasing trade and investments, more and more meetings, bilaterals and multilaterals are taking place, and ASEM is and will be just one among many. Take the European Union (EU) for instance; in 1994 when the idea of ASEM was first conceived, it only had regular meetings with ASEAN and Japan in Asia. But since then, and particularly into the 21st Century, bilateral summits have proliferated with EU-China, EU-Japan, EU-Korea and EU-India meetings, as these four Asians became “designated” as EU’s strategic partners. At the same time, individual EU member states have also stepped up their own bilateral engagements as China rises, and India opens up. So, therein lies the often asked question, how can ASEM “add value” to these multitude of competing forums and meetings.

A “lifeline” has been given to ASEM in part because of the rapid enlargement of the membership – from one that was EU-East Asia oriented, it has now expanded to include South Asian countries (Bangladesh, India and Pakistan), Australia and New Zealand and Russia on the Asian side, and Norway and Switzerland on the European side. The official rhetoric is that “enlargement of the ASEM is a sign of its success”. But enlargement to such a diverse group also brings a whole set of challenges in

working methods such as the coordination and management of the meetings, and in setting priorities while accommodating the different interests and concerns. As ASEM doubles its membership from 26 in 1996 to 51 in 2012, the informality that it valued is also increasingly difficult to maintain because practical arrangements to manage such a meeting invites bureaucratic planning and a certain rigidity. Discussions have gone on for some time on whether there should be an ASEM Secretariat to help manage the ever increasing meetings and initiatives. However, consensus could not be reached and the issue has been put on cold storage for now.

Many of the other challenges faced by ASEM or criticisms about ASEM, such as the lack of visibility and lack of concrete deliverables, have been around for some time, and that they continue to be heard now reflects the lack of real efforts in trying to address them. This in turns boils down to the very fact that because of the very uncertainties and instabilities of the current global and regional climate, and the emergence of competing centres of power, a proliferation of many more forums and meetings seems inevitable as nations seek both balancing and hedging strategies in their international relations. ASEM is just one among many of the forums and meetings that are taking place within Asia and Europe, and between Asia and Europe. ASEM was also initially conceived not as an exclusive forum, but one that should “stimulate and facilitate progress in other fora”, as noted in its Asia-Europe Cooperation Framework (AECF).

Rhetorically, ASEM members (and perhaps not all of them) will continue to sing the tune of ASEM being an important forum to link Asia and Europe. The buzz word now within the official ASEM process is connectivity. But what does it really mean? Is there enough interest and momentum to really rethink how to make ASEM relevant and useful beyond the current rhetoric? How can ASEM make a splash or will it be forever that insignificant tiny drop in the ocean of forums and summits.

TOWARDS ASPHYXIATION OR EXHILARATION?

The current environment in which ASEM is operating is markedly different from the environment in the mid-1990s leading to its birth in 1996. The characteristics of ASEM have also changed with its rapid enlargement. It is no longer the bi-regional entity that the EU wanted to believe in when it was a meeting of the EU and its member states and East Asian countries comprising ASEAN + 3. It is now an entity with a sprawling membership stretching across the Eurasian landscape, and extending from the Atlantic to the Pacific. Its membership comprises states with different political and economic systems, at different levels of socio-economic development and embracing different worldviews; a mini-United Nations as some would put it.

This diversity can be both a strength and a weakness. It can be a strength if indeed every opportunity is made to mobilise the diverse experiences, knowledge and resources, and use the informality of ASEM to create as many inter-connected network structures (both real and virtual) to underpin the Asia-Europe partnership and

cooperation in addressing different issues. Such networks that are agile and flexible are probably better than formal institutions in responding to the uncertainties and volatilities in our environment. At the same time, the diversities and competing interests within ASEM can also be a weakness because it easily degenerates into a lowest common denominator, rudderless, slow-moving forum that nobody takes seriously.

Indeed, looking at the current state of play and the rather anaemic political interest in ASEM, one likely scenario is the slow demise of the official ASEM process. It is true that international institutions once created often remain way beyond their sell-by date. A cursory look into the yearbook of international organisations would show quite a collection of hardly “visible” and obscure institutions that remain in form but not function or substance. As states move towards ever more “institution-light” forums and frameworks for cooperation, the international and regional environments are saturated with more summits and meetings. This together with the increasing competition by emerging powers to exert their spheres of influence, and to challenge the existing western-centric institutions have led to further proliferation of forums, and the phenomenon of forum shopping as an “ensuing tug of war for institutional supremacy” (Rueland, 2012: 256). A gaggle of Gs from G7/8 to G20 and 3G, a collection of SML organisations from the Forum of Small States to a MIKTA of middle powers and the BRICS of big emerging or re-emerging powers now populate our planet.

If this trend continues, many ASEM members will find themselves increasingly divided and stretched in their attention to the various forums on the horizon, and being pulled by different centres of power. It is perhaps unlikely that anyone will actually suggest that ASEM should be dissolved, but as interest wanes with the emergence of other new forums, frequency of and participation in the various ASEM meetings and initiatives will decline. If increasing number of partners cannot find enough reasons to continue to support and show up for ASEM, ASEM would ultimately suffer from asphyxiation in this crowded environment and slide into comatose.

Yet, other scenarios are plausible if there are enough ASEM members willing to take some risks, and use ASEM as an experimental platform for innovative ways of getting Asia and Europe to work together to address the challenges of the 21st century. ASEM members could turn the diversities into an advantage and use it as a test bed for ideas that could help us bridge the different divides and differences to find workable means and small steps towards regional consolidation and build an inter-regional networked system of engagement and cooperation.

For ASEM to become relevant and interesting for its members, we need to incorporate four dimensions – ASEM must provide a platform for trust-building, while at the same time, open up space for inclusive and robust policy debates; it must help to generate more physical connections and networks and at the same time go virtual.

TRUST-BUILDING DIALOGUE

Dialogue is an indispensable part of international relations and diplomacy. ASEM has to move away from monologue where leaders are reading from prepared scripts and senior officials are busy poring over the scripted chairman's statement to a genuine dialogue to build trust. This type of trust-building dialogue needs to be in a more "cozy" setting to allow for real conversation. The proposal to have a retreat during the summit meetings is a step in the right direction. At the same time, with 51 partners, which is hardly an intimate number, more thoughts need to be put into how to engender smaller group conversations on different clusters of issues – perhaps World Café style. The current practice of setting aside time for various bilateral meetings should be maintained.

Precisely because ASEM is so diverse and made up of not necessarily like-minded countries (think EU and Russia, China and Japan), such trust-building dialogue in itself is valuable for finding some points of convergence and connections and as a common ground for any further development in partnership.

DAVOS-STYLE POLICY DEBATES

Parallel to this trust-building dialogue, ASEM also needs to raise its visibility and to satisfy the demand for wider participation, more inclusiveness and transparency from changing societies. Hence, while having a closed-door retreat to build trust is needed, there is also a need to think of broader public engagement and involvement of other sectors of society.

ASEM can answer its critics on the lack of visibility and concrete deliverables by setting aside time during its biennial summit for televised policy debates with live audience participation. Beyond the official ASEM summits, there are presently also the Asia-Europe Business Forum (AEBF) and Asia-Europe People's Forum. These different forums should be brought together through policy debates that would also heighten the interest of a broader constituency. This could be done by adapting what is often done at the annual Davos summit organised by the World Economic Forum.

To harness the strengths and perspectives of different sectors of society, ASEM needs to build into its framework a platform for frank and robust policy dialogue and debates amongst all the different actors. Policy challenges of today's world are getting more complex and just as crowdsourcing has become a trend, ASEM leaders must be prepared to embrace open dialogue with other actors to find solutions to the challenges of the day. Both mainstream and social media have to be engaged for the broadcast and dissemination of the debates and discussions.

A NETWORKED ASEM AND THE ROLE OF THE EPISTEMIC COMMUNITIES

As we enter a fast-changing, volatile and increasingly unpredictable world underpinned by developments in new information and communication technologies, networks instead of institutions are likely to become the dominant organizational form. Hence, moving forward, ASEM needs to become more networked than ever. The official ASEM process and its only concrete institution, the Asia-Europe Foundation (ASEF) has spawned different networks such as the AEPF and ASEF University Alumni Network (ASEFUAN), but more needs to be done. With a more interdependent and complex world teeming with noise and information clutter, the role of epistemic communities – transnational networks of knowledge-based experts with shared beliefs and commitments – to help develop a common language for dialogue, define problems and identify solutions, is becoming more important.

When ASEM was first launched, there was a surge of interest amongst think tanks and academics to help strengthen dialogue between Asia and Europe. There were numerous conferences, seminars, lectures riding on the name of ASEM and there was no shortage of exchange between Asian and European scholars on a whole range of issues ranging from politics, security and economics and promoting inter-cultural understanding. There was even an attempt by the Japan Center for International Exchange (JCIE), supported by the Japanese Foreign Ministry, to build a Track II dialogue comprising representatives from 12 think tanks. Known as the Council for Asia-Europe Cooperation (CAEC), it met resistance in being accepted as the Track II of ASEM because it counted amongst its founding members a think tank from a non-ASEM country. CAEC has “dis-banded” since 2004, a reflection of the dwindling interest as other forums proliferated.

However, arising from these initial years of exchange, there is an existing cluster of academics who share a strong conviction in the importance of strengthening Asia-Europe dialogue and cooperation. They have not “abandoned” ASEM and continue to follow closely the development of ASEM. From this nascent community of ASEM interlocutors, efforts and resources can be channelled to grow a larger epistemic community and in time they can help in the diffusion of ideas and knowledge.

GOING ONLINE AND VIRTUAL

ASEM needs to make its presence felt not only in the real world of dialogue and diplomacy but also in the virtual world. It needs to go online and make use of social media to strengthen its networked constellations. The current ASEM Infoboard (www.aseminfoboard.org) is, as the name suggests, a rather dated 20th century tool to provide information. Instead what we need is a dynamic platform for building a virtual ASEM community or communities. The possibilities afforded by Web 2.0 technologies must

be harnessed to serve a younger generation that embraces a more participatory culture of collaboration and knowledge generation. Increasingly, in a networked society, virtual communities are an important add-on to organic communities and networks.

The impact and role of epistemic communities can also be further strengthened with online presence. The online platform also offers space for knowledge co-elaboration and opportunities for cross-issue linkages, and the co-creation of solutions to pressing problems. At the same time new online epistemic communities can mushroom in different niche areas without significant cost. But even then, virtual and online communities cannot emerge without some fundamental awareness and interest. Hence, the key priority for ASEM leaders is to raise the visibility and interest about ASEM.

WHAT NEXT? TOWARD A NEW ASEM – A SWINGING, ECLECTIC MARKETPLACE¹

Of all the above ideas, the one that can greatly generate interest and increase visibility is to turn the ASEM summit into a mini-Davos – a place for the exchange of information and ideas and a place for policy debates and interactions. If ASEM can be transformed to “a swinging, eclectic marketplace” (*Asem*) and not remain as just an officious Asia-Europe meeting of leaders, other potential can then be unleashed to further “connect” Asia and Europe.

The new *Asem* should become a marketplace in which different groups, be they political leaders, officials, experts, business leaders, corporate leaders, or civil society actors, can come together to pursue common but diverse goals. The common overarching goal is to build stronger connections between peoples, groups and institutions in Asia and Europe with different interests – be it for artistic and cultural exchange, research collaboration, concrete business transactions, policy learning and transfers. This new *Asem* can truly reflect the initial spirit behind ASEM – an informal, open, dialogue process leading to cooperation and concerted actions in other forums. It should be a vibrant marketplace for exchange of ideas, knowledge and services and for building networks and connections.

The seeds for such a transformation of ASEM can already be found if one takes into account the numerous initiatives and platforms that have been created under the broad ASEM ambit. Beyond the ASEM summits, there are also the Asia-Europe Business Forum (AEBF), the Asia-Europe People’s Forum (AEPF) and many other forums and meetings. However, the question is how to ensure the visible connections of these different forums, and bring the various initiatives together in a “big bang” way to generate the light and sound, and the buzz around it.

¹ This section is adapted from a commentary written by the author in the EU Centre’s Commentary series, 29 July 2014 entitled “Transforming the Asia-Europe Meeting (ASEM) into A Swinging, Eclectic Marketplace (*Asem*)”.

One perhaps could start by re-conceptualizing the current ASEM summit into the format of the annual Davos meeting organised by the World Economic Forum (WEF). The idea of a summit of leaders from Asia and Europe was after all conceived in Singapore in 1994 during the WEF's Europe-East Asia Summit. Whereas the Davos summit may be built too much from the old Washington Consensus, dominated by big businesses and top companies, the new *Asem* can give space for more diverse views and smaller players. The Davos meeting is therefore only used as a reference point, and not necessarily to be adopted wholesale for this new *Asem*.

Building on the earlier ideas that came out in the 2006 review of ASEM on the clustering of issues and applying issue-based leadership, the biennial ASEM summit should be organised around these ideas. It could start with a closed-door retreat strictly for the heads of state and governments of the ASEM members to engage in frank discussions that can help to foster understanding and build trust. This will be followed by parallel/concurrent sessions of various topical issues proposed and led by different ASEM members. The topics for each concurrent session must be supported by at least six ASEM members, three from each region. To ensure interest and participation, each ASEM member must support at least one of the sessions and for those countries with the resources and interests, they can support up to three sessions but not more than that so as not to create an over-dominating presence of any member state. The ASEM members who supported the topics will be collectively responsible for identifying and inviting the speakers/panelists and participants for the session. The number of people attending each session can be capped, but must include in-principle participants from different sectors of society. To further satisfy the demands for more openness and wider participation, all the sessions (except the closed-door retreat) should be webcast live and online viewers should also be allowed to join in the discussions and debates.

Bilateral meetings between leaders at the sideline of the ASEM summit, an important current feature, will continue to be organised around the concurrent sessions. Exhibitions and cultural events can also be incorporated and built into the new *Asem*. *Asem* should not be dominated only by big businesses and big money. Small and medium enterprises, and start-ups in particular should be encouraged to use this marketplace to pitch their business ideas, find new partners and grow their businesses. And think tanks and experts should be engaged to help with this transformation of another ritualistic summit meeting to a vibrant marketplace for exchanges and interactions

In between the biennial forum, *Asem's* presence must be actively maintained online. A virtual or e-marketplace must complement the real marketplace. In the 21st century, virtual communities are an important add-on to organic communities and networks. The possibilities afforded by Web 2.0 technologies must be harnessed to serve a younger generation that embraces a more open-source and more participatory culture of collaboration and knowledge generation. The current ASEM Infoboard

should be transformed to a more dynamic platform to help build and sustain virtual *Asem* communities.

As ASEM approaches its 20th anniversary in 2016, it is time to consider a different approach to bring together the ASEM Summit, the ASEP, AEBF and AEPF into a Davos-style event – transforming the Asia-Europe meeting to a dynamic marketplace for exchange of ideas on Asia-Europe cooperation to establish new norms and new networks and to engender a new vision for the future global order.

CONCLUSION

ASEM has come under a barrage of criticisms over the years for its lack of visibility, its inability to deliver tangible benefits, and its increasing “rigidity” and ritualistic nature of the meetings.

In the run-up to this year’s ASEM summit in Milan in October 2014, ASEM members have tried to address some of the criticisms and sought to inject some “excitement” and raise the profile of ASEM. A series of events beginning in June, primarily conferences and workshops targeting think tanks representatives, analysts, experts and opinion makers, have and are taking place in Singapore, Brussels, Shanghai and Milan. ASEM members have also undertaken a review of its working methods and sought to “reclaim” the informality that was supposed to be a defining feature of ASEM. Over the years as ASEM enlarged, the process has inevitably become more bureaucratic and the format too ritualistic. Hence, in an attempt to refocus on the dialogue aspect of ASEM, this year’s summit will introduce a “retreat format” to encourage political leaders to engage in more intensive and interactive dialogue. These individual measures are small steps towards making ASEM more present. However, to truly transform ASEM into a more dynamic and relevant forum fit for the 21st century, there is a need for a more fundamental rethink.

The fluidity, diversity and nebulous character of ASEM provides fertile ground for experimentation, and the possibility of fashioning creative responses to the challenging environment we are in, and the challenges that we face. It is true that with 51 partners, consensus is hard to reach, and hence we often operate at the lowest common denominator. So far, ASEM members have tried to accommodate different interests and priorities alike by adopting a laundry list approach. Continue on this track and ASEM will fade into oblivion or die a slow death in the increasingly crowded environment where more and more demands are made on a state’s and its leader’s resources and calendar. Increasingly, questions will be raised, as it has already been raised, on the relevance and usefulness of ASEM and its “value-add” in the cacophony of summits and meetings.

How can ASEM stand apart from other meetings and forums? Only through some bold steps to transform what some see as weaknesses to strength – harness the differences and diversities in developments and worldviews, interests and priorities – to

create competing constellations of networks within ASEM. ASEM now needs some interested actors to help transform a mere meeting into a marketplace. ASEM after all remains a venture of low political cost and political risk and it is at this juncture that the experimentation if it fails is less painful but if it succeeds can reap considerable gains.

Rhetorically, ASEM members (and perhaps not all of them) will continue to sing the tune of ASEM being an important forum to link Asia and Europe. But without a fundamental rethink, ASEM will not be a very useful, much less important, forum for the 21st-century world as more and more of such summits and meetings proliferate. The political symbolism invoked in its earlier days of Asia's and Europe's rediscovery of each other, and being the forum for strengthening the third leg of the world's economy will begin to fade and will not sustain the process if no efforts are made to inject some new energy into it. Transforming ASEM to a hip and dynamic marketplace where a constellation of networks can be built through the different clustering of interests, issues and interactions is not only worth exploring, but is in reality a return to the original spirit of ASEM to connect Asia and Europe.

Yeo Lay Hwee is Director of the European Union Centre in Singapore.

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The European Union's Involvement in Asian Security: Not Enough or Just About Right?

Axel Berkofsky

INTRODUCTION

The US has something the European Union (EU) does not have in Asia: permanently deployed military troops – above all, troops stationed in Japan and South Korea with whom Washington maintains decade-old and close security alliances. US permanent troops on Asian ground are from Washington's perspective “hard evidence” that the US has or is indeed “entitled” to have a strong role in and influence on Asian security. That in turn suggests – again from an American perspective – that the absence of European military troops permanently stationed in Asia means the EU can only make meaningful contributions to Asian “hard” security within limits (if at all). While a European focus on “soft power” security contributions, i.e., the provision of economic, financial and development aid as contributions to regional peace and stability, is assessed as positive as such in Washington, US policymakers and many US scholars likewise insist that American military presence together with its military alliances in Asia make and will in the future continue to make the difference between peace and conflict in the region. A (possibly) nuclear-armed North Korea and a number of territorial disputes in East and Southeast Asian territorial waters involving China, Japan, South Korea and a number of Southeast Asian states, advocates of a robust US military presence in the region argue, must continue to be countered and deterred by Washington's troops deployed in the region.

Less fervent advocates of or indeed opponents to the expansion of US military presence in Asia on the other hand argue that American boots on Asian ground, conceptually supported by the US “pivot to Asia”¹ announced by the US in 2011² and accompanied by an envisioned expansion of US-led regional military alliances, has not prevented Asian territorial disputes from breaking out and did not decrease the likelihood of military conflict between, e.g., Japan with China over territorial claims

¹ Later referred to as “re-balancing” towards Asia.

² On the US “pivot” to Asia see, e.g., Campbell, Kurt, Andrews, Brian, “Explaining the US ‘Pivot’ to Asia”; Americas 2013, Chatham House London August 2013; http://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Americas/0813pp_pivottoasia.pdf.

in the East China Sea (in fact, some critics argue that Washington's Asia "pivot" has increased the likeliness of military conflict in East Asia). Following up on such reasoning, US military presence in the region, together with security guarantees for Asian countries (above all for Japan³ [through Article V of the US-Japan Security Treaty of 1960] and South Korea⁴) have made sure that Washington has become part of many of Asia's territorial disputes, in turn limiting (or indeed nullifying as it is argued above all in Beijing) the possibility of any US role as mediator in territorial disputes in the East and South China Seas. To be sure, those who argue that US military presence is as necessary as ever to maintain stability and deter countries from solving (above all territorial) disagreements with military force argue that US military deterrence capabilities in the region have over the last two years made sure that territorial disputes in general and the one between Japan and China in particular have not resulted in a military conflict between Japan and China.

While the relevance and success of EU soft power policies, i.e., European economic, financial and development assistance to in essence all developing Asian countries and economies, are evident and indeed measurable, Brussels' track record of making contributions to ongoing Asian security conflicts is less prominent. Although, e.g., its support of and contributions to the now defunct Korean Energy Development Organization (KEDO)⁵ together with its support for North Korean economic reforms⁶ throughout the early 2000s could have justified a European participation in the (now equally defunct) Six-Party Talks⁷, Brussels has not actively sought to become a member and contributor to the talks (to be sure, none of the member countries of the Six-Party Talks ever invited the EU to become a member either).

Finally, Brussels' reluctance to get involved in Asian territorial conflicts beyond urging involved parties to solve conflicts peacefully and through negotiations, it is argued, have confirmed Beijing's policymakers view that Brussels is equally reluctant to voice opinions or – worse from a Chinese perspective – adopt policies which could be interpreted as anything near coming what Beijing refers to as "interference" in its domestic and foreign policy affairs. While this policy choice has undoubtedly favoured the establishment of the below-mentioned bilateral EU-China dialogue on Asian

³ Hosting roughly 50,000 US troops on Japanese territory.

⁴ Hosting 28,500 US troops on South Korean territory.

⁵ An international consortium which was among others to provide North Korea with two light-water reactors in return for Pyongyang's guarantees to verifiably and sustainably forego its nuclear ambitions.

⁶ As it turned out, reforms which were halted after the regime in Pyongyang – in defiance of economic needs – decided that economic reforms together with the partial economic opening of the country would be an existential "threat" to the regime.

⁷ A multilateral (US, Japan, South Korea, China, Russia and North Korea) forum hosted by Beijing from 2003 to 2009 aimed at convincing Pyongyang (through economic and financial incentives) to dismantle its clandestine nuclear facilities.

security, it has also made sure that the EU's credibility as a coherent and determined foreign and security policymaker with a "punch" is perceived as fairly (or indeed very) limited in Beijing (and elsewhere in Asia for that matter).⁸

HARD VERSUS SOFT POWER⁹ IN ASIA¹⁰

What is, in view of the current security environment and situation, more beneficial and necessary in Asia: more US-style "hard security" policies or instead more EU-style "soft security" contributions to Asian security? Scholars and analysts who argue that it is the latter maintain that Asia's political leaders welcome European contributions to tackling non-traditional security issues in particular, an area where Brussels has both skills and capabilities.¹¹ In short and put simply: it is probably accurate to conclude that the majority of Asia's policymakers (and probably those in China in particular) do not want the EU to become "another US" in terms of security policies towards Asia, but instead want Brussels to stick to "soft power" as its main (and indeed only) foreign policy instrument in the region. As indicated in the introduction, Brussels' opting for "soft power" security contributions to Asia is obviously also a choice that is defined by the absence of European military troops permanently stationed in Asia due to – in comparison with the US – very limited strategic and military interests in the region.

The US's status as a global military power¹² with global military reach, Washington's geo-strategic involvement in Asia in general, and its rivalry with China in particular, it is argued in this context, allegedly "oblige" Washington to back up its involvement in Asia by military power projection capabilities. The absence of similar EU strategic interests in the region on the other hand allegedly provides Brussels with the "luxury" to be able to focus on soft power policies: the EU as a so-called "free-rider" on US security guarantees, at least from an American perspective.

European weapons sales to Asia on the other hand arguably damage the EU's "soft power" image in Asia. Notwithstanding that selling weapons and weapons technology to a region prone to military conflict taints Europe's self-declared "soft power" image, EU member states' defence contractors are selling weapons and weapons technology on a large scale to Asia with a strong market presence in South and Southeast Asia in

⁸ This author's interviews with Chinese scholars in 2012 and 2013 confirm this assessment.

⁹ "Soft power" is defined as a policy instrument with economic, financial and development aid at its centre.

¹⁰ For more details on the pros and cons of EU "soft power" and US "hard power" contributions to Asian security see also this author's contribution in the forthcoming issue of *Korea Review of International Studies* (KRIS).

¹¹ See Islam, Shada, "EU Needs Stronger Focus on Asian Security"; Friends of Europe July 1, 2013; <http://www.friendsofeurope.org/Contentnavigation/Publications/Libraryoverview/tabid/1186/articleType/ArticleView/articleId/3521/EU-needs-stronger-focus-on-Asian-security.aspx>.

¹² With more than 700 military bases and installations outside of US territory.

particular.¹³ European defence contractors are, e.g., selling naval units as well as jet fighters in these regions. In spite of the EU weapons embargo imposed on Beijing in 1989, China too has become an important market for EU contractors. In defiance of the embargo, European contractors have over recent years provided Beijing with military equipment worth between 7 and 10 percent of China's rapidly increasing defence procurement budget.

GETTING REALLY MORE INVOLVED?

European scholars who dismiss US accusations of Europe "free-riding" on US security guarantees in Asia argue that a Europe relying on US security guarantees in Asia belongs to the past. "The times may be ending when Europe can easily be accused of being a 'free rider' in the Asia-Pacific region. For decades Europeans have benefited economically from efforts made by the United States and East Asian countries, while doing nothing to contribute to peace and stability in the region – or so the argument went. But Brussels' preparedness to engage more thoroughly with East Asian affairs is growing, as recent proclamations demonstrate," the Dutch scholars Maaïke Okano-Heijmans and Frans-Paul van Putten write, citing recent EU declarations that point to an increased and increasing European involvement in Asian security.¹⁴ The participation of Catherine Ashton, High Representative of EU Foreign Affairs and Security Policy, in the 2013 Shangri-La Asian Security Forum in Singapore in June 2013 has in this context in Brussels been cited as an example of how the EU is getting more involved in Asian security (Ashton, however, did not participate in the same forum in 2014). However, there remains a fundamental difference between announcing an intention to make tangible contributions to Asian "hard" security and actually making them. Indeed, other European scholars, such as Daniel Keohane, argue that Europe's political leaders are "apathetic", exclusively perceiving Asia to be a "market" for European products or services as opposed to a potentially fragile region in which instability has almost inevitably an impact on European business interests in the region.¹⁵ The fact that the EU's maritime trade with Asia accounts for more than 25 per cent of overall transcontinental container shipping traffic is often cited in this context to underline that Brussels and EU member states are undoubtedly profiting from US efforts to ensure

¹³ SIPRI in Stockholm estimates that Asian countries import roughly 20% of its weapons and weapons technology from Europe while they import close to 30% from the US.

¹⁴ See Okano-Heijmans, Maaïke, Van der Putten, Frans-Paul, "The EU should stay its independent course in East Asia", in *Europe's World* January 29, 2014; <http://europesworld.org/2014/01/29/the-eu-should-stay-its-independent-course-in-east-asia/#.UyGQuhZCjUo>.

¹⁵ See Keohane, Daniel, "The EU's Role in East Asian Security", in Pawlak, Patryk, *Look East, Act East – Transatlantic Agendas in the Asia Pacific*; Report Number 13 December 2012, EU Institute for Security Studies (EUISS) Paris, pp. 45-51.

open sea-lanes in the Asia Pacific.¹⁶ Keohane's assessment of how Europe allegedly perceives Asia, however, omits the possibility that Brussels and its member states might have consciously chosen (as opposed to have done so "apathetically") to lay the focus of security contributions in Asia on "soft power" out of the conviction that "soft power" is as relevant as "hard power" to maintaining peace and stability in Asia. Furthermore, accusing the EU of "free-riding" on US security guarantees in Asia does not reflect the reality of EU policies in Asia, due to at least two reasons: firstly, it is indisputable that European engagement in and contributions to Asia's economic development and growth contributes to Asian security and stability (which the US also profits from). Secondly, US military presence and its confirmation and indeed expansion through the US "pivot to Asia" announced in 2011 serves above all to counterbalance China's military rise threatening to challenge US regional interests and indeed hegemony. In other words: US military troops are above all stationed to protect American and not European regional economic interests.

Such an assessment notwithstanding, many US (realist) scholars urge Brussels to consider deploying military forces to Asia. "From an EU perspective it may be desirable to develop a more direct presence in the Asia Pacific to help ensure that the US remain committed to the alliance's security interests in other regions that are traditionally perceived as more vital to European security," the US scholars Andrew Erickson and Austin Strange assert.¹⁷ Such a "tit-for-tit" argument, which seems to suggest that in order to secure US support for European security interests globally, Europe must in return deploy troops to Asia, is obviously not shared by those who instead argue that the absence of European military troops in Asia is the precondition of Brussels' successful "soft security" security policies in Asia.¹⁸ The absence of European military in Asia, it is pointed out in this context, makes the EU a "non-threatening" actor, the precondition to playing the role of an "honest broker" without having to explain (like Washington has to) how and to what extent it is at all possible to assume such a role in view of the presence of military troops ready to defend economic and political interests with military force. Finally, there is also European military deployed to Asia, albeit in small numbers and not permanently. The UK, for example, is a member of the Five-Power Defense Arrangements (FPDA), a military consultation forum between

¹⁶ See also Rogers, James, "From Suez to Shanghai: The European Union and Eurasian Maritime Security", Occasional Paper No. 77, European Union Institute for Security Studies, Paris, March 2009; also see Schwarck, Edward, "Freedom of Navigation and China: What should Europe do?", *The Diplomat* August 19, 2014; <http://thediplomat.com/2014/08/freedom-of-navigation-and-china-what-should-europe-do/>.

¹⁷ For details see Erickson, Andrew S., Strange, Austin M., "Transatlantic security cooperation in the Asia Pacific", in Pawlak, Patryk, *Look East, Act East-Transatlantic Agendas in the Asia Pacific*; Report Number 13 December 2012, EU Institute for Security Studies (EUISS) Paris, pp. 38-44.

¹⁸ See, e.g., Parello-Plesner, Jonas, "What is Europe's Role in Asia-Pacific?", *European Foreign Policy Scoreboard Debate*, European Council on Foreign Relations (ECFR) March 11, 2013.

the UK, Australia, Malaysia, New Zealand and Singapore. Furthermore, French navy forces are deployed in the Indian Ocean and the South Pacific. On the EU member state level, several EU countries have set up defence dialogues and military links with countries such as Japan, South Korea, Australia and New Zealand. France, the UK and Germany for their part have set up “strategic dialogues” with Beijing, accompanied by, e.g., training of Chinese military officers. Cooperation between British and French military with Chinese military forces includes, e.g., port calls and joint naval search and rescue exercises. Furthermore, the EU is working with various Asian countries on cross-border security issues such as counter-piracy, cyber-security, maritime security, energy security and climate change and natural disasters.

BRUSSELS TOO “PIVOTING” TOWARDS ASIA?

When the US administration announced its “pivot to Asia” in 2011¹⁹ accompanied by an envisioned increased US involvement in Asian security through the operational strengthening of existing military alliances with Japan and South Korea and the establishment of new defence ties with Australia, India, the Philippines²⁰ and also Vietnam, Beijing almost immediately claimed that the “pivot” has one and one objective only: containing China’s economic and military rise. While the discourse in the literature and policymaking circles is ongoing as to whether and to what extent the US “pivot” or “re-balancing” to Asia is to be understood as part of a US-led China containment strategy, European scholars argue that the EU – albeit differently – has been “pivoting” to Asia over the last 10 years. “There is a widespread belief that the EU lacks the necessary capabilities – as well as the political unity – to engage effectively in this distant but increasingly important part of the world. However, closer examination shows that the EU and its member states already began their own rebalancing towards Asia roughly a decade ago. Although this development has gone largely undetected, it could well warrant the label of a European ‘pivot’,” Nicola Casarini, for example, writes.²¹ The EU “pivot” towards Asia, Casarini writes, does not have security and military alliances at its centre and is therefore not aimed at any country. Nonetheless, EU policymakers saw themselves confronted (especially after the joint Clinton-Ashton statement on Asian

¹⁹ On the EU response to the US’s Asia pivot see, e.g., Korteweg, Rem, “Europe Cannot Make up its Mind about the US Pivot”, Centre for European Reform (CER) Bulletin Issue 92 – October/November 2013; <http://issuu.com/centreforeuropeanreform/docs/130927130248-34686b89773b4b2a98c1a3140cd75451?e=0/5005000>.

²⁰ In 2013, Washington and Philippines signed a new defence agreement to facilitate so-called “rotational military presence on Philippine territory.” A 20-year-long US rotational military presence is foreseen. See, e.g., Javad Heydarian, Richard, “New Nadir for China-Philippine Ties”, in *Asia Times* September 12, 2013.

²¹ See Casarini, Nicola, “The European ‘Pivot’”, Issue Alert EU Institute for Security Studies (EUISS) Paris March 2013; http://www.iss.europa.eu/uploads/media/Alert_Asia.pdf.; also Parello-Plesner, Jonas, “Europe’s Pivot to Asia”, *East Asia Forum* 12 November 2012; www.eastasiaforum.org/2012/11/12/europes-pivot-to-Asia/.

security of November 2012, for details see below) with the (very) challenging task of explaining to Beijing policymakers why the EU's "re-balancing" towards Asia does not stand for the EU allying itself with the US to contain China.²²

Javier Solana too argues that the EU should be "pivoting" towards Asia, albeit not the way the US does. "Even when rebranded as a 'rebalancing', America's eastward shift is inevitably met with suspicion by some Asian countries, particularly China. Europe, by contrast, can use its agility to perform a 'smart pivot'", Solana wrote in 2013.²³ By "smart pivot" Solana means an increased European engagement with Asia's institutions such as ASEAN to promote what Solana calls a "shift toward a three-pillared design (political-military, economic, and socio-cultural) by 2015." While such an envisioned increase of EU efforts to advance Asian regional integration sounds "good" on paper, EU and former policymakers like Solana here fail to specify how exactly an increased EU engagement with ASEAN in order to promote the, for example, above-mentioned "three-pillared design" should concretely look like and translate into. Finally, the EU's signature under the Treaty of Amity and Cooperation (TAC) – a non-aggression pact between ASEAN members and non-members – is cited as evidence that Brussels continues to remain ambitious to increase its influence on and contributions to Asian politics and security. While the accession to the treaty allows the Union to participate in the East Asian Summit (EAS), it remains yet to be seen whether and when it will be followed up by "new" joint EU-Asian security policies in the region.

EU ("SOFT POWER") ACTION ON THE GROUND

European reluctance to get involved in Asian "hard" security notwithstanding, EU "soft power" security contributions to Asian security have over decades been very substantive. Over the last 10 years the EU, e.g., contributed to the stabilization of East Timor, co-financed, and supervised the implementation of the peace agreement between Indonesia and the Free Aceh Movement and continues to contribute to the pacification between the Muslim population in Mindanao and the central government of the Philippines. Furthermore, after the lifting of European economic sanctions, Brussels is preparing to resume large-scale economic and development aid for Burma/Myanmar. What's more, the EU has on several occasions assumed a role in areas such as conflict mediation. In 2005, e.g., the EU deployed a monitoring mission to Aceh, helping to implement a peace agreement bringing an end to a 29-year long conflict there. Furthermore, the EU and its member states remain the biggest donors of humanitarian and development aid to Asia. From 2007 to 2013 the EU Commission has allocated

²² Something Chinese scholars and policymakers accuse Europe of when European policymakers and scholars voice concerns on China's rapidly increasing defence budget.

²³ See Solana, Javier, "Europe's Smart Asian Pivot", Project Syndicate September 17, 2013; <http://www.project-syndicate.org/commentary/the-eu-s-strategic-advantages-in-asia-by-javier-solana>.

roughly 5.2 billion Euro of development aid for Asia. Roughly 80 per cent of these funds are assigned to development assistance for individual countries, 16 per cent are assigned to regional assistance, and 3 per cent are reserved for ad-hoc allocation in case of regional emergencies such as natural and humanitarian disasters.²⁴

EU ASIA POLICY GUIDELINES

The “Guidelines on the EU’s Foreign and Security Policy in East Asia” adopted by the Union in June 2012 have been cited by Brussels’ policymakers over the last two years as an expression of increased and increasing EU willingness to get further involved in Asian security. The guidelines acknowledge that the EU “needs a more developed, coherent and focused common foreign and security policy in East Asia.”²⁵ They furthermore announce intentions to expand exchanges with the “region’s key players”, and make full use of its strategic partnerships in the region, including bringing to bear the potential of the “High-Level Strategic Dialogue” and the “High-Level Economic and Trade Dialogue” with China, and deepening its strategic dialogue on East Asia with Japan. Furthermore, the guidelines call for an intensification of the Union’s political dialogue with South Korea on North Korea’s clandestine nuclear program and call for increased military-to-military exchanges between the region’s countries and EU member states to – as the guidelines read – “increase transparency and reduce the risk of misperception.” As is oftentimes the case with EU policy papers and declarations, however, the guidelines are short on details on how exactly the envisioned intensification of EU involvement in Asian security is planned to take place. Indeed, the Union’s Asia policy guidelines read – like the previous version as well as Brussels’ so-called “action plans” it has over the years adopted with numerous individual Asian countries – like a long list of unresolved issues and areas of Asian security the EU is planning to get more involved in.

It is nonetheless noteworthy that a significant part of the guidelines are dealing with China and the limits, problems and possibilities of EU-China cooperation in regional politics and security. Noteworthy also because the guidelines display – directly or indirectly through reading between the lines – a (very) negative EU assessment on the quality of Chinese domestic and foreign policies by listing a number of issues of China’s domestic and regional foreign and security policy agendas which from an EU perspective need to be addressed. Such issues include human rights, the – from an EU perspective – insufficiently developed application of the rule of law (as opposed to the “rule by law”) in China and the lack of progress in fundamental freedoms in the country.

²⁴ For further details see European Commission, “Regional Programming for Asia Strategy Document for Asia 2008-2013”; http://eeas.europa.eu/asia/rsp/07_13_en.pdf.

²⁵ See “Guidelines on the EU’s Foreign and Security Policy in East Asia June 2012”; http://eeas.europa.eu/asia/docs/guidelines_eu_foreign_sec_pol_east_asia_en.pdf.

In that context, the guidelines lament that China is in Europe's view not sufficiently included in regional and global structures of economic and political governance (which is another way of saying that China does not abide by and adopt globally acknowledged and applicable rules of economic and political governance). Finally, the guidelines urge China to become more transparent about its defence spending. Realistically, however, Europe criticizing Chinese domestic and foreign policies in general and calling for more transparency for China's defence spending in particular will at best most probably like in the past lead to Chinese accusations of Europe "interfering" in China's internal affairs or – at worst – quite simply be ignored in Beijing.

COOPERATING WITH WASHINGTON?

Brussels' policies towards China have in the literature and in US policymaking circles over the last 10 years been cited as "evidence" that the EU has, compared to Washington, a fundamentally different perception of the quality of Chinese regional security policies. The US argument and reasoning, however, tend to be rather simplistic: while Washington is above all concerned about China's military rise threatening US political and economic interests in the region and beyond, Europe on the other hand does not perceive and treat China as a potential military threat and instead focuses exclusively on the expansion of trade and business ties with Beijing. This accusation became particularly relevant when in the early and mid-2000s Brussels considered the possibility of lifting the arms embargo the Union had imposed on China in 1989. The EU's lifting of the arms embargo, it was feared in Washington back then, would pose a direct threat to US regional security interests if the lifting of the weapons export ban resulted in Beijing buying state-of-the-art European weapons and weapons technology. These concerns at the time led Washington²⁶ to call for more US-EU coordination on their respective policies towards China and the establishment of an annual EU-US dialogue on East Asian security (with weapons at the very top of the dialogue's agenda at all times).

As regards a possible expansion of US-European security cooperation in Asia, great importance was (at least in Brussels) attributed to Catherine Ashton's first-time participation in the ASEAN Regional (ARF) in November 2012, which resulted in a joint EU-US statement on Asian security (signed by Ashton and then US Secretary of State Hillary Clinton).²⁷ That joint statement mentioned the possibilities of EU-US

²⁶ When the lifting of the EU weapons embargo seemed to be possible in 2003, 2004 and 2005, the US government, either directly or through US think tanks close to the US administration's view and policies on the embargo, organized a series of roundtables and seminars in Brussels and elsewhere in Europe, "explaining" to the European public why the lifting of the embargo would directly threaten US security and security interests in Asia.

²⁷ See "Joint EU-US Statement on the Asia-Pacific Region", European Union Phnom Penh, 12 July 2012; www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/131709.pdf.

cooperation in transnational crime, cyber-security and development policies. It pointed to “the importance of open markets in enhancing growth and development in the Asia-Pacific region, which also has a direct and positive impact on the economies of the European Union and the United States.” Since the statement’s adoption 18 months ago, however, the only tangible follow-up of the Clinton-Ashton declaration is the establishment of regular meetings between British, German, French, Italian and US State Department officials. These meetings, however, cannot necessarily be referred to as a concerted EU policy strategy but instead are rather individual EU member states’ policymakers informally discussing issues of mutual interests in Asia.

Probably against better knowledge, Beijing on the other hand maintained that the Clinton-Ashton joint statement sounded like the EU preparing itself to get involved in a US-driven containment policy strategy towards China even if such a conclusion has arguably very little or indeed nothing to do with actual EU foreign and security policies towards Asia in general and China in particular. Attempts by European policymakers and scholars to explain to their Chinese counterparts that the Clinton-Ashton statement does indeed not stand for Europe’s incorporation into a US-driven China containment policy strategy continue to remain unfruitful: dismissing the far more “harmless” reality of what Europe is willing and able to jointly “do” with the US in Asian security, some Chinese policymakers and (many) scholars this author has spoken with in 2013 and 2014 today continue to maintain that the Clinton-Ashton declaration was directed at China, thereby “betraying” the spirit of the below-mentioned EU-China bilateral dialogue on Asian security set up in 2010.²⁸

DEALING WITH CHINA-RHETORIC VERSUS REALITY

The EU might be too optimistic (or in denial as the EU is at times accused of) as regards its ability to use its “soft power” to influence the foreign and security policies of Asian countries in general and those of China in particular. Indeed, in defiance of the realities of Chinese foreign and security policies guided by the “principle of non-interference”²⁹, US scholars typically argue, Brussels nonetheless insists that its dialogues with China on human rights, the rule of law, nuclear proliferation, maritime security and regional security have an actual impact on Chinese internal and external policies. Doubts about the actual impact of European concerns and advice on Chinese regional security policy notwithstanding, in 2010 the EU and China set up an annual dialogue on defence and

²⁸ Chinese policymakers and scholars interviewed by this author have voiced such and similar assessments on how the Clinton-Ashton joint is “really” to be understood.

²⁹ In essence: Beijing is not allowing anybody to “interfere” in its domestic and foreign policies. Others having a critical opinion on the conduct of Chinese domestic and foreign policies is typically referred to as unwanted “interference” in China’s internal affairs.

security. The most recent annual “EU-China High-level Strategic Dialogue”³⁰ was held in January 2014 and Brussels has among other issues hoped – in vain as it turned out – that the dialogue would encourage Beijing to become more transparent about its defence expenditures and military equipment procurement and sales policies.³¹ When analysts question the relevance and the impact of the bilateral EU-Chinese dialogue on the quality of Chinese regional security policies, EU policymakers typically point out that – put simply – talking to China on security is better than not talking even if concrete results of the dialogue are not always tangible. That may be true when taking into account the benefits of European dialogue with China on regional security per se, but arguably turns out to be less relevant if European concerns on Chinese regional security policy conduct (above all its [very assertive] policies related to territorial claims in the East and South China Seas) are not at all being taken into account or indeed ignored in Beijing. Indeed, the reality of Chinese regional security policy conduct and actual policies has shown that Chinese willingness to consult with the EU on security issues that fall under what Beijing calls its “core interests” (Taiwan, Tibet, and what Beijing is referring to as “territorial integrity” in Asia’s disputed territorial waters) is very, very limited if at all existent.³²

“NATURAL ALLY” JAPAN

Regardless of the question of whether or not the above-mentioned bilateral EU-Chinese dialogue on Asian security produces tangible results, the annual above-mentioned EU-China security dialogue has in Japan – the EU’s allegedly “naturally ally” in Asian politics and security³³ – led to the perception that Brussels is not the kind of security policy partner willing to support Tokyo’s own China security policies aimed at deterring Beijing’s territorial ambitions in Japanese-controlled territorial waters in the East China Sea.³⁴ In fact, given the currently very tense Japanese-Chinese relations, the EU discussing Asian security with Beijing without condemning Chinese violations into Japanese-controlled territorial waters in the East China Sea is a de facto confirmation to (some) Japanese policymakers and scholars that the reality of EU-Japan security cooperation does not live up to the above-mentioned term “natural ally” in Asian

³⁰ Established in 2010, see European External Action Service, http://eeas.europa.eu/china/index_en.htm.

³¹ For details see also “China and the EU Hold Fourth High-Level Strategic Dialogue”, Asia News Outlook February 5, 2014, European Institute for Asian Studies (EIAS) Brussels; <http://www.eias.org/asian-news-outlook/china-and-eu-hold-fourth-high-level-strategic-dialogue>.

³² For more details see also Godement, Francois, “Xi Jinping’s China”, Essay European Council on Foreign Relations July 2013; http://ecfr.eu/page/-/ECFR85_XI_JINPING_CHINA_ESSAY_AW.pdf.

³³ “Natural ally” is a term the EU’s External Action Service (EEAS) uses when pointing to the (great) potential of EU-Japan cooperation in Asian politics and security.

³⁴ This author’s conversations with Japanese scholars in 2013 confirm this.

politics and security. This is regardless of the fact that Tokyo is probably very aware that – judging by Beijing’s insistence on the “principle of non-interference” on a come what may basis – Brussels openly and on the record criticizing Chinese violations of Japanese-controlled territorial waters around the Senkaku Islands (Diaoyu Islands in Chinese) in the East China Sea would probably interrupt (if not indefinitely terminate) the EU-China bilateral EU-China dialogue on Asian security.

On a more positive note, since 2005, when the “EU-Japan Strategic Dialogue on East Asian Security” was launched, Brussels and Tokyo are discussing Asian security issues on an annual basis.³⁵ Furthermore, the EU and Japan have in recent years been cooperating on security – of traditional and non-traditional natures – in various parts of the world, including in Central Asia, Afghanistan, Africa and elsewhere.³⁶ Such EU-Japan cooperation included also the EU-Japan counter-piracy cooperation off the coast of Somalia and the Gulf of Aden between Japan’s Maritime Self-Defense Forces (MSDF) and the EU Naval Force (NAVFOR) Somalia Operation Atalanta since 2010. Since then Brussels and Tokyo have frequently exchanged data and intelligence.³⁷

CONCLUSIONS

The EU making “soft power” security contributions to Asian security is arguably (much) less “spectacular” and headline-catching than joint US-South Korean or US-Japan military manoeuvres in the region, typically leading North Korea or China to react, either verbally (in the case of China) or “physically” (in the case of North Korea, which in the past took US-Korean military exercises as occasions to test missiles over or close to South Korean and also Japanese airspace). However, as mentioned above, Brussels has over decades promoted and substantially supported economic and social development, democracy, the rule of law and human rights in Asia. Such EU approaches and policies in Asian will continue to remain at the top of Brussels’ Asia policy agenda, regardless of the fact that news on Asian politics and security will probably in the months and indeed years ahead focus on intensifying territorial disputes, US-Chinese strategic rivalry, North Korea’s nuclear programme and other “hard” security issues. The EU’s responses to the Japanese-Chinese territorial dispute in the East China were – as elaborated above – perceived as “weak” among Asian policymakers and scholars and interpreted as the result of Brussels fearing negative repercussions for European investments and investors in China if the Union had chosen to, for example, strongly

³⁵ For details see also Mykal, Olena, *The EU-Japan Security Dialogue: Invisible but Comprehensive*, Amsterdam University Press 2011.

³⁶ For details see also Berkofsky, “Axel, EU-Japan relations from 2001 to today: Achievements, failures and prospects”, in *Japan Forum* 24(3) 2012, pp. 265–288.

³⁷ EU NAVFOR’s main tasks are to escort merchant vessels carrying humanitarian aid for the World Food Program, to protect ships in the Gulf of Aden and the Indian Ocean, and to deter piracy.

condemn repeated Chinese intrusions into Japanese-controlled territorial waters in the East China Sea over the last two years.³⁸ Such a rather negative perception of the EU's ability (or rather inability) to formulate and adopt coherent and resolute foreign and security policies (at the possible expense of business interests) in Asia will most probably continue to co-exist with the generally very positive perception of the EU as an actor on the very forefront of, for example, Asian poverty reduction policies.

A more prominent European role promoting European models and modes of security multilateralism, it is argued amongst some European scholars and (many) EU policymakers, is welcome in Asia, including in China.³⁹ However, such optimism does not seem to reflect – at least not yet – the realities of Chinese regional security policies. Insisting on the above-mentioned “principle of non-interference”, there is a near-consensus among China analysts that Beijing will continue to remain almost categorically opposed to meaningfully multilateralizing its regional security policies.

As elaborated above, against the background of Asia's current (fragile) security environment, China's recent assertive territorial policies in the East and South China Seas, US hard security policies backed up by military alliances and troops on the ground currently appear to be the more suitable approach towards East Asian security. Indeed, China's territorial ambitions in Asian territorial waters seem to have come as a blessing in disguise for Washington as they have in the public perception undoubtedly increased the alleged “necessity” of Washington's above-mentioned Asia “pivot.” That notwithstanding, Brussels' policymakers are advised to continue to insist that Europe is above all or indeed exclusively a “soft security” policy actor in Asia pursuing fundamentally different strategies than the US. The EU neither has the means nor the political will or a common European foreign and security policy unified and coherent enough to adopt US-style hard security policies in Asia even if the above-mentioned joint Clinton-Ashton statement in 2012 might have given a slightly different impression (above all in China) at the time.

Axel Berkofsky is Professor at the University of Pavia, Italy and Senior Associate Research Fellow at the Milan-based Istituto per gli Studi di Politica Internazionale (ISPI).

³⁸ See e.g., Khandekar, Gauri, “EU quiet as trouble brews in Asia”, in EUObserver.com, September, 18 2012.

³⁹ See Peyrouse, Sebastian, “Europe's Involvement in East Asian Security – How to Engage China”, Fride Analysis October 2012; <http://www.fride.org/publication/1058/europe-s-involvement-in-east-asian-security>.

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The New Power Balance in the 8th European Parliament

Daniela Kietz and Nicolai von Ondarza¹

The 2014 European Parliament (EP) elections sent a shock wave through European politics in two respects: firstly, due to the EU sceptical parties achieving the largest increase in votes and secondly because the EP enforced the top candidate principle and will therefore tie the commission closer to it than ever before. Nevertheless, the EP is positioning itself similarly to its predecessors: There will be no fixed coalition with government/opposition dynamics but broad alliances of the pro-European parties, which thus marginalizes the EU sceptics. Concerning matters of integration, the parliamentary majority will continue to advocate increasing integration whereas in terms of questions relating to economic and social policy, due to the stronger radical far-right political forces, it will probably shift towards the left.

THE NEW COMPOSITION OF THE PARLIAMENT: INCREASED INFLUENCE OF THE EXTREMISTS

At first sight, the 2014 European Parliament elections have led to a considerable shift in the balance of power (see Table 1). The extreme and populist right-wing parties at the margins of the political spectrum were at the centre of attention during the elections. The common denominator of these xenophobic or even openly racist parties is, apart from a harsh anti-immigration policy, their increasingly fundamental rejection of the EU integration process.

At the 2014 European elections, they were able to increase considerably the number of votes received. However, they were not evenly distributed among the EU member states. They were concentrated on a group of West and North European member states

¹ This article is an updated version of Daniela Kietz and Nicolai von Ondarza, “Das neue Machtgefüge im Europäischen Parlament. Trotz EU-Skeptikern und Spitzenkandidatenprinzip bleibt der politische Umbruch aus”, SWP-Aktuell 2014/A47. Berlin: Stiftung Wissenschaft und Politik.

which were very much at the centre of media attention, particularly France, Great Britain and Denmark, where Front National (24.95% of the votes), UKIP (27.49%) and the Danish People's Party (26.60%), all of them right-wing populist EU sceptics, became the strongest national force.² All these parties were able to increase their results by more than 10 percentage points. In Austria the FPÖ became the second strongest party (19.72%). At EU level, these parties occupy more than 100 seats. Approximately half of them are organized in the far-right parliamentary group Europe of Freedom and Direct Democracy (EFDD); the other half remain independent members.

Additionally, there are a further 70 members of the European Parliament from the European Conservatives and Reformists (ECR), who reject further steps towards integration. This parliamentary group is led primarily by the British Conservatives and the Polish Law and Justice Party (PiS). On the other end of the political spectrum of the EP, the European United Left/Nordic Green Left (GUE/NGL) increased its number of mandates from 35 to 52. At the political centre, however, the European People's Party lost a considerable number of seats (EPP, 221 seats, previously 274) and, similarly the Liberals (ALDE, 67 versus 83), whereas the vote share of the Progressive Alliance of Socialists and Democrats (S&D, 191) and The Greens/European Free Alliance (50) managed to remain stable.

Table 1: Parliamentary Groups in the European Parliament

Groups	7th election period (2009-2014)	8th election period (2014-2019)	Difference
EPP	274	221	-53
S&D	196	191	-5
ALDE	83	68	-15
ECR	57	70	+13
The Greens/EFA	57	50	-7
GUE/NGL	35	52	+17
EFDD	31	48	+17
Independent	33	52	+19
Total	766	751	-15

Source: European Parliament

² The source of all data concerning the election results is the EP website <http://www.ergebnisse-wahlen2014.eu/de/election-results-2014.html>. When considering the changes of seats, it has to be taken into account that the total number of seats also declined from 766 to 751.

THE BALANCE OF POWER AND COALITIONS BETWEEN THE PARLIAMENTARY GROUPS

Broad alliances instead of solely a grand coalition

Despite all the media attention, the majority in the EP is still held by pro-European groups. In the first instance, the balance of power would suggest a grand coalition between EPP and S&D. Without the radical anti-Europeans among the EFDD and the independent members of parliament, there is no feasible absolute majority either left or right of centre in the new EP. However, such a large coalition is not a recent trend for the EP. In the last legislative period, the EPP and the S&D, with 55% of the seats, had an absolute majority and together won more than 70% of the parliamentary votes.³ Furthermore, both groups include representatives from all 28 member states, the only exception being Great Britain after the conservatives left the EPP in 2009 and therefore are not represented in the largest EP group any more. Moreover, due to the success of the FN the number of French parliamentarians in both groups has declined considerably whereas Germany represents the largest national delegation of the EPP and the second largest of the S&D.

As opposed to the national level, a long-term grand coalition is not to be expected despite this absolute majority. According to current practice in the EP, it can be assumed that as a general rule, both parliamentary groups will strive to gain the broadest majorities possible. Such over-sized coalitions are a tradition in the EP. During the last legislative period in more than 90 percent of cases in which the EPP and the S&D reached a compromise, there was at least one other parliamentary group involved. There are two main reasons:

First, a broad consensus regarding a certain issue strengthens the EP's position in negotiations with the Council and the Commission. When passing legislation concerning crucial decisions, such as the approval of the EU budget or disputes over institutional competences, the two largest groups, as a general rule, strive for a large majority in order to assert themselves against the Council. Even for the highly controversial legislative project such as the European banking union, a large coalition of five parliamentary groups with more than 550 members of parliament was formed.⁴

Furthermore, the combined absolute majority of EPP and S&D in the new legislative period amounting to "only" 412 mandates has been much reduced. In highly politicized votes during which dissenting votes are likely, such majorities will not always be sufficient. During the last legislative period, members of parliament had an

³ VoteWatch Europe, "20 Years of Co-decision: A More (Party) Political Parliament, a Less Consensual Council", *Special Policy Brief*, December 2013.

⁴ Anne Lauenroth, "A pragmatic deal. The European Parliament and the Single Supervisory Mechanism", in Daniela Kietz and Nicolai von Ondarza (Hrsg.), *Strengthened, Sidelined, Caught in Compromise. The 7th European Parliament from a German Perspective*. Berlin: Stiftung Wissenschaft und Politik. 2014.

average attendance rate of approximately 85 percent, which translates into an average of 350 members of parliament present at any one time.⁵ Even if attendance rates were higher in the case of controversial decisions, the veto of a large national delegation would still be sufficient to challenge the majority.

In internal negotiations of the EP, EPP and S&D will continue to aim at integrating all groups, if at all possible. The partners of preference will be the liberal ALDE group and the Greens respectively. As the negotiations for the enforcement of the frontrunner principle through the election of Jean-Claude Juncker show (see below), generally speaking, the European Left and the moderate EU sceptical ECR are also integrated. The only exceptions are the far-right parties which despite their gains, remain excluded from compromises by the other parliamentary groups.

Isolated Instances of Polarization Might Occur

At first glance and for as long as the fundamental far-right EU sceptics are excluded, it would seem impossible for crucial votes along the left-right wing spectrum to occur in the new parliament, which was previously not the case. During the last legislative period, majorities to the right or the left of the centre were still a possibility. To that end, between 2009-2014, in around 15 percent of parliamentary votes, a coalition formed by EPP, ECR and ALDE or by S&D, Greens, Left as well as ALDE were necessary. If EPP and S&D could not agree, ALDE became the kingmaker. In the light of the new majority situation, the weakened ALDE cannot occupy this position any more. At a second glance, majorities beyond the grand coalition are nevertheless under some circumstances still conceivable.

As a matter of fact, 80 percent of legislative acts are approved with a simple majority after the first reading. The same applies to international agreements. As on average only 83.86 percent of parliamentarians take part in the votes, in practical terms the requirements for majorities are much lower than the absolute majority of 376 votes. On average, 315 votes are sufficient for a simple majority.⁶

A centre-left alliance made up of S&D, ALDE, Greens and Left, which in the future would include 360 seats, is quite able to gain a majority. This would be an option for areas in which there is a great political remove between S&D and EPP and where the remove between S&D and the smaller parties is surmountable. This applies *inter alia* to issues regarding environmental policy, gender policy and sensitive aspects of fundamental rights relating to justice and home affairs. In these cases ALDE generally votes with the left-of-centre parties. In these areas there are overlapping areas of interest with the European Left, which is not the case concerning economic policy.

⁵ Own calculations on the basis of data retrieved from Votewatch.eu.

⁶ Ebd.

As a shaping majority, such a centre-left alliance will only occur in exceptional cases. However, it is conceivable as a sporadic blocking majority, e.g., in the case of international agreements concerning the exchange of personal data. Above all, the mere possibility of forming such a coalition confers a certain importance to the centre-left when negotiating compromises within the EP.

Also, a centre-right coalition comprising EPP, ALDE and ECR with 358 votes is mathematically also able to form a majority. There are overlapping interests between the parties, especially in terms of economic policy issues such as the internal market or free trade. This is the area in which ALDE distances itself from S&D and where the EU-sceptical ECR also supports further consolidation of European policies. However, cooperation with the ECR group, which in its new composition is distancing itself increasingly from the political mainstream, will be more difficult.

Drifting away of moderate sceptics

Up until now, the moderate EU sceptics of the ECR have been closely involved in the negotiations in the EP. This parliamentary group was established in 2009, when the British Conservatives left the pro-integrationist EPP in order to found a new EU-sceptical group as an alternative to the EPP, primarily with Central and East European parties such as the Polish party PiS. After many ECR member parties suffered losses in the last elections, the group opened up and integrated other alliance partners. Amongst these were the Alternative for Germany, The Family and the Flemish Separatist Party N-VA. But also hardliner, right-wing populist EU sceptics such as the Danish People's Party and the Finns Party were allowed to join the ECR. At the same time, moderate forces such as the Czech Free Citizens' Party (ODS) have lost seats, whereas the British Conservatives are becoming increasingly radical where EU matters are concerned.

With this socio-political and European policy shift to the right, the ECR has moved even further away from the EPP than before. The ECR has broken a taboo especially allowing the integration of far-right parties. Even if these parties are becoming more socially acceptable among the general public the EP groups so far have regarded it as imperative not to cooperate with these forces. Up until now, the ECR has been a solid ally of the EPP, but now cooperation will be more difficult. Despite the ECR and its new allies having 70 members of parliament and therefore becoming the third largest group, it is for this very reason that they are losing their political influence. This became apparent at the beginning of the legislative period when political posts were distributed. Here the members of parliament elected only one member of the ECR to be a member of the EP Bureau, whereas the smaller liberal group was supported with two vice-presidents. Also, in the upcoming elections of the chairs and vice-chairs of the committees, one candidate of the ECR, who according to the proportional representations of parliamentary groups would have been entitled to a post, was simply ignored.

Isolated, fragmented and unstable: The far-right parties in the EP

The actual winners of the European elections, the fundamental EU critics, however, are even more isolated. Before and after the elections, it was especially the faces of Marine Le Pen, Nigel Farage, Geert Wilders or Janusz Korwin-Mikke who adorned the front pages of the European press. In some of the EU member states, the extreme right-wing and populist parties such as Le Pen's Front National or Korwin-Mikke's Polish Congress of the New Right had achieved remarkable success in the elections.⁷ Despite this success, the far-right parties will hardly influence the political process in the EP, as was the case in the past.⁸ There are three main reasons for this:

First and contrary to public perception, the far-right parties in their entirety only gained new mandates on a moderate scale. As has been shown, in some of the major states, some of the far-right parties achieved remarkable success in the elections. However, under closer inspection, the general European picture is more complex. In East and South Europe especially, the far-right parties stagnated or lost votes. Some parties had to withdraw from the EP, e.g., the Bulgarian Ataka or the Greater Romania Party, whilst the number of votes for Geert Wilders's Dutch "Party for Freedom" (PVV) declined from 16.97 to 13.32 percent. Other parties such as the Hungarian Jobbik (14.67%) stagnated at the same level as at the previous elections. In many member states none of the far-right parties succeeded in entering the EP. This applies especially to crisis-stricken countries like Spain, where the votes went more towards the left, such as the party which emerged from the protest movement "Podemos".

Overall, the number of mandates of the far-right parties increased from eight percent in the last election period (57 out of 766) to 11 percent of the seats (81 out of 751) in the new EP.⁹ Even if the moderate EU sceptics of the ECR with their 70 seats were included in the calculation, these forces with 150 seats would still be a long way from being a blocking minority, let alone a shaping majority. They could not even convene an Investigation Commission without the support of the other groups. In terms of numbers, the influence of this group is very limited.

Second, cooperation between extreme right-wing and populist parties is traditionally difficult. As a general rule, parties which are able to form the largest coalitions and at the same time vote in a coherent manner can exert the most influence in the

⁷ Here extreme right-wing and right-wing populist parties are subsumed under the term "far-right". These terms are controversial in politics and science. This text follows the definitions by Cas Mudde, *Populist Radical Right Parties in Europe*, Cambridge 2007; however, it does not follow his classification of parties.

⁸ Daniela Kietz, Nicolai von Ondarza, "Eurosceptics in the European Parliament. Isolated and Divided in Brussels but Driving National Debates", Stiftung Wissenschaft und Politik, SWP Comments, 13/2014, February 2014.

⁹ Here the Italian Movimento 5 Stelle (M5S, 17 seats) with Beppe Grillo has not been considered. This party, for strategic reasons, has joined forces with the EFDD within the EP. However, ideologically speaking this movement seeks to not align itself to any specific left-right spectrum. In terms of their political content though, they are normally associated closer with the left/green spectrum.

EP. A minimum of 25 members of parliament from 7 EU states are required for the foundation of a parliamentary group. Internal parliamentary posts, financial support and speaking time in the plenary – all these resources are directly linked to the status of the parliamentary group. Due to the distribution system, which is based on the D’Hondt method, larger groups also receive a disproportionately high number of internal posts in the EP. For the actual votes and negotiations in the EP, coherence within the group is crucial, which on average is 90 percent in the larger groups. Unaffiliated members of parliament are to a large extent excluded from the political business.¹⁰

Despite these comprehensive incentives to speak with one voice, fierce rivalry broke out among the far-right parties of the EP. Concerted action, let alone founding a joint group, was not considered. The reason for this is that the far-right parties of the EP are a reservoir of parties with disparate political and cultural roots – dissociation rather than cooperation is the trademark of these parties. The common denominator of these xenophobic or even racist parties is limited to two aspects: a harsh anti-immigration policy and an increasingly radical rejection of the European integration process. Many canvass for a general return to the national level and are often and correctly described as EU opponents rather than critics. Their demands include the abolition of the free movement of workers within the EU and the Euro, the reintroduction of internal border controls as well as returning competences to the national state and even the dissolution of the EU. However, on closer inspection, even here there are differences.

Some parties, such as the Danish People’s Party, joined forces with the EU critical ECR. The aim of these parties is to give themselves a more moderate face and to be able to form a coalition within the EP and also at national level. For this reason, they reject cooperation with, from their perspective, radical forces such as Front National. At the same time, the ECR has specifically tried to win over smaller parties from the anti-European camp, in order to prevent, in particular, the formation of a parliamentary group such as Europe of Freedom and Direct Democracy (EFDD). However, this strategy has not been entirely successful.

As a consequence, fierce competition broke out after the elections between UKIP president Nigel Farage, who wanted to re-establish the EFDD¹¹, and Marine Le Pen’s and Geert Wilders’s alliance. Both groups strictly rejected any cooperation and at the same time tried to gather members of parliament from seven member states. At least for the time being, Nigel Farage has won this fight for influence and financial resources. Even though three of his former partners have left the EFDD, moving towards the ECR, and the Italian Northern League preferred to cooperate with the Front National, the EFDD was able to gain a sufficient number of new members. Apart from a member of parliament who left Front National shortly after the elections, these new members are

¹⁰ Andreas Maurer, *Parlamente in der EU*, Vienna: Facultas. 2012. pp. 59-70.

¹¹ In a different composition this group already existed in the last election period (2009-2014) under the shorter name of “Europe of Freedom and Democracy” (EFD).

primarily Beppe Grillo's Movimento 5 Stelle (M5S), the Sweden Democrats and the Svobodní Party from the Czech Republic.

However, this alliance is extremely unstable: even if only one party left, the minimum requirements for a parliamentary group formation would no longer be fulfilled. With its 48 members, it is the smallest and politically the most heterogeneous parliamentary group and it merely constitutes a "marriage of convenience" in order to guarantee resources. This group is even more politically fragmented than during the last legislature and their lack of cohesion will be put to the test. The members of the M5S, in particular, cannot really be attributed ideologically to the right-wing populist parties but could be better associated primarily with the green, left and left liberal spectrum.¹²

However, the alliance between Marine Le Pen and Geert Wilders, which received a great deal of media attention, failed completely to establish a parliamentary group. Apart from FPÖ, the Italian Northern League and Vlaams Belang, they found no other alliance partners. Some right-wing populist parties such as the Danish People's Party and UKIP reject Front National as being too radical. The alliance with Front National on the other hand categorically rejects neo-fascist parties such as the Hungarian Jobbik or the German NPD. As a consequence, the 50 members of parliament of these parties will for the time being remain independent and therefore without influence.

Third, apart from insignificance of their own making, a policy of active marginalization is pursued by the other pro-European groups towards the far-right parties in the EP. As their positions are considered to be radical and politically illegitimate, the EFDD is specifically excluded from political business and ignored in the distribution of posts and high-profile appointments. Even though these posts should be distributed proportionately according to the group size, EFDD candidates have repeatedly been rejected in the committee chair and vice-chair elections. In other election periods this so-called "Cordon Sanitaire", the safety belt, had already been applied in order to marginalize the far-right parties.

This marginalization strategy, however, will hardly produce the desired effects. Quite the opposite: It plays directly into the hands of the EU opponents who feel their criticism was justified. As Nigel Farage announced, catching the attention of the media, a remote EU elite is showing its "true and undemocratic face" in its endeavour to neutralize the opposition. This isolation has few negative consequences for EU opponents as the fact is that they have no intention of actually shaping EU policies. The EP is merely a legitimizing stage from which they can carry their messages into the member states – and it is there where parties like UKIP and Front National really develop their real influence. In national politics in particular, it nevertheless often becomes apparent that the key to the demystification of right-wing populist parties does not lie in

¹² Even during the last legislative period, the members of parliament of the EFD voted according to a common position in less than 50 percent of the votes. In the case of other groups, e.g., the Greens, this figure is at 90 percent.

their marginalization, but in offering a convincing alternative to their positions in the cut and thrust of political debate. Just as important is the fact that the isolation of far-right parties in the EP questions the parliamentary minority rights of democratically elected representatives of the people. The other smaller parliamentary groups in the EP especially, should ask themselves whether undermining them is wise in the long term.

THE NEW BALANCE OF POWER IN THE ELECTION OF THE FRONTRUNNER

The first major test for the new balance of power and the European policy alignment of the new EP was the election of the president of the European Commission in June/July 2014. It was characterized by the inter-institutional conflict concerning the frontrunner principle (Spitzenkandidatenprinzip). The basis for this was an amendment of the Lisbon Treaty according to which for the first time, the president of the Commission was to be elected by the European Parliament. However, the nomination of the candidates for this election is the responsibility of the heads of state and government in the European Council, who merely have to “consider” the results of the European elections (Art. 17 (7) TEU). This nomination requires a qualified majority in the European Council.

Due to this change, all large parties of the EP except for the ECR and the EFDD embarked on the election campaign with a top candidate. From the perspective of the EP parliamentary groups, the top candidate of the largest party should therefore be nominated as the first candidate by the European Council, in order to organize a majority in the EP and to create a direct link of legitimization between EP elections and the president of the Commission. A number of national governments rejected this procedure, however, as in their view, without amending the treaty, it was a transfer of power to the European level at the expense of national governments.

Step by step, the EP’s position prevailed in Brussels and most European capitals. Directly on the day after the elections, all pro-European groups including the European Left supported the top candidate principle and called on the European Council to nominate Jean-Claude Juncker to run for president of the European Commission, as the candidate of the EPP, which remains the largest parliamentary group. However, due to some objections of individual national governments, the European Council was not able to agree on Jean-Claude Juncker’s nomination. After one month of negotiations in which the pro-European majority of the EP across all political groups continued to adhere to its position, as was to be expected, the heads of state and government agreed on Juncker’s nomination on 27 June 2014.

In his subsequent election in the EP, again the broad alliances of the EP became apparent. He was not only supported by the EPP and the S&D, but the liberal ALDE also declared itself in favour of him. At the same time all three parties emphasized that they would not form a permanent coalition with a fixed agreement but would only come to a “political agreement” for Juncker’s election. On 15 July 2014, on the basis of this agreement, Juncker was then elected with a clear majority of 422 versus 250 votes.¹³

OUTLOOK

Despite the clear political changes, the modus operandi of the 8th European Parliament can be expected to be characterized by continuity. Broad alliances of the political centre, especially between EPP, S&D and ALDE, will dominate legislation and will therefore neutralize any attempt to establish government/opposition dynamics. The most significant change will probably be a gradual shift towards the left within this large alliance. Firstly, the EPP has in comparison suffered the highest losses. Secondly, the ECR will to some extent not be available as a credible partner any more due to its shift to the right. This does not mean, however, that the fundamental elements of European policies of the last few years will be questioned. The majority of the parliament continues to back the negotiations regarding the EU-US free trade agreement TTIP. The objections relating to this project in terms of consumer protection and transparency, however, can be expected to be given more importance.

A high degree of coherence can be expected from the mainstream parties in the further development of integration. The best example for this was the decision taken across political groups to support Jean-Claude Juncker as the candidate of the largest parliamentary group to organize a majority for the elections of the president of the Commission. From the Left to the EPP, without considering preferences concerning party politics, five groups supported the frontrunner principle (Spitzenkandidatenprinzip).

Therefore, consistent opposition in the EP can only be expected from anti-system parties such as UKIP or Front National. Due to their political alignment, such far-right parties are not recognized as legitimate opposition by the majority of the parliament. Even though they have increased in strength, they are excluded from parliamentary business. The EP therefore remains an influential player capable of acting in negotiations in Brussels.

¹³ Europäisches Parlament, “Pressemitteilung: Europäisches Parlament wählt Jean-Claude Juncker zum Präsidenten der EU-Kommission”, 15.7.2014. Zum Spitzenkandidatenprozess, see Daniel Göler and Mathias Jopp, “Die Europawahl 2014 und das Konzept der Spitzenkandidaten – ein Kommentar”, in *integration* 2/2014, pp. 152-160.

However, the other side of the coin is not only that the warning shot fired by the citizens in the European elections and which was aimed at EU integration has hardly produced a political echo in the EP; the EP could well be more often in conflict with the member states in the Council concerning questions relating to integration, in which national governments, due to their regard of EU sceptical trends, will thwart further steps towards integration. For the EU sceptics can be heard loudly and clearly in a number of capital cities but not in the EP.

Daniela Kietz and **Dr. Nicolai von Ondarza** are research associates in the project EU security agencies of the Stiftung Wissenschaft und Politik / German Institute for International and Security Affairs, Berlin, Germany

Poland in the European Union: Ten-Year Success Story and Upcoming Challenges

Agnieszka Łada

When on 1 May 2004, Poland, the biggest member state from the Eastern enlargement group, joined the European Union, there was much hope and great happiness in the country. However, at the same time, the fears were comparably high, not just in Poland itself but also in the “old” member states. Ten years later the evaluation of Poland’s membership is undoubtedly positive, with 89% of Poles supporting Polish membership in the EU offering the best proof. Poland has achieved much at the political level. For example, recently the Polish foreign minister coordinated an EU mission with his German and French counterparts to Kiev to negotiate an understanding between the opposition and the Janukowycz regime. The Polish economy is developing faster than any other in the EU – achieving 20% GDP growth in 2008-2013 and staying in the black in 2009 when the rest of the EU countries were struggling with the recession. Clear winners of the accession are the entrepreneurs, who changed a 13.5 billion PLN trade deficit in 2003 into a 3.5 trillion PLN surplus in 2013.

Still the list of challenges is also long. Although the emigration of many Poles to work in other EU countries has helped to bring some money into Poland, the loss of often well-educated young people from the Polish market has had many negative effects. The differences between rich and poor regions in Poland are still visible. And staying outside the Eurozone in the next few years – which was in some respects a plus during the first years of the financial crisis – will weaken the Polish political position in the EU in the future.

TEN YEARS IN THE EU – A CLEAR SUCCESS STORY

An important player at the EU level

As with every “newcomer”, Poland had to try to find its place in the European Union in the first few years after 2004, to learn how to act in the complicated mechanisms of different actors and institutions as well as to concentrate on catching up with the “old” EU in social-economic development. After some time Poland has achieved a strong political position and the reputation of a country that is predictable and responsible. This was possible thanks to Poland’s very good economic performance and political

stability in the hard times of the economic crisis. The country – mainly its government and civil servants – found a way not only to follow stronger partners or realize the agreed agenda, but also to influence EU policy by forming coalitions to present and push its ideas.

These coalitions have taken different shapes according to their planned aims. Poland used both institutionalized structures in which the country is a member – such as the Weimar Triangle (with Germany and France) and the Visegrad Group (with Czech Republic, Slovakia and Hungary) – as well as established ties for certain purposes with different constellations – both with “old” as well as with “new” member states.

A good example of a successful initiative of Poland in cooperation with an “old” member state – Sweden – is the Eastern Partnership program, devoted to six countries on the EU-Eastern border: the Ukraine, Belarus, Georgia, Moldova, Armenia and Azerbaijan. The programme was established in 2009 as a way to help the six countries on their way to democratic and economic reforms. Poland has certain interests in it, as it shares borders with the first two of them and perceives itself as an advocate of this region in the EU. It was a Polish success to convince some of the EU member states, especially the ones in Western and Southern Europe (far removed from the Eastern countries’ problems), that such a programme is needed and should be run as a separate EU initiative.

Another test of Polish negotiation skills was the process of negotiating the multiannual financial framework of the EU – its budget for the years 2014-2020. Being the biggest recipient of the funds in the previous budget framework, Poland wanted at least to keep the same position and level of funds. As during a time of crisis it was extremely difficult to convince the countries paying into the budget that it should stay as high as before, Warsaw initiated a “coalition of friends of cohesion policy”. This was a group consisting of 13 countries trying to explain how important the cohesion policy is for general development – so needed in the time of crisis. Ultimately the new budget set the funds allocation for Poland at €105.8bn, including €72.9bn in the Cohesion Policy framework and €28.5bn as Common Agricultural Policy payments. Despite major EU budget cuts, the fund allocation for Poland is nominally higher than in the previous budgetary perspective, in the years 2007-2013, when the Cohesion Policy subsidies for Poland amounted to nearly €68bn and the total allocation to €101.5bn. In the light of the current arrangements, over the next seven years Poland will be the biggest beneficiary of EU funds among all the member states, and not only the biggest beneficiary of the Cohesion funds alone as has been the case so far.¹ Polish negotiation skills were noticed.

The group of friends of cohesion policy was based on good cooperation in the region – between Poland, Hungary, Czech Republic and Slovakia in the framework of the Visegrad Group. The similar economic situation of these four countries motivated

¹ <http://msp.gov.pl/en/polish-economy/economic-news/4015,dok.html>.

them to coordinate actions in the fields of the EU budget, energy and Eastern policy. Nevertheless, differing positions can be found, as evidenced by the recent Ukrainian-Russian crisis where Poland is much more for implementing sanctions towards Russia than the other countries in the region.

An important aspect of the Visegrad cooperation is the large number of votes that these countries have together when voting in the EU Council – 58. This number is exactly the same as the votes of Germany and France taken together which makes it possible for the Visegrad Group to block the two big countries' will, if needed. This influence will, however, last only until autumn 2014, when the new voting system, agreed in the Lisbon Treaty, will enter into force. The number of votes of Poland and the other V4 countries will be reduced.

An important partner of Poland at the EU level is Germany. As Poland's direct neighbour and biggest economic partner it always plays an important role in Polish policy despite the two countries' complicated and tragic common history. After being Poland's advocate for EU accession, Germany has come to see in Poland a serious partner, having similar attitudes towards the needed EU reforms. This mattered especially in the time of the crisis when Berlin could count on Polish support, and reciprocally with Berlin showing understanding towards Polish needs during the EU budget negotiations.

The negotiations of the Fiscal Treaty were a clear signal of Polish willingness to play a role in the crucial reform processes in the European Union. Poland, still outside of the euro zone, insisted that countries that ratify the Treaty will be allowed to take part in the summits of the euro zone members devoted to euro zone architecture and competitiveness. The Polish government, willing to show its pro-integration and pro-reform course, signed the Treaty even though as a non-euro zone member it was not obliged to do so. Still, the Treaty itself changes little for Poland until it enters the one currency community, and the debt break (ceiling on public debt), a mechanism implemented within the Treaty, has been compulsory in Poland since the current Polish Constitution was passed in 1997.

The meaning of these negotiations over the Fiscal Treaty was, however, much more relevant than merely implementing some new financial rules. With a new treaty agreed and signed only by the euro zone members, the European Union was about to split into a two-speed community even more so than it used to be. Poland managed to reverse a trend towards replacing European integration with euro zone integration.

Important posts awarded to Polish representatives are another very visible sign of Poland's image in the EU. Poles got one of the crucial portfolios in the European Commission – both in the years 2004-2009, when Danuta Hübner was a Commissionaire for regional development, and in the years 2009-2014, when Janusz Lewandowski served as the budget Commissionaire. In the first half of the last term of the European Parliament, its president was Jerzy Buzek, from the Polish group in the

European People's Party, and after establishing the European External Action Service, Maciej Popowski was nominated its Deputy Secretary General.

Booming economy

Poland's EU membership has had a positive impact on the country's economic performance. During the past ten years Poland has become a leader in economic growth – after joining the EU its GDP grew 48.7%. Poland (together with Slovakia) outperformed not only the other countries in the region, but also the EU as a whole. In 2009 – in the midst of the global economic crisis – Poland was the only country in the EU to avoid a recession.

The euro zone remains Poland's most important trade partner. Polish export into the euro zone in 2013 amounted to €77.3bn (from a total €152.7bn) and import €70bn euro (from a total €155bn).² The most important trade partner has been for years Germany with German export to Poland (€42.3bn) being larger than its export to Russia.³ Polish export to Germany in 2013 reached around €35.8bn which is 25% of its volume in that year. In 2013 Poland exported to the EU almost three times as many goods as before joining the EU and has consolidated its leadership position as the biggest exporter of all the EU member states that joined the EU in 2004 and 2007. Almost 27% of goods exported from Central and Eastern Europe originated in Poland.⁴

International data comparing the economic development of different countries offer clear proof of the aforementioned changes. For instance, Poland has moved up from the 48th position in 2004 to the 33rd position in 2013 in the IMD World Competitiveness Center ranking. Also Poland's image and financial credibility have improved. In 2007, credit rating agencies (Standard and Poor's and Fitch) upgraded Poland's rating from BBB+ to A-.

This development has been possible thanks to the flow of EU funds within the framework of the cohesion policy. During 2004-2013 the total investment volume grew by 75%. Between 2009 and 2011 the cohesion policy funded 51.6% of Poland's public investments.

Furthermore, thanks to EU funds in 2004–2013, over 160,000 projects were implemented⁵ and entrepreneurs carried out 62,600 projects for which they received approximately €21bn in EU funding.⁶ All this has made a noticeable difference in the quality of life that is praised both by the citizens as well as by foreign guests coming to Poland.

² According to the Central Statistical Office of Poland.

³ <https://www-genesis.destatis.de/genesis/online/logon?language=de&sequenz=tabelleErgebnis&selectionname=51000-0003>.

⁴ Ministerstwo Spraw Zagranicznych RP, *Polskie 10 lat w Unii*, Warszawa 2014.

⁵ <http://www.mapadotacji.gov.pl/statystyki-i-porownania>.

⁶ Based on information provided by the Ministry of Infrastructure and Development dated 17 December, 2013.

A clear winner of the integration are also Polish farmers – the most sceptical group towards integration prior to 2004. In 2004-12 Polish farmers received €13bn euro in direct payments from the EU budget, while an average of 1.4 million farms (out of 1.5 million altogether) benefited from them.

Pro-European society

These successes are a clear reason why the vast majority of Polish society is very satisfied with Polish membership in the European Union (89%). This number has consistently been high in recent years – usually one of the highest in the entire EU. A majority of Poles claim membership brings Poland more benefit than harm (62%) and one fifth that the two balance each other. Still, Poles perceive the positive effects of EU integration more often in respect to the country than for themselves personally (43%). Poles mention open borders, free movement of people (Schengen zone), no visas as well as financial benefits as the main advantages of integration. Furthermore, they note the possibility to work in other EU countries, freedom of economic activities and lower unemployment, as well as benefits for the farmers (direct payments). At the same time it seems difficult for the Poles to find negative aspects of integration – altogether half of them cannot name any. Among the remaining respondents, the EU bureaucracy and overregulation take first place.

The Polish people also believe EU accession has had a positive effect on Poland's position in the international scene and its role in Europe. One third claim Poland is, as an EU member, more secure than it was before 2004. Still, Poland's current position seems not to satisfy the Poles – two-thirds say the country does not have enough influence on EU decisions and activities⁷.

This pro-European society still knows quite little about the European Union and does not participate in the European elections. In 2004, only around 20%; in 2009, only around 25%; and in 2014, only around 23% went to the polls. In a survey conducted in autumn 2013 only four out of ten asked knew that they are the ones who elect the members to the European Parliament (while the rest thought it was the president, the Polish parliament or the government) and seven out of ten could not mention the name of any Polish MEP⁸. A huge challenge for the next few years is to fill the gap between EU enthusiasm and EU ignorance.

⁷ Centrum Badania Opinii Społecznej, 10 lat członkostwa Polski w Unii Europejskiej, Warszawa 2014.

⁸ Marek Dudkiewicz, Aleksander Fuksiewicz, Jacek Kucharczyk, Agnieszka Łada, The European Parliament. Social trust and ignorance, Institute of Public Affairs, Warsaw 2013. Available at: <http://isp.org.pl/uploads/filemanager/pliki/Mainconclusionsfinal.pdf>.

POLISH CHALLENGES FOR THE NEAR FUTURE

The bipolarity mentioned above – the disparity between the great acceptance of EU integration and the great lack of knowledge about it in Polish society – is a good symbol that not everything that occurred during these ten years was unambiguously positive. The clear Polish success story has, of course, some dark sides as well. Not everything has been achieved as well as could be desired and some effects are not easy to assess as positive or negative.

Integration with the euro zone

Another challenge connected with society's support is Poland's future entry into the euro zone. Poland obliged itself to enter it in the Accession Treaty, so theoretically no further debate or referendum on this issue should take place. However, opponents to this move argue that the euro zone itself has changed so much since 2003 when Poles voted for EU accession that another poll is needed. Generally the government and the left-leaning parties are for entering and the right-wing ones are for waiting. Polish society is against adopting the euro. Only one-fourth is for it while the numbers have remained stable since the beginning of the crisis – before the crisis, support for adopting the euro as a currency was around 47-49%. The reasons for such negative attitudes are people's concerns about possible price increases and instability as has happened in the countries suffering financial troubles in recent years. Generally neither do the Poles understand how having the euro in their pockets would influence them personally nor do they understand how it will change the country's economy. People know much too little on that crucial issue and a serious national debate is needed. But the political parties, rather than start one – with all the pros and cons, using facts and arguments – avoid the issue. This tactic from the government's side is understandable (though deserving of criticism) – they know that Poles do not want the euro and so they are not pushing the process of entering the zone and are avoiding addressing it in view of the upcoming elections.⁹

Staying outside the euro zone brought some benefits to the Polish economy after the financial crisis started as Poland could decide on its currency and all economic figures by it. At the same time it limited its political influence in the EU. All the institutional reforms being implemented in the EU are decided by the euro member states. Also those reforms that should only engage the euro zone states in the long run affect those staying outside the zone and of course even more the so-called pre-ins (countries that are obliged to enter it in the future). Even though the fiscal treaty allows non-euro

⁹ The European elections in 2014 open a long season of elections in Poland. In autumn 2014 there are local elections when mayors, councils and local parliaments at all levels are elected. And 2015 is a big election year with both presidential and national parliamentary national elections taking place within a few months of each other.

zone member states to sit at the table when future reforms are discussed, Poland still has no right to make these decisions together with the current euro zone countries, nor any influence on their content.

Another obstacle in influencing EU policy while it is being negotiated and, at the same time, a clear weakness of the Polish representation in the EU, is the low number of Polish civil servants at high posts in the European Commission. Here a well prepared government strategy on how to motivate and train good people to be candidates for these positions is needed.

EU funds after 2020

A new strategy is needed in the economy. The new funds that are supposed to flow to Poland during the next few years will help to develop the infrastructure further, but they need to be directed in a way that is much more aim-oriented than before. It will not be enough simply to build motorways and sewage treatment plants. Investments in innovation, technology and development are also needed. Only then will the Polish economy be ready for the post-2020 period when, according to all calculations, funds coming from the EU budget will be much reduced. New industry must be developed, and people qualified in modern branches.

Disputable benefits of Polish migration

The challenge of modernizing the Polish market and economy is an even more burning issue when taking into consideration the thousands of Poles leaving the country in search of jobs in other EU states. The free movement of workers within the EU has led to migrations from Central and Eastern Europe, a phenomenon whose scale proved greater than had been anticipated prior to the 2004 enlargement. A large number of Poles have taken advantage of it. The number of Polish emigrants in 2013 is estimated to be around 1.7 million, which is 3.5% of the Polish population.¹⁰ Still it should be taken into consideration that migration is traditionally quite popular in Polish society, and that prior to 2004 around 0.5 million Poles were already abroad. After 2004 the most popular destinations for Poles were: the United Kingdom (30% of all migrants), Germany (23.5%), Ireland (5.5%), Italy (4.5%) and the Netherlands (4.5%).¹¹ Compared with other countries in the region, the scale of emigration was not as big as in Lithuania, Latvia, Romania and Bulgaria, which have recently seen more of their citizens leave the country.

Polish emigration has certainly had a major impact on the country's socio-economic situation, though seen from today's perspective its net result is relatively difficult to assess and by no means conclusive. In the short run, the opening of Europe's labour markets no doubt helped to reduce tensions in the Polish market. A drop in the

¹⁰ According to the Central Statistical Office of Poland.

¹¹ According to the Central Statistical Office of Poland.

economically active population was offset by migrants' money transfers back home (in 2004–2013, money transfers amounted to approximately €36bn).

Migration's impact on the Polish unemployment rate, which has decreased from 19.8% in 2003 to 10.3% in 2013, is unclear; according to the government the decrease is rather due to economic development and reforms. Still, the emigration of young people has influenced the regions of their origin, some of which have noticed a lack of labour force. Other serious problems are brain drain as well as negative demographical changes when so many young people are leaving Poland and deciding to start their families abroad.

The challenge is, though, to motivate the migrants to come back to Poland and invest their earned money. However, to achieve this the country must open new possibilities for starting businesses under favourable conditions so that the people coming back can make use of their learned skills. It must also reform the social system so that they feel as secure as abroad. While the government has been trying to achieve this for a good few years, it still remains a major task.

THE POLISH SUCCESS STORY AND THE EUROPEAN CRISIS

The ten years of the Polish success story overlap with the years of many challenges faced by the European Union during this decade. The Eastern enlargement of 2004 itself was already a tough nut to crack – not only for the newcomers, but also for the “old” member states and the EU institutions. Shortly after, the Constitution Treaty was rejected in France and Ireland in referenda which put EU reforms into question. The Lisbon Treaty that entered into force in 2009 was a compromise, though still challenging the community and its members with many new mechanisms, such as establishing the Permanent President of the European Council and the External Action Service, to name but two of them. At the same time financial problems hit Ireland, Greece and other EU countries, bringing recession, unemployment and, as a result, a great mistrust of European citizens towards the EU. Even if we can now observe economic growth, the effects of the crisis on the societies and politics of Europe will be seen in the future. The European elections in 2014, where the Eurosceptic parties are expected to gain in power, are a good, but not the only, example of that development.

Poland has barely experienced the European crisis. Even though the level of Polish export in 2009 fell, the Polish economy was the only one that did not suffer a recession and the export figures went back up quite quickly. A big influence here were the EU funds that brought investments and the fact that the Polish economy was not in the euro zone and so could control its fiscal policy and remain competitive. For this reason Poland was also not one expected to help the countries in crisis. Generally the social moods are much more positive in Poland than in the other EU countries and expressly anti-European parties in Poland do not have much of a chance to win support.

There is, however, one European crisis that does influence Poland greatly. And it is, unusually, unlike in many other EU countries, present both in the political debate as well as in the society's concerns. It is the Ukrainian-Russian crisis, happening not far away from the Polish border. Poles feel insecure (according to a March 2014 poll 82% say the situation in the Ukraine has an influence on Poland and 72% that what is happening there poses a threat to Polish security) and personally affected by this crisis even more than the financial one.

The unpredictable situation on the Polish Eastern border has driven the Polish authorities to be even more active at the EU level as supporters of a dynamic EU-Eastern policy. The Polish prime minister made a "tournee" between Brussels and EU capitals in January-February 2014 to convince the European leaders that serious and concrete steps were needed: support for the Ukrainian democratic leaders and reforms as well as sanctions towards Russia. An initiative that should also hit Moscow as the EU's big energy supplier is the "energy union". According to this proposal of the Polish prime minister, the EU should coordinate its energy sources so that suppliers – read: Russia – cannot dictate prices and rules to individual member states. Now a good part of the Polish energy market is dependent on Russian gas and oil. Other EU countries are also strictly connected with Russia – if not in resources then energy companies, which makes it difficult to talk about sanctions that might hit one's own economies.

POLISH DISCUSSIONS ON THE FUTURE DEVELOPMENT OF THE EU

These two policies – Eastern and energy policy – will remain priorities for Poland in the upcoming months and years. But Warsaw will also have to react to future developments in the structure of the EU itself. The biggest challenge will continue to be trying to keep the EU from further splitting into a two-speed Europe. Such a danger will be realized if a second chamber of the European Parliament or a separate budget only for the euro zone countries is established. Poland, for the reasons mentioned above, is not willing to be a second-class member state and will oppose any such developments. But remaining outside the euro zone for much longer will decrease Poland's influence.

In the debates about institutional reforms of the EU, Poland will support the community method, with a European Commission stronger than the member states. It is the Commission which takes into account the interests of all the countries, while with the supreme power of the European Council, apart from the big states (Germany, United Kingdom, France, Italy, and Spain) the individual member states do not have a lot to say and are dependent on various coalitions. Even if Poland has learned how to build coalitions, it would prefer to see less influence among national states.

In the end it is very difficult to predict how the Polish role in the European Union will develop. Much depends on future Polish governments and their attitude towards integration. The next national elections in 2015 can dramatically change the political scene in Poland. With a less pro-European government, Polish importance will

decrease. But also, without clear moves towards the euro zone, this can happen as well. Nevertheless, this future with its many question marks is rather typical for the whole EU, which is facing major challenges in the upcoming years. Poland, having learned how to manoeuvre in this community, has a good chance to influence these processes.

Agnieszka Łada is Head of the European Programme and a senior analyst at the Institute of Public Affairs in Warsaw. She holds a PhD in political science at the University of Warsaw, and has studied political science in Warsaw and Berlin, as well as the psychology of organisation in Dortmund. She realises an Executive Master of Public Management Programme at the Hertie School of Governance in Berlin. She was a visiting fellow at the European Policy Centre in Brussels (2011), a visiting research fellow at the University of Sussex (2012), a visiting scholar at Alfred von Oppenheim Centre for European Policy Studies, the German Council on Foreign Relations (DGAP) in Berlin (2013), Chair of the Board of Directors of the Policy Association for Open Society PASOS (2012), Member of the Council of the Polish-German Youth Exchange, as well as the Western Institute in Warsaw and the Copernicus Group. She specialises in the following areas: institutions of the European Union, especially the European Parliament and the Presidency of the Council of the European Union, Germany and Polish-German relations, Polish foreign and European policy, the perception of Poles abroad and foreigners in Poland.

The Greek Turnaround: Mending the Fragility and at What Price

Eleni Panagiotarea

INTRODUCTION

Greek economic adjustment was never going to be an easy task. For one, the starting imbalances were grave, hidden from view by years of budgetary misreporting and rudimentary surveillance, while the country's institutional capacity to undertake and implement far-reaching economic measures was low. In addition, ownership of reforms kept eluding Greek policy makers: both strong and weak governments were concerned with their parliamentary majorities, while large numbers of Greek society had been conditioned to operate in a politicised economy, which churned out privileges and benefits unrelated to productivity levels. Greece's much-vilified debt-led "growth" model had deep and persistent roots, involving long-standing rigidities and inefficiencies in an economic system in which sectional interests guarded their relative positions to the detriment of the general interest, and in which a widespread political culture of clientelism limited what governments could do. When the Greek sovereign debt crisis hit, the European crisis management response that was put together – hardly a "grand design" – repeatedly failed to understand the logic of the markets or support the overarching goal of maintaining stability in the Eurozone. The prevalent narrative adopted the "special case" approach, even when another three "special cases" popped up – Portugal, Ireland, and Cyprus – and the systemic character of the crisis was finally suspected. Following two bailout programmes and multiple programme revisions, lessons came at a steep price: Greece's economic operating model was not, nor it could be 'fit for purpose' in *this* monetary union, while the European cum International Monetary Fund response generated negative feedback loops that translated into severe recession, disturbingly high joblessness, rising levels of poverty, and persistent insolvency.

Still, Greece today makes for a good turnaround story: it has significantly repaired its public finances since 2010 and has even accessed the markets in April 2014. This is not to deduce, however, that austerity works or that the largest restructuring of sovereign liabilities in history was sufficient. The prospects for economic growth are anaemic, and the hopes and lives of the unemployed have repeatedly been crushed – the unemployment rate has reached 26.7%, while youth unemployment sky-rocketed to 56.8%; Greece's alarmingly high public debt, at 175.1% of GDP in 2013, remains

the big elephant in the room, while Eurozone authorities give weak signals regarding their commitment to help Greece arrive at a “sustainable” level of 120% in 2020. This repetition of the European leadership’s denial to look deeply into the deficiencies of the Eurozone framework and build up a foolproof system to withstand future crises can prove as detrimental as Greece’s political personnel falling off the reform bandwagon; a positive economic outlook and renewed investor confidence is hardly a *carte blanche* to pick and choose among the agreed measures, or dilute them altogether.

FROM EC TO EMU MEMBERSHIP: PLUS ÇA CHANGE, PLUS C’EST LA MÊME CHOSE

Membership of the Eurozone constituted visible and irrevocable proof that the Greek economy had left behind its well-documented history of macroeconomic divergence from the EU average. Starting with membership back in 1981, Greece’s small, sheltered economy had finally caught up; the country had joined a unified currency zone containing some of the world’s strongest economies, evidence that its nominal convergence process had paid off. This compared more than favourably with the Greek management of the economy throughout the 1980s, when, following EEC accession, the alternation of expansionary and contractionary policies exacerbated imbalances and structural weaknesses. The opportunity of a paradigm shift to a new economic model had *then* been missed, with the blessings of Greece’s European partners. Substantial EC transfers – which solidified Greek citizens’ approval of EEC membership – were wasted on domestic consumption; their developmental impact was therefore mitigated, while Greece’s low structural competitiveness was not addressed. At the same time, the Community’s granting of transitional periods to the Greek side, combined with its institutional inability to monitor the handling of EEC loans on the ground, reinforced a domestic policy environment where the obligations of membership could be bypassed or postponed.

In contrast, EMU accession would trigger, Greece’s political elites argued, nothing less than the long-awaited paradigm change: it would enhance the potential of the Greek economy, strengthen its competitiveness and improve the conditions for sustainable growth and employment creation. In the environment of general exuberance which prevailed in January 2001, cautionary voices and difficult questions were made to look irrelevant: the simple fact that Greek policy makers could *not* really afford to relax their grip on fiscal policy or give in to reform fatigue was quickly brushed under the carpet; unless Greece’s high level of debt – 104.4% of GDP at the time of accession – was brought down in a permanent manner, it would impose a continuous and heavy burden on the economy, affecting the country’s growth prospects and restricting the ambit of tax and expenditure policies. Even more policy resolve was required for adhering to a structural adjustment programme which would oversee the reduction in the size of the public sector and the liberalisation of labour and product markets.

The institutional weaknesses of the EMU edifice were equally brushed aside: it rested on a monetary union without a fiscal budget; a central bank without a legitimating political authority; it relied on the limited and largely unsupervised co-ordination of budgetary policies; and the absence of a framework for creating competitive and flexible markets. Greece, however, was not unique in blocking out the fact that this was not an optimal currency area, or that it ever could be. A self-censoring optimism had enveloped the entire Eurozone: this was a union of sound public finances and stable money which would *work* – provided that each country remained responsible for its own fiscal policies, opened up competition, promoted flexible labour markets, created sustainable pension systems and adhered religiously to the ‘no bailout’ principle. It all came down to following the rules, a number of prominent economists insisted.

In reality, Eurozone members never took the idea of complying or relegating national economic interests to the greater good seriously. This went beyond Germany’s and France’s behaviour; they were the first countries to flaunt their disregard for the rules of the Stability and Growth Pact, seriously denting its credibility as a deterrent for fiscal profligacy. A general environment of lax compliance gradually took hold, as the Eurozone enjoyed almost a decade of stable growth and low inflation – albeit with notable and noted variations across countries. Greece was hardly the only country in the periphery which rode on a wave of complacency, powered by low interest rates and market confidence that macroeconomic and financial stability was here to stay. When the tide turned, following the global financial crisis that started in August 2007, Greece was hardly the only country that had lost sight of its fiscal commitments: many countries had pursued a pro-cyclical fiscal and economic policy during the boom years, running up budget deficits and private and public debt. Finally, even if Greece stood out in its handling of creative accounting, it certainly did not stand alone. What really singled Greece out, turning the country’s fiscal delinquency into the ‘Greek trigger’, were its weak political institutions and its persistent twin deficits (budget and current account deficits).

THE FATEFUL “TRIGGER” OR A “VICTIM” OF THE EUROZONE TRAGEDY?

In October 2009, when the newly elected Panhellenic Socialist Movement (PASOK) government calmly announced that its budget deficit was actually more than twice as large as had been previously reported, the country and its Eurozone partners were unprepared for what would follow. The financial markets, which had gradually started hiking interest rates in the fall of 2008, singled Greece out, alarmed by the heightened risk of default; incidentally, these were the same markets that had been treating, for most of the 2000-2008 period, the sovereign debt of *all* EMU members as identical to Germany’s, the Eurozone’s benchmark. Rising spreads were now penalising the newly discovered non-sustainability of Greece’s public finances and long-run fiscal

derailment: the debt-to-GDP ratio which had been on an upward trend from 2003 stood at 129.7% in 2009, while the budget deficit had finally reached, after numerous revisions, 15.7% of GDP. Fitch responded by downgrading Greece's sovereign rating from A- to BBB+, prompting a series of downgrades from all credit rating agencies; the markets sold off further.

Eurozone authorities were loath to recognise that imbalances originated primarily in rising private sector expenditures, financed by the accelerated (and poorly supervised) trend in cross-border banking, and unwilling to admit, at least publicly, that the EMU policy framework had failed. The rules – no default, no bailout, no exit – proved to have been too tightly constructed, while all members had underestimated the level of interdependence among the Eurozone economies and the fragility that came with it. In an ideal world, the Greek economy, constituting a mere 2 per cent of Eurozone GDP, should not have unsettled the markets or rattled the currency union. In the Eurozone world, however, scrutiny of Greek high sovereign indebtedness moved to other euro area countries, which saw their government yields go up. Fear of contagion became the most powerful incentive for European authorities, who began to set up, in fits and starts, a crisis 'response'. The process was arduous and mostly unpleasant for all stakeholders involved.

Initially, Euro area authorities thought that the 'Greek problem' could be solved internally, relying on the Greek side to table a credible adjustment programme. The Stability Programme submitted in January 2010 aimed to cut the budget deficit to 8.7% of GDP in January 2010 and by a further 3 percentage points in 2011 and 2012; a new policy package was introduced in February and even more measures in March. Even as the yield spreads continued to rise, Greek policy makers failed to persuade their European partners that a *collective* European response would calm the markets. Greece was simply expected to fulfil its duties, as "there is no bailout, there is no money"; adhering to the Treaty's bailout clause meant that there was no possibility of bailing out states in difficulty. Whenever the Greek side pressed the Eurogroup to come up with a plan B, the answer was "there is no plan B" (Panagiotarea, 2013). The incentive to punish Greece was overwhelming, as the country's predicament was home-made, the result of systematic rule-breaking and 'Greek statistics'. Left with few negotiating options, the government turned to the IMF for help. It had already sought technical advice in the areas of tax administration and expenditure management, with missions arriving in Athens in early 2010. A public request for financial assistance, however, was not on the cards – in Greece, at least, it was politically unpalatable; in addition, euro area authorities, particularly the ECB, and Germany, made it clear that bringing an outsider in would not be an appropriate or acceptable option.

The country's sizeable fiscal financing needs in April and May 2010 precipitated the onset of the perfect storm. To cover its April financing needs, the government raised long-term funds on three occasions – €8 billion in five-year bonds on 25 January,

€5 billion in ten-year bonds in early March and €5 billion in seven-year bonds in late March – but at a high price (the average interest rate exceeded 6 percent). Spreads in the secondary market rose further in April, while large amortizations to the tune of €8.5 billion were coming due in May. A wide range of unpalatable possibilities had to be considered: a disorderly default, economic and social chaos arising from the state's inability to pay pensions and civil service salaries, and serious knock-down effects on the banking system and social welfare. As the markets started to close off on Greece, the Commission, the Council, and the Eurogroup were forced to rethink their interpretation of what constituted a bailout, moving, begrudgingly, to establish a financial mechanism to help Greece – the financial stability in the Euro area as a whole was at stake.

In April 2010, the Fund was made a formal stakeholder in Greece's rescue. This was a significant U-turn: while European and Greek authorities had previously rejected IMF funding and the involvement that came with it, Germany made clear that the condition for aid *was* IMF involvement; this was both a snub to the Commission, considered to have failed to keep in check Greece's fiscal delinquency, and an understanding that the IMF had the credibility to calm the markets. In agreeing to step in, the Fund was entering an entirely new policy terrain: this was the first programme supporting a member of a monetary union, whose currency was a reserve currency. Appraised in numbers, it was also the largest Fund programme relative to quota. In justifying exceptional access, the Fund modified its Exceptional Access Policy (EAP), Criterion 2, on the "high probability that public debt is sustainable in the medium term"; the decision, which was more political than technical, came after due consideration of the risks of contagion and spillover effects.

The newly established Troika (the European Commission, the European Central Bank, and the IMF) decided on a financial assistance programme on 2 May 2010. The Eurogroup agreed to provide bilateral loans, the 'Greek Loan Facility' (GLF) amounting to €80 billion (the amount was eventually reduced by €2.7 billion, because Slovakia decided not to participate while Ireland and Portugal stepped down from the facility as they subsequently requested financial assistance); pooled by the European Commission, the funds would be disbursed over the May 2010 through June 2013 period. The IMF committed an additional €30 billion under a stand-by arrangement (SBA). The markets were not appeased but continued relentlessly to test the "European coordinated approach with the participation of the IMF". With contagion raising the spectre of havoc in the euro area periphery, Eurozone authorities agreed to set up the European Financial Stability Facility (EFSF) – its lending capacity of €440 billion would be combined with loans from the European Financial Stabilization Mechanism (EFSM) of €60 billion.

ESCAPING “GREXIT”

Operating in the constraining framework, whose parameters were set by the IMF’s principle of ‘conditionality’, Greece’s adjustment programme got off to a good start. After an initial burst, however, the reforms that were adopted were insufficient in restoring growth and in ensuring fiscal sustainability. The country had achieved a reduction of historic proportions in the general government deficit, from 15.75% of GDP in 2009 to 9.25% in 2011, but programme “ownership” continuously failed stated objectives: political instability, social unrest, and weak administrative capacity kept blocking implementation of the “harsher measures”, while the recession was much deeper than previously projected. It soon became evident that Greece would require a new bailout, based on a new strategy: the growth-enhancing structural reform agenda would be streamlined, official financing would be raised to allow for a slow-down in fiscal adjustment, and, finally, debt-restructuring would improve the country’s debt sustainability and refinancing profile: a successful debt-exchange offer, involving the voluntary contribution of the private sector, was, in fact, the sine qua non for its adoption; private-sector involvement (PSI) would only be applicable in Greece, which required “an exceptional and unique solution”.

The difficult deal reached – the world’s largest ever sovereign debt-restructuring – allowed Europe to avoid a potentially disastrous and costly disorderly default. Out of a total of €205.6 billion in bonds eligible for the exchange offer, approximately €197 billion, or 95.7% were exchanged. On 14 March 2012, euro area finance ministers agreed to finance the Second Economic Adjustment Programme to the tune of €164.5 billion. The euro area member states and the IMF committed the undisbursed amount of the Greek Loan Facility plus an additional €130 billion for the years 2012-14. Moving away from bilateral loans, euro area assistance would amount to €144.7 billion provided via the EFSF, which had been operational since August 2010, while the IMF would contribute €19.8 billion (as part of a four-year €28 billion arrangement under the Extended Fund Facility for Greece that the IMF approved in March 2012).

Interestingly enough, within four months, the country was almost shown the Eurozone’s “door”. Two election rounds, in 6 May and 17 June 2012, sent the economy into a downward spiral, while widespread speculation over a potential “Grexit” came close to becoming a self-fulfilling prophecy. After the second election, a tri-partite, national unity government was formed, with the mandate to fully implement the economic adjustment programme and guarantee Greece’s future in the euro area. Election pledges to renegotiate some of the harshest austerity measures, however, together with the serious administrative challenges of re-starting implementation, preserved an element of fluidity. As a result, the creditors used the only effective weapon that could shake up Greek inertia; they delayed the disbursement of the next tranches of the loans; it was a good tactical move – the Greek side finally pushed the reset button – but it took a heavy toll on the economy.

Amidst the wrangling, the sustainability of Greek debt had worsened, compared to March 2012 when the PSI had taken place and the second programme was concluded; the macro-economic situation had by now deteriorated and delays in programme implementation were noted once again. As the Eurogroup moved to revise the fiscal targets and postpone a primary surplus target of 4.5% of GDP from 2014 to 2016, it called for a broader concept of debt sustainability, which would encompass lower debt levels in the medium term and quieten the Troika's increasingly audible public rifts. A "political agreement" (Eurogroup, 2012) was finally reached on 26-27 November 2012, with the euro area member states adopting a number of initiatives; these included a Greek debt buy-back operation, the return of profits from the ECB's Securities Market Programme to Greece, reduction of the interest rates of the GLF, the significant extension of GLF and EFSF maturities, and the deferral of EFSF interest payments. Conditional on full programme implementation, the debt ratio was expected to decrease to 124% of GDP by 2020 and below 110% of GDP by 2022. Critically, euro area members stated that they would consider further measures that would amount to a further credible and sustainable reduction of Greek debt-to-GDP ratio, when Greece reached a primary surplus.

In the first (December 2012), second (May 2013), and third reviews (July 2013) that followed, a more normalised pattern of implementation emerged, as the Troika concluded that the programme remained broadly 'on track'. The Troika had, of course, upped its game, particularly in the application of conditionality: instalments would take place in sub-tranches, subsequent to the full implementation of the prior actions; the full implementation of all related milestones; and the finalisation of relevant national procedures. Forecasts, however, were repeatedly proven wrong, with the IMF bearing the brunt of criticism, particularly in failing to calculate with any degree of accuracy the recessionary impact of 'its' painful medicine or producing a credible plan to bring about the downward trajectory of the public debt ratio: in 2013, the country entered its fifth year of recession, unemployment rose to record levels and the Greek debt-to-GDP ratio reached 175.1% of GDP. Perhaps the most alarming yet least-reported facet of this was how the measures implemented had led to an above-average rise in income distribution inequality, while cuts in social benefits and services, combined with rising unemployment and wage reductions, increased poverty levels.

THE CRISIS MANAGEMENT RESPONSE: BRINGING THE TROIKA IN

Eurozone elites who built up the crisis management response conveniently stuck to the "it was mostly fiscal" narrative. This matched the story of Greek fiscal delinquency but failed to work in a number of systemic failures that arose from the operation of a monetary union which was far from optimal: there was a rapid increase in capital inflows and a build-up of macroeconomic imbalances across the periphery and beyond, together with excessive levels of private and/or public debt. Substantial and lasting differences in terms of inflation and unit labour costs led to accumulated competitiveness

losses and large external imbalances, while the lax regulation and ‘supervision’ of the financial industry saw housing and asset bubbles float. At the same time, the minimalist economic governance framework – a central bank for the single currency and a fiscal rule, the SGP, ‘followed’ at each member’s discretion – was not equipped to contain the market over-reaction and herding behaviour which could push a country, experiencing a sudden reversal in capital flows and unable to issue debt in its own currency, into default (De Grauwe, 2011).

For better or worse, the European leadership could not think or act *beyond* building up a “new” economic governance of fiscal controls and automatic sanctions. Moving to a Banking Union came as an afterthought, when the “vicious circle between banks and sovereigns” had to be acknowledged and broken. Still, it was the politically independent ECB which stepped in and effectively saved the day, stabilising sovereign debt markets. Following a by now familiar pattern (it initiated its Securities Markets Programme after the creation of the European Financial Stabilisation Facility in May 2010, and implemented its 3-year Long-Term Refinancing Operations when the Fiscal Compact was established in December 2011), the ECB moved to the creation of the Outright Monetary Transactions Programme, backing up ECB President Mario Draghi’s pledge, in July 2012, that he would do “whatever it takes”. On the ground, the programme countries had to grapple with the Troika of creditors. As a policy-making arrangement, the Troika was both a product of the political compromises that had preceded its creation and the victim of the seemingly permanent ‘exceptional circumstances’ that constantly shifted its ambit. Nowhere was this more evident than in Greece. Ex ante debt restructuring, which could have created a sustainable path for the country’s unruly public debt, was not attempted (IMF, 2013). The moral hazard arguments that were put forward were accompanied by stern warnings that a rescue package with debt restructuring would not have passed all the euro area parliaments. Underneath the surface, the real issue was the large holdings of Greek bonds held by European banks and the scale of their exposure – in addition, if Greek creditors were bailed in, there was a high possibility that large holdings of the bonds of other European sovereigns would drop in value.

In reality, building up credibility for the Troika arrangement, which would have inevitably spilled over programme credibility, faced two setbacks. The first had to do with programme design and the overly optimistic projections, which were repeatedly revised downwards. The worse-than-expected GDP performance was singled out, attributed to the excessive austerity engineered by the front-loaded and sizeable fiscal consolidation. Forecasting became a political issue, as the “fiscal multiplier”, the short-term effects of government spending cuts or tax hikes on economic activity was “miscalculated”; for some, the Fund diluted its principles and bowed to the demands of its European partners pushing for deeper, faster cuts; for others, Fund economists had continued with “business as usual” – they employed the fiscal multiplier number that

was implicit in their forecasting models, rather than use a revised figure, in the light of national circumstances and the unfolding crisis. Even as the blaming game subsided – the European Commission had also joined in – the fiscal multiplier “mistake” tarnished programme credibility, prompted the IMF’s Independent Evaluation Office to inquire into the quality of its forecasts and cracked open the Troika’s responsibility deficit that would have to be addressed in the handling of future crises.

There was also a serious question of legitimating Troika policy targets as they cut deeply in national economic policy formation. The Troika’s standing evolved from the 25 March 2010 decision to contribute bilateral loans to Greece to a greater formalisation with the creation of the ESM in October 2012 and the entry into force of the Treaty on Stability, Coordination and Governance (TSCG) in January 2013; this failed to democratise its ability to stretch its power ad hoc, as conditionality had to be observed under unprecedented conditions, a disorderly default had to be avoided in the short-term and the funds lent have to be reimbursed in the medium-term. In a narrow application of the term, legitimacy was observed: the Greek government was involved, through the Council or the Eurogroup, in all the decisions that affected programme funding, scope, and duration, while the adjustment programmes prescribed had been debated and approved by the Greek parliament. On the ground, however, a number of serious objections were raised: these involved the conduct of the negotiations and the real scope for Greek input in the final outcome (a difficult question as Greece was found to have systematically lied about its statistics and the final loan amount was unprecedented in scale), the relegation of the national parliament to rubber-stamping the Memorandum’s “milestones” and “prerequisites” (a complex issue, as conditionality had to be observed under unprecedented conditions, a disorderly default had to be avoided in the short-term and the funds lent have to be reimbursed in the medium-term), and finally, programme design and the distribution of benefits and burdens as, in contrast to both programmes’ stated goals, the “most vulnerable” were not protected.

AFTER THE REFORMS: AN EMU “FIT FOR PURPOSE?”

Greece has been on the receiving end of the institutional engineering that has taken place since 2010. As a Eurozone member, it participated in the Euro Summits which set off a series of governance reforms, but its input was predictably small. Weakened by its sovereign debt crisis, the state of its small economy and the noted gaps in programme implementation, it has had to stand on the sidelines. In comparison to the build up to Maastricht, it has also showed much less enthusiasm for improved “coordination”, particularly in the way this has morphed into the Europeanisation of national fiscal controls and stronger automatic sanctions. Eager to reassure its partners about its long-term commitment to fiscal prudence, however, the Greek side dutifully signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG); it has, nevertheless, yet to transpose the Fiscal Compact, a key part of

the Treaty, into national law, against the background of a still-weak fiscal framework theoretically recognised as a major source for the recurrent high general government deficits and heavy debt ratio of previous periods. Equally, it has yet to create an independent and fully operational Fiscal Council as a safeguard for the delivery of fiscal commitments in line with the compact. While this points to Greece's "past behaviour" of procrastinating or worse mis-implementing, it also posits an important question: is "more" integration, particularly of this new kind, of creditors dictating more rules to creditors, viable? And if so, for how long?

At the same time, Greece has been effectively let off the single coordination cycle, the European Semester, as the European Commission has generally refrained from recommendations that would duplicate reform measures set out in the programme – hence, an emerging criticism of the Semester, namely that Commission recommendations may be encroaching too far on countries' taxes, labour market, health care, social security systems and pensions, has not been audible in Greece. Greece has also been exempted from many of the signature rules enshrined in the Six Pack reforms strengthening the Stability and Growth Pact (SGP), particularly the Macroeconomic Imbalances Procedure. In spite of fiscal progress made, the country, operating from a low credibility threshold, has shied away from the larger debate concerning the effectiveness of the "strengthened" Stability and Growth Pact. The idea that the EU needs new rules on budget limits in the Eurozone has been gaining currency because, the argument goes, the current framework is hurting growth and costing jobs. One set-up that has been debated but has failed to get the backing of Germany and some northern European countries proposes that countries which adopt growth-fostering reforms are given more time by the European Commission to bring their public finances into line. This could, of course, end up being a double-edged sword. If the second- and third-biggest euro zone economies join forces to weaken the budget rules that were sharpened in 2012, this would be a repeat of the 2003 scenario, when French and German refusal to respect EU budget rules led to their weakening in 2005. The major question that Eurozone leaders are loath to even pose is how the monetary union is to retain a deeper meaning for its citizens worried about growth and jobs unless a level of flexibility and freedom is introduced, "more integration where needed and more national or local responsibility wherever possible" (Tsoukalis, 2014). Sticking to the fiscal tightening across the board will probably not work: the Eurozone is sliding into deflation and, after a short intermission, when markets were hailing that the 'crisis is over', its main economies are stalling.

CONCLUSION

Greece is still very much in need of a paradigm shift (Giannitsis, 2013), both in the management of its economy and in overcoming the distortions of a political system which continues to nourish a poorly conceptualized Greek “exceptionalism”. The domestic roots of the sovereign debt crisis have yet to be properly acknowledged, let alone addressed by the party system, while scapegoating and easy victimization have lost only part of their appeal. Good news, however, keep pouring in. Greece has remained in the euro and, what is more, it has accessed the international bond market – it issued a new 5-year bond in April 2014 – after four years. A return to positive annual GDP growth of 0.6% is expected in 2014, following 5 years of austerity which saw the country lose more than 20% of its GDP; growth is to be supported by strengthened exports and investment, on the back of improved competitiveness resulting from the structural reforms undertaken in labour and product markets and funds accruing from the recent establishment of the Institution for Growth and the faster absorption of EU structural funds. In the financial sector, banks have regained access to the international capital markets, as Pireaus Bank, Greece’s biggest bank by assets, paved the way with a bond issuance for the first time since 2009; the subsequent successful equity-raising operations by all four systemic banks validated investors’ interest in the Greek recovery. On the fiscal front, Greece exceeded its fiscal target in 2013, as it recorded a primary surplus in programme terms. The current account deficit also posted a surplus of 0.7% in 2013, in balance of payments terms, a signal that Greece’s twin deficits, which exemplified Greek profligacy during the “good” EMU years, had now been eliminated.

Is the crisis over? The worst strategy would be to allow complacency to set in, interpreting renewed access to financing as license *not* to proceed with the implementation of critical economic reforms. Even as macroeconomic risks appear to be subsiding, persistent challenges can very quickly change the picture; these include the impact of deleveraging on medium-term growth, the capture of reform by vested interests, the high levels of private and public debt against a background of continuing very low inflation, the hurdles that viable businesses encounter in accessing affordable credit, and the high levels of unemployment. Political risks are also on the rise, as the European elections delivered a no confidence verdict on the party system, which is still struggling to recoup in the ‘new’, Memorandum order, while adjustment fatigue suits the significant forces of inertia and there appears as yet to be no clear or credible path to the much publicised growth through reform. In reality, Greece needs a game-changer, a permanent, stable, and credible solution to its debt sustainability problem. The existing stock of Greek debt, at 175.1% of GDP, remains uncomfortably high, while its composition has shifted in favour of the official sector; it is, therefore, a lot more difficult, if not (politically) impossible to restructure. At the same time, the European strategy of constantly moving forward the discussion on possible debt sustainability measures, agreed by the Eurogroup on 27 November 2012, only partially makes sense: it gives Eurozone

leaders space to push for the more difficult reforms and make sure that *any* Greek government, regardless of political affiliation, will stay the course; it does not make for a good strategy, however. Markets are fickle, investor confidence can evaporate, systemic failures have been partially addressed, and “remedies”, including the OMT programme or the Single Resolution Mechanism, have yet to acquire “flesh and bones” or to be tested. Even the effects of the ECB’s move in September 2014 to cut interest rates and start buying covered loans and asset-backed securities on the economy cannot be calculated with any certainty in this context. The lessons of crisis “management” have obviously been lost on the European leadership, as it assumes that the “stability of the Eurozone as a whole” has been secured; the stability of the Eurozone will always be dependent, in a less than perfect monetary union, on the stability of its individual members.

Dr. Eleni Panagiotarea is a Research Fellow at ELIAMEP and author of *Greece in the Euro: Economic Delinquency or System Failure?* (ECPR Press, 2013).

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Sweden and European Integration after the Crisis

Göran von Sydow

The economic crisis has had a tangible impact on European integration, not only in economic terms. The European Union (EU) political system is also affected by the crisis in several ways. As efforts to save the common currency, the Euro, pushes the countries that have adopted the currency into ever-closer cooperation, several countries that have not (yet) adopted the currency are asking themselves what kind of relations their country will have with the EU in the future. Such debates are largely missing in Sweden. This paper seeks to outline the Swedish response to the current crisis and will provide some answers as to whether the current crisis will change the key determinants of Sweden as a EU member state. The paper will first address the historical background of Sweden and the EU, the development of public opinion and party positions. The second part of the paper will analyse the Swedish response to the crisis and will address the question of change or continuity in Swedish EU policies.

BACKGROUND – CHARACTERISTICS OF SWEDISH EU MEMBERSHIP

For a long time, Sweden stayed aloof from European integration. The EU and its predecessors (the ECSC and the EEC) were believed to represent an unacceptable constraint on national sovereignty, especially in the light of (a) Swedish neutrality and (b) the far-reaching ambitions for the construction of a welfare state harboured by the Social Democratic government (Gustavsson 1998, Westberg 2003).

The hesitancy of Sweden and its Nordic neighbours about European integration led Miljan to term them “reluctant Europeans” (Miljan 1977). The description of Sweden as a reluctant European has frequently recurred even after Sweden became a member of the EU. This has – at least partly – been attributed to a critical Swedish public opinion as well as the share of the vote obtained by Eurosceptic parties in Sweden being perceptibly higher than in continental Europe (G. von Sydow 2013). However, as will be shown below, this pattern has gradually changed, with Swedish opinion embracing the EU to a greater extent than is the case in many other countries. In the mid-1990s, Swedish public opinion was among the least supportive of EU membership, while to-

day the proportion of Swedes who believe that EU membership is a “good thing” is one of the highest among all member states’ populations.¹

The revival of the integration process in Western Europe by the mid-1980s meant that the European question returned to Swedish politics. In this period a change in attitudes towards European integration took place within many political parties and organisations, notably the Social Democratic party, *Socialdemokraterna*, and the Centre party, *Centerpartiet*. Although the predecessors of the EU were primarily concerned with economic issues, the EU was, in Sweden, understood as overlapping with western security structures such as NATO. From the perspective of a militarily neutral country like Sweden, this became a problem. After the end of the Cold War the need for Sweden to remain neutral was less important. While neutrality became less important as the prime argument against closer Swedish involvement in European integration, a number of arguments relating to sovereignty, autonomy, the welfare state and the societal model remained obstacles to the legitimisation of membership (Johansson and von Sydow 2011).

The experience of the economic crisis in the 1990s in Sweden affected the previous conception of sovereignty and autonomy. The increasing interdependence, especially in the field of economic policy, made decision makers concerned with how to pursue policies effectively. In the public debate, the consequences of possible EU membership in terms of sovereignty were summarised as a loss of *formal sovereignty* but an increase in *real sovereignty* (autonomy). The conclusions became known as the *calculus of sovereignty* (SOU 1994: 12). This conceptual innovation entailed a re-interpretation of popular sovereignty, as stipulated by the Swedish Constitution, as well as of democracy, implying that efficiency was emphasised more than procedural democracy (Jacobsson 1997). Increased economic and political interdependence had created a situation where independent political decisions were seen as ineffective. This reasoning struck a chord among political elites (Johansson and von Sydow 2011).

In the highly contested referendum on EU membership in 1994, the yes side gathered 52% of the votes. Sweden, along with Austria and Finland, became a full member of the EU on 1 January 1995. Sweden joined at a time of economic recession, and the government conducted a restrained fiscal policy, including cuts in social security provisions, during the early years of Swedish membership. These political circumstances

¹ As an illustration, in a Eurobarometer survey in 1996, 29% of Swedish respondents believed that EU membership was a “good thing” while 42% believed it was a “bad thing”. Only the Austrian respondents were less enthusiastic, with 27% of them thinking that the EU was a “good thing” (but the balance was less negative in Austria, as only 27% of Austrians said it was a “bad thing”). The average in the 15 member states at the time was 48% who said that EU membership was a “good thing” and 15% who thought it a “bad thing”. In 2013, 64% of Swedish respondents thought membership was a “good thing” while 14% thought of it as a “bad thing”. Only in Denmark, Ireland, Germany and Luxembourg were there a greater proportion of respondents who thought that membership was a “good thing” (Eurobarometer 1996, 2013).

strengthened Euroscepticism in Swedish public opinion which, in turn, restricted the freedom of action of Swedish decision makers. European integration became a new dimension of conflict in Swedish politics. It generated factionalism in traditionally very disciplined and cohesive Swedish political parties (Aylott 2002). Several political parties remain divided on EU-related issues and have only cautiously clarified what kind of EU they want (von Sydow 2001).

Party preferences and conflicts

European integration has been highly contested within the Swedish party system. The European dimension has provoked tensions within parties but also between parties. The traditional patterns of government–opposition relations have partially changed due to European integration (Johansson and Raunio 2001). The Swedish political system is marked by a strong presence of minority governments. This is primarily associated with the rules of government investiture. To survive, a government needs only to be *tolerated* by the parliament (*Riksdagen*), rather than to have the active support of a majority in parliament. A vote of no confidence requires an absolute majority of 175 out of 349 votes (B. von Sydow 2013).

The Green and the Left parties, *Miljöpartiet* and *Vänsterpartiet*, have been in favour of leaving the EU. The Green party, however, shifted its position in 2008 and, through an internal party vote, abandoned its sceptical position towards the EU. The Liberal party, *Folkpartiet*, is the most Europhile party, with rather clear federalist ambitions, while the other non-socialist parties have been more cautious about changing the overall *mode* of European integration. The Centre party has suffered from internal divisions, as has the small Christian Democratic party, *Kristdemokraterna*. The Moderates, *Moderaterna*, have favoured the institutional status quo but have been very active in matters concerning the internal market, enlargement and the Common Foreign and Security Policy (CFSP).

The Social Democrats formed a one-party minority government in 1994 and remained in power until 2006. For most of this period the government had a structured cooperation with the Left and Green parties on most matters. However, European affairs were explicitly excluded from this cooperation, with an explicit reference to the Euroscepticism of the two parliamentary support parties. Instead, the government had a close cooperation with the non-socialist parties on EU affairs (Johansson and von Sydow 2011).

The Social Democrats have suffered from a continuous split over European integration, which became especially visible during the referendum on the European Monetary Union (EMU) in 2003. During this campaign, even the government was divided, with leading ministers campaigning for a no vote. Since 2010, a new, clearly Eurosceptic party, the Sweden Democrats, *Sverigedemokraterna*, has made its way into parliament. From that time on, the position of the Swedish parties on the European question resembles the pattern found in many other member states, with outright opposition to

European integration found solely in the fringes of the party system, both to the left and to the right (Taggart 1998, G. von Sydow 2013).

The general attitude of the mainstream Swedish parties towards the EU has been rather cautious, with a careful development of their ideas and preferences so as not to cause any internal disputes or losses in the electoral arena. In the context of the successive treaty reforms and debates about the future constitutional architecture of the EU, Swedish actors tend to lean towards an understanding of the EU primarily as a limited intergovernmental co-operation between sovereign states (von Sydow 2001). The main principle has been that the EU should essentially deal with policy areas that have true cross-border implications. The prime examples of this are the environment and the functioning of the internal market. Another hallmark of Swedish EU policies has been the strength of the pro-enlargement policies. There is broad cross-party (excluding the Sweden Democrats) support for the further enlargement of the EU. Despite doubts regarding the extent to which the geographical scope and the depth of integration are at odds with one another, Sweden favours the former (Michalski 2013).

In recent years, a shift in Sweden in the attitude towards the EU as a global actor and in support for the CFSP can be noted. This goes for public opinion as well as the policies of political parties (Holmberg 2013). Considering that neutrality was one of two main arguments against membership in the early days, this is rather remarkable. This change can be associated with the more encompassing shift in Swedish security policy after the end of the Cold War, with international cooperation and activities being given greater prominence. The other obstacle was the Swedish model and the welfare state. In this area, there are tendencies towards a more contested and problematic relationship with European integration.

Hanging on to the krona

During the pre-accession period before the referendum in 1994, the question of membership of the EU was separated from the question of the EMU (Johansson and von Sydow 2011). At the time, the launch of a monetary union seemed distant, and the decoupling of the issues made sense. Sweden did not seek a formal derogation regarding the EMU from the Treaty of Maastricht. However, the political interpretation has been that there will be no attempt by the EU to challenge the Swedish choice not to adopt the common currency. Since the currency crisis in the autumn of 1992, the Swedish krona has not been pegged to the euro (or to any other major currency).

However the process of launching the common currency went more swiftly than had been anticipated in the Swedish debate. Therefore the question of the Swedish adoption of the euro surfaced soon after membership of the EU was secured. The question of accession to the third stage of the EMU thus continued to linger in Swedish politics in the post-accession period. Public opinion was highly critical, and several political parties had more severe internal divisions over the EMU than over EU membership itself. Furthermore, the broad pro-EU camp in business and other important interest

groups was not as strong in relation to the currency as it was in relation to membership (Johansson and von Sydow 2011). Future Swedish membership of the EMU was thoroughly investigated by, among others, a state commission chaired by a prominent professor of economics, Lars Calmfors. The investigation concluded, in short, that there were varied economic benefits of joining the EMU, but clearer political benefits (SOU 1996: 158; see also Jerneck 2013).

One important element in the hesitancy about the merits of the EMU arose from concerns about the extent to which the common currency would eventually lead to a *fiscal union*. Social Democratic Prime Minister Persson was clearly preoccupied with the viability of the Stability and Growth Pact, and these concerns played a major role in the waiting game played by the government at the time (Persson 2007: 360-9; see also Johansson and von Sydow 2011). The government was severely constrained by internal opposition within the party as well as by highly critical public opinion. The strategy adopted to deal with this situation can best be described as a “wait and see” strategy (Aylott 2002). The government hoped that the launch of the EMU would be successful and that the benefits of membership would be more visible. Eventually membership was advocated by the government, but it came at the cost of widening internal divisions in the party.

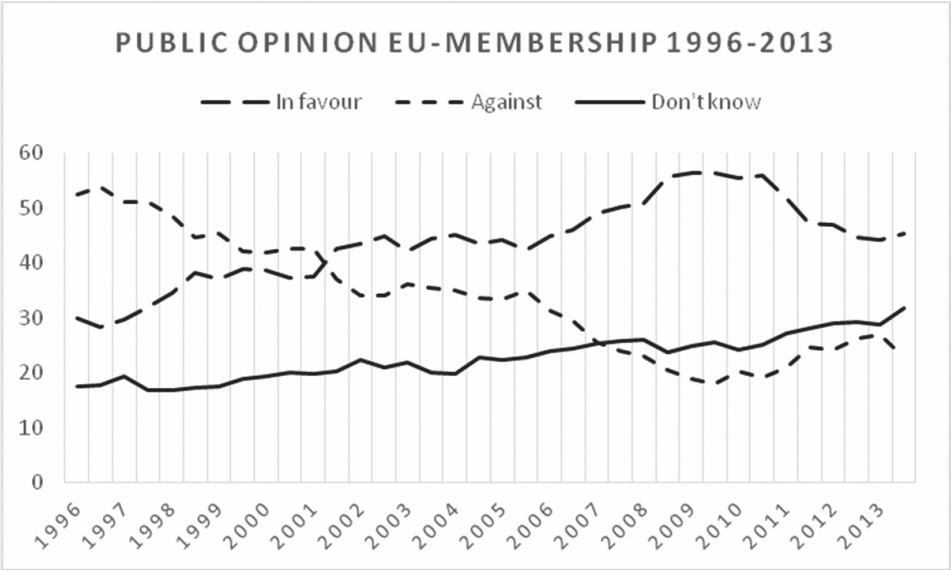
Public opinion moved in a more pro-European direction after the first Swedish EU presidency in 2001, and the idea of organising a referendum on the EMU gained momentum. The referendum was held in September 2003 (turnout 82.6%), and resulted in a resounding no to the EMU (55.9% no, 42% yes). The social patterns among voters were recognisable from those of the EU referendum in 1994, but this time the no voters were in the majority. The yes voters were predominantly urban, with higher education and income and with party affiliations on the right of the political spectrum (Oscarsson and Holmberg 2004).

Reluctant European no more?

Swedish public opinion was for long known as one of the least pro-EU ones. Public Euroscepticism was perceptibly higher than in most other member states, just as support for parties with a clearly Eurosceptic profile has been relatively strong in Sweden. However, there is change under way. As can be seen in figure 1, for a long time there was a steady increase in pro-EU attitudes in Sweden. In 2001, those in favour of the EU outnumbered those who were against it, and there was a continuous increase in pro-European attitudes for ten successive years. This trend ended during the economic crisis in 2010/2011. It is, however, interesting to note that Swedish support for the EU has fallen much less than in almost all other member states during the crisis. The decrease began later than in many other member states and has been less drastic (Eurobarometer 2011, 2012, and 2013). The evolution of public opinion in the member states during the crisis has had the effect that, by now, Swedes are among the more pro-European populations in the EU. In a Eurobarometer survey in 2013, 64% of the

Swedish respondents believed that Swedish membership of the EU was a “good thing”, compared to the average over all member states which stood at 50%. Only in Denmark, Ireland, Germany and Luxembourg were there more respondents than in Sweden who believed that membership was a “good thing”. Therefore, the old truth about a Eurosceptic Swedish population no longer holds, at least not in relation to the developments in the other member states.

Figure 1: Swedish EU opinion



Data from Statistics Sweden. The question asked is: “Are you chiefly in favour of or against Swedish membership of the EU?” Data available at http://www.scb.se/sv/_/Hitta-statistik/Statistikdatabasen/Variabelvaljare/?px_tableid=ssd_extern%3aEUSympati021&rxid=dcab6587-b42c-478b-929f-0a24514ca3d3.

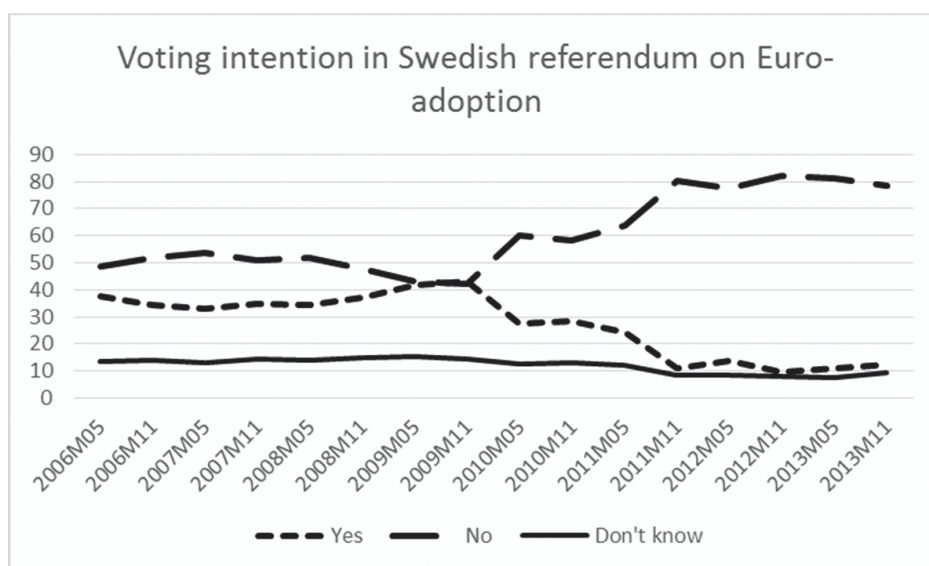
So, how do we explain the gradual change towards more pro-European attitudes in Sweden? Holmberg has, in a number of publications, studied the evolution of Swedish public opinion. The structure of public opinion remains relatively intact over time, meaning that group differences remain and that group views move in parallel. When assessing the evaluations of the extent to which things have become better or worse in different policy areas due to EU membership, changes over time in the perceptions about the *economic* consequences of the EU and general support levels have the highest correlation (Holmberg 2013). The argument is then: if the EU is perceived as having improved the economic situation in Sweden, general support for the EU increases (while the converse also holds). Hence, the economic logic of Swedish EU orientation, something which was also the main argument at the time of Sweden becoming a member, prevails.

Plummeting euro support

The Swedish perception of the EMU, however, seems to follow a slightly different logic. Two main elements concerning public opinion about the euro stand out. First, opinions about the euro seem to fluctuate more than general EU attitudes. Second, opinions about the euro seem to be semi-detached from general public opinion about the EU. The second element would point to the power of the *framing* of Swedish EU membership. As argued above, at the time of application, the common currency was decoupled from general membership. This prism seems to prevail.

Looking at the fluctuations over time, it is interesting that the yes side grew at the beginning of the financial crisis. At the end of 2009, the number of respondents who would vote yes in a referendum was greater than the number of those who would vote no. However, as we can see in figure 2, public opinion shifted sharply when the Eurozone crisis became acute. The percentage of yes voters was reduced by almost 16 points in the six months from November 2009 to May 2010. The decline in support continued until 2012 when only 9.6% would have voted yes to joining the euro, the lowest figure noted so far. When compared to the other member states during the autumn of 2013, only the UK had lower levels of agreement when respondents were asked whether they were in favour of a “European economic and monetary union with one single currency, the euro” (Eurobarometer 2013).

Figure 2: Voting intention – euro



Data from Statistics Sweden. The question asked is “In the event of a Swedish referendum about replacing the Swedish Krona with the euro, would you vote yes or no?” http://www.scb.se/sv_/Hitta-statistik/Statistikdatabasen/Variabelvaljare/?px_tableid=ssd_extern%3aEurosympati01&rxid=69ce38c1-be73-4a85-9802-34533c6673a8.

THE FINANCIAL CRISIS AS VIEWED FROM SWEDEN

Sweden began to feel the consequences of the global financial crisis after the collapse of the American investment bank Lehman Brothers in 2008. The international crisis hit a largely healthy Swedish economy and financial sector but, even so, Sweden felt its effects. As an open economy, the slump in international trade affected exports negatively, and during the end of 2008 and the beginning of 2009 the Swedish economy contracted rapidly. The picture that emerged in Sweden was largely one of a crisis originating from outside the country. The starting point for discussions about the crisis was thus how the government *handled* the crisis and how the Swedish economy *managed* in the crisis. The government and the opposition largely agreed on this picture of the crisis (Nord and Shehata 2013).

As the crisis intensified within the Eurozone, the situation was also interpreted as a larger crisis of confidence, for the EU project in general and for the euro in particular. The survival of the euro was particularly discussed in connection to developments in Greece. The crisis that had begun as a debt crisis in certain member states developed into a complex crisis with economic and political dimensions.

The recovery in Sweden has been quicker than in many other European countries. According to economists, Sweden avoided going into a serious fiscal crisis because it had quite a large fiscal surplus that gave room for manoeuvre when the crisis began. Second, fiscal tightening was not needed in Sweden, in contrast to many of the Eurozone countries that had high government debt (Calmfors 2012).

The political starting point in Sweden is that, as a small and open economy, it benefits from a strong and well-functioning Eurozone. The measures presented by the EU to stifle the current crisis and to prevent future crises have, however, been both supported and criticised by Sweden. Sweden has called for more offensive instruments to solve the crisis, and has sometimes told the Eurozone countries how to run their finances. On the other hand, unlike the UK, it avoided blocking and exploiting the process. Two Swedish positions can be noted during the crisis: to avoid a collapse of the euro and to continue to stand outside the Eurozone (Jerneck 2013: 8). The position in Sweden can perhaps also to some extent be described as a “wait and see” strategy, which is similar to the Swedish position on the EMU described in the previous section. The Swedish position with regard to the banking union is also an example of this; Sweden wanted to see the mechanism in full before making a decision.

As a result of economic integration within the EU, Sweden is affected by decisions taken in the Eurozone. However, as a non-Eurozone member, it is shut out from strategic discussions on different measures and instruments (Jerneck 2013: 9). In decisions regarding crisis resolution measures, the matter of influence has been emphasised on many occasions by the Swedish government.

The lack of EU debate

Since Sweden joined the EU, European policy has been agreed in consensus across the main political blocs, most frequently as a grand coalition between the non-Socialist parties and the Social Democrats. This is a foundation stone for Swedish EU membership (Johansson, Langdal and von Sydow 2012). Successive Swedish governments have thus traditionally been eager to anchor their EU policy in the Committee on EU Affairs, *EU-nämnden*, and have made certain of adequate ministerial presence on this Committee, with the prime minister as well as specialised ministers being members (Hegeland 2004, Michalski 2013: 171). This has been also the case during the financial and economic crisis, which has sometimes led to late night meetings for the Committee as it needs to make speedy crisis decisions.

Opposition to the government position on European integration varies between the political parties and depends on the subject matter in question. The biggest difference between the government and the opposition in the Committee on EU Affairs can be found on labour market issues. Macro-economic regulation and justice and home affairs issues also bring polarisation (Loxbo 2014). However and perhaps more noticeably since 2010, when the government lost its majority parliamentary base, the government tends to be more concerned with finding broad support for its policies in the EU. This is particularly true when there are initiatives that require parliamentary ratification. In a sense, the nature of the conflicts over EU affairs in the Swedish parliament has gradually matured, so that by now the political parties can have confrontations on substantive issues without the debate being turned into an argument about the merits of European integration (cf. Johansson, Langdal and von Sydow 2012).

During the crisis, the government's EU policy has sometimes been criticised. However, it seems that the opposition is, in fact, criticising the government's negotiating skills rather than its actual policies. This kind of critique has been voiced in relation to the EU budget negotiations, for example. Another example, in connection with the banking union, is the argument of the Social Democrats and the LO that the government has acted in an "erratic" and "unbalanced" way in the negotiations during the euro crisis (Andersson and Pettersson 2012).

One recurring element in the Swedish debates about the crisis measures is that other questions of concern enter the argument, regardless of the issue at hand. The concerns raised by the trade union LO and the Social Democrats to promote the safeguarding of the Swedish labour market model is one example. In this context, the LO and the Social Democrats have argued in favour of a social protocol annexed to the treaties. In the end, the Social Democrats have not vetoed the treaty changes, although this is something they have been urged to do by some branches of the trade union movement.

Still, when it comes to the overall preference for European integration, the "grand coalition" between the non-socialist parties in government and the Social Democrats

in opposition seems to prevail. This may hamper a more open and political debate on matters concerning the future of the EU.

At the core of European cooperation – insider or outsider?

Sweden has rarely expressed strong visions for Europe, and this has not changed during the crisis, as the EU debate has been restricted to mostly economic issues. The ideas that circulate in Brussels are met in the Nordic countries by silence and are rejected as utopian, and there is a lack of interest in the European debate (see Andersson and Persson 2013: 5; Jerneck 2013). The UK competence review has not generated a debate on EU issues in Sweden either. There is currently no clear indication of the direction Swedish EU policy is taking, either from the government or from the opposition. Will Sweden continue to strive for a centre stage position, or will Sweden fall behind as a euro outsider?

When the non-socialist coalition won the election in 2006, Sweden became ruled by a government that publicly stated its support for Sweden's membership of the EU and that declared that it would actively promote Swedish interests in the EU (Michalski 2013: 168). In its statement of government policy, the new government in 2006 stated that Sweden should belong to the "core of Europe", and that "Sweden must have a clear and unquestioned place at the heart of European cooperation" (Regeringen 2006: 8). In similar policy statements in 2012 and 2013 that aspiration was removed. Sweden's role in Europe was now described as "an active part of a strong, united and open Europe" (Regeringen 2013: 12).

Prime Minister Reinfeldt has, when asked, described "the core" as the will to exert influence in certain cases. It is not a prerequisite for this role that Sweden is a member of the Eurozone. The core was, instead, a way of describing Swedish influence in the EU, at the same time as respecting the result of the referendum on the euro in 2003 (Europaportalen 2011). In 2012 Prime Minister Reinfeldt said in an interview that, "not even we who believe in European cooperation can say that we belong to the core of Europe" (Aftonbladet, 2012).

The more neutral approach by the government could be explained by the economic crisis in the euro area. Sweden as a euro outsider is marking its distance. Concerns about developments towards a multispeed Europe have, however, also been raised in Sweden. The declaration of government policy of 2012 stressed that it is in the interests of Sweden and Europe that the gap between Eurozone countries and other EU countries does not widen, and that Sweden should participate in and influence the processes initiated to advance European cooperation (Regeringen 2012: 13). In line with this, Prime Minister Reinfeldt has stated that the EU should avoid separate summits for members of the Eurozone and that the EU should not be divided (Euractiv 2011). Other Swedish ministers have, on different occasions, stated their support for a united EU (Bildt and Borg 2011). "Solutions to Europe's common problems should be discussed, negotiated, and agreed on in settings where all EU-27 states are represented. Separate structures, or

joint structures on an uneven footing, would undermine, rather than support, European integration” (Borg 2013).

It can be seen as somewhat paradoxical to have a strong stance on the dangers of a multispeed Europe, but at the same time to be hesitant about much of the policy innovation during the crisis. At the same time this is obviously a predicament shared by other non-euro member states. From a Swedish perspective it has been important to keep options available, despite the deepening of the Eurozone cooperation.

A CHANGING EU-POLICY AND DEBATE?

The Swedish response to the Eurozone crisis is somewhat difficult to disentangle, primarily due to the low visibility of European affairs in contemporary public debate. Obviously, the crisis has generated considerable attention, especially in the more acute phase 2010-2011. However, media coverage and public debate has come to focus on the effect of the crisis in the worst affected countries, rather than trigger a Swedish debate on how the crisis affects Sweden in general and Swedish EU policies in particular.

The main reason for this must be found in the relatively limited effect of the crisis on the Swedish economy. A common interpretation in Swedish public debate of the roots of the Eurozone crisis is that the indebted countries have been mismanaging their public finances and competitiveness and, hence, that the solution to the crisis requires national governments to do their homework (Hökmark et al. 2013). Following this logic, there is only a limited need for more integrated economic and fiscal European level policies. This line of reasoning, together with a reluctance to delegate more authority over budgetary issues to the European level, favours rather cautious European policies.

Still, one key element of Swedish reactions to the EU initiatives during the crisis is that the Eurozone countries should do whatever they deem necessary to save the currency, as this is also in the Swedish interest. Therefore, parliament has been willing to support the new mechanisms. However, it is clear that the non-binding character of key initiatives for non-euro countries has made parliamentary acceptance easier. As a parallel, the response to the Commission’s recommendations on the framework of the European Semester has been rather blasé, not provoking any intense discussion about either the economic policy or the fact that a supranational body will give detailed recommendations. Once again, the relatively strong position of the Swedish economy – together with the non-binding nature of the recommendations – would explain why this new scheme is less contentious in Sweden than in the Eurozone countries.

Some member states are currently revising their relationship with the EU. The British review of competences and a possible repatriation stands out as an example. At the same time, the strengthening of the E in the EMU makes differences between groups of member states more pronounced (Jerneck 2013). In Sweden, the debate about Sweden’s future role in this changing context is largely absent. There seems to be little

appetite for opening a new round of discussion on bigger treaty reform. In that sense, there is continuity in Swedish EU policies (Johansson, Langdal and von Sydow 2012).

At the same time, we can observe a gradual change over time in the aspirations of the government to be part of the “core of the EU”, something that can be associated with the increasing unlikelihood of Swedish accession to the EMU. Furthermore, we can sense a shift to a more instrumental view of the benefits of EU membership. The tough stance in the negotiations about the EU budget and the future banking union could be taken as an example of this slightly modified attitude (Euobserver 2012). Moreover, the activity level of the Swedish parliament on matters concerning the crisis has been high compared to that of other national parliaments. The Swedish parliament has been by far the most active in submitting reasoned opinions on subsidiarity (Auel and Höing 2014). This would indicate a more restrictive view on the expansion of community policies.

Many of the political parties are campaigning on platforms that are mildly critical of the expansion of EU competences. As early as 2008 the Moderate party signalled a shift towards an EU policy that was focused more on safeguarding Swedish interests (Moderaterna 2008). The Centre party argues that the EU should be “slimmer and sharper” (Centerpartiet 2013), while the Christian Democrats’ party leader has argued that the EU moved in the wrong and possibly in a counter-productive direction in the first decade of this century (Hägglund 2013). For the Social Democrats, the concerns following the Laval case have moved them to voice more criticism of the internal market, but also to oppose aspects of the processes of European integration as such. The party strongly advocates the inclusion of a social protocol in the treaties, and has, together with the LO, worked out a strategy to achieve this end (LO/SAP 2013). As we have seen above, the Green party has abandoned its strong stance on EU membership, but remains critical of several steps taken during the crisis. The Left party and the Sweden Democrats are still advocating withdrawal. In sum, there is a move towards a slightly more critical attitude among the parties.

Despite this observed shift towards more focus on national interests in relation to the EU (exemplified in the EU budget negotiations, the tough stance on the banking union and the critical tone towards the EU in several party platforms), there has been broad support for the efforts to save the euro, and Swedish policy is still geared towards pragmatism. The pragmatic course of Swedish European policies can be seen as a source of continuity. When it comes to the patterns of cooperation in the EU, the simultaneous movements of a tighter Eurozone and a UK (which has traditionally been a close Swedish ally) that has gone adrift have forced the Swedish government to rethink its strategic work inside the EU, and this may have consequences in the longer run (cf. Jerneck 2013). Considering the possibility of a “Brexit”, Sweden will need to find new alliances to safeguard its key concerns, especially the integrity of the internal market and the continued enlargement of the EU.

OUTLOOK – THE FUTURE OF SWEDISH EU MEMBERSHIP

The crisis has provoked both centripetal and centrifugal forces in the EU. While the Eurozone states have tighter cooperation, several non-Eurozone states are pondering what position to take in this new context. As we have emphasised above, the Swedish aim has been to minimise divisions within the Union while at the same time being loyal to the efforts made by the Eurozone to save the currency. Furthermore, there is a considerable degree of hesitancy towards delegating authority at the European level over issues closely related to sovereignty. In sum, this calls for quite a delicate balancing act. One key concern is to safeguard Swedish influence. The difficulty lies in how to do this without adopting the common currency.

Jerneck argues that it would be surprising if the Swedish political elite were to consider an outsider position to be viable. Adopting the euro, however, has been taken off the agenda for the foreseeable future. If the political elite were to change position on the euro issue they would face a challenging task to turn public opinion around. This challenge has been created by the fact that the EU membership has not been debated (Jerneck 2011: 9). The highly critical public opinion concerning the euro obviously makes any future adoption of the common currency improbable. On the other hand, taking into account how swiftly economic turbulence can arise (Sweden being relatively unaffected by the current crisis), *and* the obvious volatility of Swedish public opinion, there may also be drastic changes ahead. Difficult as it is to speculate about the future, it would still be unwise not to ponder what impact a substantial shock to the Swedish economy would have on orientations as regards the merits of adopting the common currency.

Today, with the move towards a more coordinated economic policy in the Eurozone, several of the arguments from ten years ago have lost their credibility. As pointed out above, the predominantly *economic* logic which was present in the first EMU debate will need to be replaced by or – at least – combined with a much stronger *political* component, because the way in which the Eurozone has developed over time increases the (potential) political cost of remaining outside the euro, but also entails a further transfer of competences and political capacities to the European level, so that arguments pertaining to sovereignty will be even more important.

Göran von Sydow is senior researcher in political science at the Swedish Institute for European Policy Studies and lecturer at the Department of Political Science, Stockholm University. He holds a Doctoral degree in Political Science from Stockholm University. His main research interests are political parties, Swedish politics, European integration and constitutional change.

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Croatia and the European Union

Tihomir Cipek

The European Union is commonly perceived as an economic integration of European countries, partly due to the fact it was called the European Economic Integration in its beginnings (1 January 1958) although the goal of its establishment was not exclusively economic development of its members but political unification of Europe as well. After the two World Wars which happened in the 20th century it became clear that something was not right with the way Europe was being managed. And after all those war casualties and tens of million dead and injured a question of avoiding the next war emerged for Europe, i.e., the question was how to prevent fascistic and nationalistic totalitarianism from showing up and to overcome communistic dictatorship.

One solution which was found was the closer bonding of European nationalities by a supranational management body, such as the United States of Europe, as it was called by Churchill. It was thought that the only way Western Europe could defend against the USSR was to be united. And a united and strong Europe could not exist without Germany. It is hard to believe that countries who had been victims of Nazi aggression would integrate with Germany if it was not for the Soviet threat and the American guarantee to supervise Germany in the early 50s of the 20th century. The confrontation of the Allies and Axis forces in the Second World War was replaced with the conflict between the Eastern bloc and Western countries.

The accession of the Federal Republic of Germany into NATO in 1955 made relations between the East and the West even colder and speeded the integration of Germany, France, Italy and Benelux countries up. So, the main motive for the establishment of the European Union was long-lasting security and preservation of peace in Europe. Countries that did not experience great casualties in the Second World War (such as Switzerland, the Scandinavian countries and Great Britain) did not wish to enter this supranational political organisation, but were orientated mainly towards economic associations among themselves, which resulted in the establishment of EFTA (the European Free Trade Association) in 1960 (Jurčić, 2012). During the last fifty years, this initial form of economic integration, called the European Union, went through various stages from the Customs Union through a Common Market to the European Union, which is today basically a successfully formed economic and monetary union.

Although economic interests were an especially important motive for the establishment of the European Union it is not exclusively a monetary union. It is also a union of values, foremost liberal-democratic values based on the achievements of the Enlightenment that are at the core of the Western world: individual freedoms, three branches of government, system independence, and free democratic elections. Lately, this politics has changed in the European Union under the influence of wars in Croatia and Bosnia and Herzegovina, which were the result of Milošević's great Serbian regime. These wars pointed out that peace in Europe is not always guaranteed, and reforms inside the Union and its security politics were, among others, an answer to these wars. On top of all this, the European Union is supposed to be an answer by the European countries to the recent processes of globalisation, and with the help of European economic cooperation, an attempt to withstand competition in the global market and to meet the economic challenges put in front of European Union members by China, Japan, Russia and the traditional force that is the US.

The politics of the European Union is defined by ideological positions of European political parties. In the process of accessing Croatia in the European Union a very important role was played by the European People's Party (EPP) which supported its sister-party HDZ that ruled Croatia at that time. It is also noticeable that between major parties and party-ideological groups, although all of them are involved in the process of European decision making and accept European ideals, ideological differences exist (Katz i Mair, 2009). Liberal parties will emphasize freedom; conservative parties give priority to security; while social-democrats are lost in the politics of the "third way" so they exchanged solidarity with market freedoms, which leads them into a crisis. On the other hand, EPP and Christian democrats profited from its combination of freedom and solidarity based on the Christian traditions and implemented in a socio-market economy. Radical left- and right-wing parties which discard these values are at the margins of European politics. A victory of any of these parties would also mean the end of this European project. The collapse of liberal-democracy as the main European ideological paradigm would lead to a breakdown of the European Union in the same way a breakdown of Marxism and Leninism, as an essential communistic ideology, brought about the failure of communistic dictatorships in Europe.

To repeat my main thesis, the European Union is not only an economic union but also a union of values. In today's globalized world the European Union has put a couple of goals in front of itself: a) to ensure peace for its members, b) to increase freedom of individuals and human rights and to develop democracy, c) economic development of its members based on a free market economy, and d) solidarity between member states and preservation of some sort of a social state. Because of these goals Croatia has – after it had fought out its independence in a defensive war – decided to become a member of the European Union. All efforts of Croatian political elites since 2000 have been oriented towards this goal. The admittance of Croatia in the European Union was

considered to separate it from the Balkans and the former Yugoslavia, and its membership was considered to guarantee Croatia security and economic prosperity. The country signed a Stabilization and Association Agreement (SAA) with the European Union in October 2001. The country applied for EU membership in 2003, and the European Commission recommended making it an official candidate in early 2004. A status of Candidate country was granted to Croatia by the European Council in mid-2004. The entry negotiations, while originally set for March 2005, began in October that year together with the screening process.

The accession process of Croatia was further complicated by the insistence of Slovenia, a EU member state, that the two countries' border issues be dealt with prior to Croatia's accession to the EU. Croatia finished accession negotiations on 30 June 2011, and on 9 December 2011, Croatia signed the Treaty of Accession. However, the long-lasting negotiations had diminished enthusiasm in the Croatian public. After the negotiations finally finished, after ten years, it was not so clear any more why Croatia was entering the EU, especially because the Union itself was going through a great economic crisis. A majority was afraid Croatia would lose its sovereignty and become a part of a supranational whole once again; euro-scepticism was growing. Political elites became aware of it and decided to change the regulation in the Constitution which regulated that in the case of creating an alliance with other countries a referendum should be announced; namely, previously it was stated that a referendum is valid if more than 50% of all voters voted. The constitutional changes have omitted this condition so that the referendum was valid regardless of the number of voters that voted. The referendum on the EU accession was held in Croatia on 22 January 2012, and 43% of voters came to the poll, out of which 66% voted in favour of joining the Union. The ratification process was concluded on 21 June 2013 and accession of Croatia to the EU took place on 1 June 2013. Political elites claimed this to be a great day for Croatia and announced 2013 to be a turning point in Croatian history.

The number of voters that came to this poll showed that the majority of Croatian people did not share its political leaders' enthusiasm. The average number of voters for the European Parliament has, since the elections in 1979 when 65.89% of voters in the Union came to the poll, decreased to 47.85% in 2004. Among "old" members the average percentage of voters was 52.88%. Citizens of the newly accessed states have participated in these elections in smaller numbers, which contributed a lot to the decrease of the overall percentage. The lowest percentage among them was Slovakia with 16.94%, followed by Poland with 20.87%, Estonia with 26.83%, Slovenia with 28.43% etc. The average percentage is slightly increased by Malta with 82.37% and Cyprus with 71.19% (Weidenfeld and Wessels, 2006, 246). This trend of a decrease in citizens' interest in participating in the European elections has continued through the last elections held in 2009, with only 43% of voters.

This situation is paradoxical: although the authority of the European Parliament is growing, its ministers are being chosen by a decreasing number of voters. Why is it so? I believe it is a consequence based on the fact that citizens are able to realize that there is politics at the national states level, but there is no policy. At the same time, at the European level, there is no politics but there is policy. Therefore, the majority of precise policies that affects citizens' lives are adopted at the European Union level, i.e., at the European Commission and Council level (by representatives of member states' governments) but at the same time there is no proper political competition. The European Parliament itself is – although being a strong political institution in national states – in a certain way depoliticizing. There is no proper power or opposition inside it. Since democracy is a political order which requires a power and an opposition to form inside a state, it is not possible to give a precise answer to the question: who is the actual power and who the opposition in the European Parliament? The Union is not a state, but an alliance of states, and it can hardly exist in any other form. Since there are no citizens of Europe for the time being they are impossible to form. That is why citizens still perceive their own national states as the place for true politics, and the institutions of the European Union as too abstract. This situation affected the European elections in Croatia.

The European Parliament elections were held in Croatia for the first time on 14 April 2013, to elect twelve members of the European Parliament. The members will serve the remainder of the Parliament's 2009-2014 term after Croatia has entered the European Union on 1 July 2013. The country formed a single constituency, with members elected by proportional representation using open lists. Despite polls predicting a decisive victory for the governing centre-left SDP-led coalition, the right-centred HDZ-led coalition won a razor-thin majority of the vote. The turnout of just 20.76% was the lowest turnout in a national election in modern Croatian history and the third-lowest EU Parliament election turnout (after the 2004 election in Slovakia with 16.96% and Poland with 20.87%).

This poor turnout was caused by two reasons. The first one is the democratic deficit of the European Union. Simply put, liberal-democracy is a political order designed for national states and it functions with difficulties in supranational systems. This feeling of alienation from European institutions is especially strong among citizens of newly accessed members of the Union where democracy is just starting to take hold after the downfall of communistic dictatorships. These nations have also fully affirmed themselves as independent states only after the breakdown of the Warsaw Pact or broader nations they had been members of; with Croatia falling into this category as well. Not only do the citizens of these countries not have enough experience living in a democratic order, they are especially sensitive of their national identities and have a fear of losing them in the European Union. The second reason why most voters from post-communistic states do not participate in voting is the very weak mobilization

potential of its political parties. Political parties from these states mobilize their voters poorly, and are very bad at recruiting new political elites. Parties are not well connected to society, members of the party elite are participants in many corruption scandals and do not transfer citizens' interests into politics well. For all these reasons, only a small number of citizens can identify with a certain party while a majority is not interested in participating in political process at all. Citizens find politics completely dependent on foreign business which they cannot affect and believe that political parties do not work in the interest of its citizens. It seems as though not voting represents a form of civil rebellion, which in itself symbolizes the weakness of European democracy and the entire European project. "At the heart of the European project, which is characterized by policy without politics on the European level and politics without policy on the nation-state level, is an act of self-subversion: an example, in other words, of the cultural contradictions not of a capitalism, but of democracy" (Krastev, 2013).

We find those political elites of the member states approach European politics and the European Union itself differently as well. National parliaments of the "old" members of the Union feel that European questions and European politics towards the EU encroach upon their competitions too much while the legislatures of the new members find the relationship towards the EU to be a foreign politics question firstly. Therefore their political elites believe that European politics is not a question for the legislatures of the member states but a role for foreign relations ministries. We have a similar situation in Croatia. The attitude that European politics is closely connected to the domestic politics of every member state is only gradually being accepted.

Considering the question of democratic deficit there has been a discussion about three strategies for overcoming it: parliamentary, post-parliamentary and presidentialism. The parliamentary strategy emphasises the democratic function of the national parliaments of the member states in European decision-making processes. It analyses their attempts to strengthen their legitimacy function through special committees for European issues. The post-parliamentary strategy supports direct coordination of interests between the European Commission and corporative interest associations. It is deemed that corporative and lobby networks, although contributing to efficient decision-making, cannot replace the role of the Parliament. They do not have democratic legitimacy and are not subjected to democratic control. Presidentialist legitimacy strategies, through their proposal of direct elections of the president of the European Commission on the one hand, are moving towards increasing democratic legitimacy of the Union, but on the other hand are neglecting the important principle of consensus.

The European Parliament remains the only place where there is an attempt to establish the general interests of the European Union's citizens. Thus, in addition to European political parties, it has a decisive role in establishing democratic legitimacy (Cipek, 2007). However, none of these strategies has proved to be especially good. Attention should also be directed to a discussion about the authorities of the European

Parliament, which has become a subject of discussion in the Croatian public as well. The legitimacy of the European Parliament has been found to be weak because it has no power to make law and it does not reflect the multinational structure of the Union. Although the European Parliament is the only institution of the European Union in which members are directly elected by the citizens it can only co-decide while the legislative initiative is held by the European Commission. Nevertheless, the Parliament has the right to suggest that the European Commission regulate certain issues through legislative initiatives, but it cannot initiate the passing of the laws itself. Most of the participants in this discussion believe that, for development of the European democracy, it is important that the European Parliament be given the possibility to initiate the passing of laws even if only in specified and limited fields.

Regarding Croatia, I find it important that the European Parliament be given the opportunity to influence the politics of regional development, which is closely tied to agrarian and social policies, and the politics of environmental protection. Stated politics are of the utmost importance for the Croatian agrarian region Slavonia, which has so far lived off wheat and corn production and has found itself in a deep economic crisis today. Some predictions say that if this situation continues, only 300,000 people out of the former million will live in this region. A right for a legislative initiative in the Parliament to consider these policies, which are closely linked, would be welcomed in Croatia; namely, it is obvious that agrarian policy, which is also the most expensive policy in the European Union, affects social and regional policy as well as a policy of sustainable development. All this leads us to a conclusion that the European Parliament could have a bigger role in this area. Furthermore, the goal of this policy is to achieve economic, social and territorial cohesion, i.e., regional cohesion of the European Union. This cohesion should be formed based on growth as a product of knowledge and innovations. Within this type of politics, it is predicted that in the period between 2014 and 2020, Croatia will have 8.6 million euros at its disposal. Since this is a large amount considering Croatian circumstances, I assume effective policies such as this one could decrease euro-scepticism in Croatia.

During only this one year of membership in the Union it is currently very difficult for a Croatian citizen to name even one advantage of this membership beside the fact that he or she can cross borders more easily. Croatia is still in a state of “post-accession” shock, which other states that have entered the Union in 2004 have gone through. Some of them are Slovenia, Czech Republic and Slovakia, which has reached 80% GDP per capita of the EU today and Hungary and Poland which have reached 60%. Today, the Czech Republic has a GDP of 20,270 euros per capita while, for example, Germany has a GDP of 28,400 euros per capita. It is evident that the differences have decreased and that all the countries that have entered the Union have enjoyed great economic benefits. Contrary to other countries that entered the Union in 2004, Croatia was accessed in 2013 during an economic crisis. From today’s perspective, predictions from the

Institute of Economy in Zagreb in 2007 which forecasted economic growth and a drop in unemployment in Croatia after the accession were completely wrong. Exactly the opposite has happened; in 2008, Croatia found itself in a deep recession. A country with 4.3 million residents has lost 217,000 jobs. Croatia's GDP has dropped 12%. Croatia has an 18%-lower wage bill, 16% lower industrial production and 21% lower retail sale.

All these negative trends could not be changed by the socio-democratic-led government, which got into power in 2012, beating the Christian democratic and people's party HDZ. After the accession of Croatia in the EU in 2013, the economic situation in Croatia deteriorated even further. Unfortunately, Croatia had the misfortune of entering the Union at the time of the biggest debt crisis of the Eurozone so the initial effects of the accession were negative. The labour market suffered a significant decrease in employment, a rise in unemployment and a decline in real wages, i.e., decrease of disposable income which all resulted in a further drop in personal consumption. In the beginning of 2014, there were 363,400 unemployed people which is 5,000 more than a year before. Furthermore, the rate of unemployment has reached 21.6% which is 0.5% more than in December 2012. In 2013, industrial production decreased 2% compared to a year before. Last year's exports amounted to around 68 billion Kuna, which is 6% less than the previous year's, while imports decreased around 2%. Macroeconomics predict that in 2013, a fifth recession year in a row, economic downturn will be around 1%, which would be less than in 2012 when GDP decreased 2%. In spite of membership in the European Union, in 2014, further economic stagnation of the Croatian economic is expected as well as a drop in GDP of around 1%. Credit agencies have lowered Croatia's credit rating under the credit level.

Considering all this, it is evident there are no obvious economic advantages to accession in the European Union at least as far as we can see in Croatia. Just the opposite, a change of tax rules has taken billions of tax income out of the state's hands. Customs income is now shared with the European Union and Croatia can keep only one-fourth of it. A great increase in Croatian external debt and a lack of money in the country's budget is leading the country into a procedure of reduction of excessive deficit which is led by the Union and it brings us to a sort of loss of fiscal sovereignty. The Croatian government is proving to be slow and inefficient when producing documents necessary for withdrawal of money from the structural funds of the European Union. Croatia could very well become a member of the European Union which has, during its first year of membership, paid more money into the Union's funds than has received from them. Some information from the European Commission says that all twelve new member states which entered the EU in two previous circles of expansion before Croatia finished their respective first year of membership in surplus. Cyprus is the only country which has a marked financial loss in its fourth year of membership while all the other states, during all the years of their membership, have received more from the European Union budget than they have paid. This proves that the European

Union is truly successful in operating as a solidarity community but due solely to the incompetence of its government Croatia could very well be an exception to this rule.

Of course, all of this does not contribute to the popularity of European integrations processes in Croatian society as well as the popularity of the left-centre government, of which more than 70% of the people believe has led the country in the wrong direction. This government will most likely be removed in the next elections but for now the European integrations policy will also bear a negative image in people's minds. Croatian membership in the EU has put new tasks in the foreign politics as well and it should rely on two piers: to form its position inside the Union and to secure a new positioning in the region.

It was expected that Croatia would make alliances with the Middle Eastern countries of Europe – Poland, Czech Republic, Slovakia and Hungary. However, Croatian diplomacy did not invest enough time in its Middle Eastern orientation nor did it offer any other initiatives. Instead, it has used all of its energy to position itself inside the region; namely, Croatia could become a bridge which connects or separates western Balkans countries and the European Union. It is significant that all countries of the western Balkan region wish to enter the EU because it is a community of good living. They are Albania, Macedonia, Montenegro, Kosovo and Serbia, and Croatia has decided to help them in their negotiations through transferring its own negotiation experiences. We can see that countries which are not yet members of the European Union wish to become so because, despite everything, in the eyes of political elites the European Union still means prosperity.

Because of all this, the Croatian government has put the Ministry of Foreign and European Integrations in charge of establishing a council for transitional processes that will transfer Croatian knowledge acquired during the processes of Euro-Atlantic integrations. We have already started collaboration with Montenegro, the first official candidate for EU membership and the only country in the western Balkans which has signed the Euro-Atlantic partnership treaty, and there is a plan to develop this collaboration with other countries in the region as well, especially Serbia and Bosnia and Herzegovina. There are plenty of motives, because Croatian experience has shown that once reform processes begin they are very difficult to stop because they mobilize internal reform powers and at the same time encourage and strengthen the support from the EU (Knaus, 2012).

If we look at the politics of the European Union globally, Croatia is still very strongly linked to the “realistic line” of European politics, which is mainly represented by the people's and Christian democratic European parties and it is sceptical towards the idea (supported by liberals) of the European Union taking an important and active role in the European neighbourhood which would inevitably give it a more important role globally. It is clear that the people's and Christian democratic parties would want the European Union to have a more important role in international politics, but they

believe that the EU has no presumptions for it simply because it is not a country, as it should not be (according to them). Their conception is that the Union, in its core, should stay an alliance of countries, although this does not exclude a search for mechanisms for better cooperation and connection. This position will strengthen inside Croatia, whose politics will, according to some prediction, after the next parliament elections, be determined by a victory of Croatian people's and Christian democratic: HDZ. It is in the politics of this party to emphasize that the ability to achieve a compromise between member states is the main value of the European Union. That is why Croatian foreign politics will emphasize the principle of "solidarity in differentially" and will be opposed to stronger integration inside the Union. Furthermore, it will not forget the fact that the Union is an alliance of countries which can, at a new level and in a new form, effectively perform all duties that were in the past reserved only for national states.

At the same time it will represent a reserved position towards further integration of Croatia and it will find nothing wrong with it. Croatian foreign politics will, despite the opportunities presented by the expanding process of the Union to the Balkans, maintain a client-oriented relationship towards great forces: strong forces of the European Union and the US (of which a lot depends). But there are no doubts that the values of the European Union will eventually take hold in Croatian society.

It is certain that the European Union will give Croatia – as she does to all other member states – security, stability of democracy, economic development and construction of a socio-market society. Of course, certain tensions between national states and the Union will remain as a constant in European politics. These tensions will try to be reduced by involving European citizens in the process of constructing European politics and with it a liberal democracy. The next European Parliament elections will show us the way this process will go on. We will probably witness yet another European People's Party victory.

Tihomir Cipek, Ph.D., a political scientist, is a full-time professor at the Faculty of Political Science, University of Zagreb. He served as president of the Croatian Political Science Association. He was a visiting professor and researcher at the University of Göttingen, Marburg an der Lahn, Vienna, Bonn, Bratislava, London. He is a member of the International Editorial Board of *The International Encyclopaedia of Political Science*, published by APSA. The subject of his research interests are political ideologies, comparative politics and European studies. He has written two books and is the editor and co-editor of seven books.

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Ten “European Dream” Years of Latvia’s EU Membership

Asnate Kalniņa and Karlis Bukovskis

INTRODUCTION

Latvia joined the European Union (EU) on 1 May 2004. It is a remarkable achievement for Latvia to be able to carry out extensive and far-reaching reforms in order to fulfil the political and economic criteria and qualify for the membership of the EU in less than 13 years. Latvia’s journey towards EU membership was not necessarily smooth but it can be characterized by a very strong determination and commitment to undertake the necessary preparations to eventually become a member of the EU. Joining the EU has been a symbolic turning point marking Latvia’s return to the West.

Eagerness to secure the recently restored independence and dynamic economic growth were the central motives to anchor Latvia to the Western political, military and economic structures – the North Atlantic Treaty Organization (NATO) and the EU in particular. Together with the other two Baltic republics, Estonia and Lithuania, Latvia saw membership in the NATO and the EU as the only viable option to adequately address its security concerns by balancing out the influence of the Russian Federation. However, in the eyes of the Latvian population, more focus was put on fulfilment of the “European Dream” (stability and sustainability of personal income and societal welfare¹). This quest for prosperity and welfare both on the personal and national level has characterized the recent economic history of Latvia. And the pursuit of the “European Dream” for the country has meant a turbulent, roller-coaster type of economic experience. Yet, compared to a few other member states, the EU in Latvia has not really been seen as the source of the country’s financial and economic hardships. Hence, Latvia’s devotion to EU membership has remained unaffected. With this in mind, the article provides an overview of the political and legal path of Latvia’s EU membership, and an analysis of expectations and the catching-up process during the first ten years of EU membership. It also gives the outlook of Latvia on future membership, demonstrating Latvia’s commitment to the EU cause.

¹ See, e.g., Kārlis Bukovskis, “Concluding Remarks: Stabilisation Lessons and Their Sustainability”, *The Politics of Economic Sustainability: Baltic and Visegrad Responses to the European Economic Crisis*, ed. by Karlis Bukovskis, Riga: Latvian Institute of International Affairs, 2014, 174-176.

LATVIA'S SHORT AND DETERMINED JOURNEY TOWARDS THE EU MEMBERSHIP: 1991-2004

Since regaining independence from the Soviet Union in August 1991, European re-integration and ultimately full membership of the EU has been a strategic priority for Latvia. Already in May 1992 a Trade and Commercial Economic Cooperation Agreement between Latvia and the European Economic Community (EEC) was signed; in July 1994 a Free Trade Agreement between Latvia and the EU was concluded. A major step towards EU membership was taken in June 1995 when all three Baltic countries signed the Europe Association agreements with the European Communities and their member states (Europe Agreements) thus symbolizing “the return of the Baltic States to the European family”². In the Europe Agreement³, which was the basis of the EU’s relations with Latvia, it was clearly recognized that “Latvia’s ultimate objective is to become a member of the EU and that association through this Agreement will (...) help Latvia to achieve this objective”⁴. Already in October 1995, a Declaration on the Integration of Latvia into the EU was adopted by all the political parties of the Latvian Parliament. The same month Latvia presented its official application for membership of the EU.

In July 1997, the European Commission (the Commission) issued an Opinion on Latvia’s Application for the Membership of the EU⁵ evaluating to what extent Latvia satisfies the political and economic conditions of membership (Copenhagen criteria⁶). In December 1997, the European Council in Luxembourg decided to launch an accession process comprising the ten Central and Eastern European applicant countries, Malta and Cyprus. It also decided that each of the applicant countries would proceed at its own rate, depending on its degree of preparedness. Latvia was not among the “first wave” countries (known also as “Luxembourg Six”⁷) with whom negotiations on the conditions for their entry into the EU began in spring 1998. But, taking stock of the

² *Signing of the Europe Association agreements with Estonia, Latvia and Lithuania* (European Council - PRES/95/173, 12 June 1995).

³ The Europe Agreement entered into force on 1 February 1998 and replaced Free Trade Agreement of 1994.

⁴ The Europe Agreement provided a framework for political dialogue, and promoted economic cooperation (covering a wide range of areas) and expansion of trade; it was also a basis for Community technical and financial assistance to Latvia.

⁵ *Agenda 2000 – Commission Opinion on Latvia’s Application for Membership of the European Union* (European Commission, 15 July 1997).

⁶ The European Council in Copenhagen on June 1993 has concluded that membership requires: (1) that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; (2) the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union; (3) the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

⁷ Cyprus, Hungary, Poland, Estonia, the Czech Republic and Slovenia.

1999 Regular Report from the Commission on Latvia’s progress towards accession, in December 1999, the European Council decided to begin negotiations with Latvia and the rest of the “second wave” countries (known also as “Helsinki Six”⁸). Negotiations were opened in February 2000 and officially concluded in December 2002 in the European Council in Copenhagen. In April 2003, Latvia signed the Treaty of Accession to the EU.

Joining the EU was however not yet completed since Latvia’s membership of the EU had to be approved in referendum, which took place on 20 September 2003. According to the public surveys this did not appear to be an easy job. For instance, in February 2003, just 47% said they would vote for Latvia’s membership in the EU whilst 37% were against. In the coming months the dynamics improved (partly due to a rather massive informative campaign launched by the Latvian government during the last three months before the referendum) and the results of referendum were probably better than expected, with 66.97% in favour and 32.26% against (with a turnout of 71.49%).

When analyzing the arguments and expected improvements in favour of Latvia’s accession to the EU, a number of aspects can be highlighted. For instance, the Declaration on the Integration of Latvia into the EU (1995) clearly stated that membership of the EU is an essential precondition for the survival of the Latvian nation and preservation of the Latvian state, and that it will develop Latvia into a modern, open, democratic, safe and economically strong European country. A very similar approach has been taken in Latvia’s strategy on integration in the EU (1998). It was emphasized that integration in the EU is not a goal itself but a tool for achieving the most important objectives: political stability, sustainable and balanced economic growth, social security, preservation of the Latvian language and strengthening of the cultural identity. The former Latvian President Vaira Vīķe-Freiberga, shortly before Latvia’s referendum on the accession to the EU in 2003, endorsed similar arguments, stating that Latvia for the first time in history will ensure its security as well as favourable circumstances for the modernization, welfare and prosperity of the society⁹.

Thus, security guarantees and fulfilment of the “European Dream” were not only arguments in favour of the EU membership but also the greatest expectations expressed both by the public and the political elite in Latvia. Those expectations were and still are very much in line with the EU’s aim as such – to promote peace, its values and the well-being of its peoples. However, not everybody was entirely aware that EU membership is not a source of prosperity and welfare *per se* and that it will eventually depend on Latvians themselves how effectively the EU membership will be used in order to get closer to the fulfilment of the expectations.

⁸ Romania, Slovakia, Latvia, Lithuania, Bulgaria and Malta.

⁹ *Speech of the President of the Republic of Latvia in the parliamentary debate about the EU* (29 May 2003).

EU MEMBERSHIP: THE DIVIDING LINES, HALF A DECADE OF CRISIS AND CATCHING-UP DISAPPOINTMENTS

The former Prime Minister of Luxembourg and the “President-elect” of the Commission for 2014-2019, Jean-Claude Juncker, recently stated that there are no “old” or “new” member states in the EU.¹⁰ And, indeed, after ten years of EU membership it might seem surprising to hear about such a division. Latvia is a democratic country and it shares the same values on which the EU is founded: respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights. However, in reality, we often see dividing lines and strong arguments about differences between the member states.

One of the most vivid examples regarding the differences (inequality) between the member states is the Common Agriculture Policy (CAP) where Latvia is still experiencing a “phase-in” period; namely, it will be in 2019-2020 when Latvian farmers officially will be eligible to receive 80% of the EU average direct payments. Additionally, and, more importantly, what makes Latvia different from many other EU member states and the EU average indicators is the considerable divergence in terms of economic and social welfare. In this regard, Latvia has spent the first decade of EU membership as a “new” member state and has lived in “catching-up” mode trying to strive towards greater economic and social cohesion in comparison to economically more advanced EU member states. Latvia undoubtedly has made some progress. For instance, in 2004, its GDP based on purchasing power standards per inhabitant was just 46.5% of the EU27 average whilst in 2012, it reached 64.1%¹¹. Yet, it is still the fourth lowest in the EU (EU28). Monthly bruto salaries have risen 2.4 times as compared between 2004 (300 euro) and 2014 (716 euro)¹²; rise of real wage and salary however is smaller and reaches 45%.

The “catching-up” phase for Latvia has been rather challenging since almost half of Latvia’s EU membership duration has been in crisis and post-crisis mode. Latvia’s EU membership can be divided into three periods: 2004-2007 were the rapid economic growth and wild capitalism years, in 2008-2010 Latvia was severely hit by the financial and economic crisis, whilst 2011-2014 can be characterized as years of post-crisis or recovery. “Years of economic boom with a total growth of 33% were erased by years of bust with a decline of 25%”¹³ – this clearly illustrates the severity of the financial and economic crisis Latvia had experienced. Latvia learned tough lessons; the negative economic and social consequences are still felt in the society. Fiscal prudence

¹⁰ Pauls Raudseps, “Interview with Jean-Claude Juncker”, *IR*, no. 17/18 (Nr.211/212).

¹¹ *GDP and Main Components, Percentage of EU27 Total (based on PPS per inhabitant)* (Eurostat, 2014).

¹² *Average monthly wages and salaries by statistical regions of Latvia* (Centrālā Statistika Pārvalde, DSG10).

¹³ Anders Åslund and Valdis Dombrovskis, *How Latvia came through the financial crisis*, Washington DC: Peterson Institute for International Economics, May 2011, 121.

is undoubtedly the lesson Latvia has learned the best and it will and has to remain among the central governance principles¹⁴. Lately there have been attempts to promote a new kind of division of Europe, for instance, stating that “Europe remains divided, but its division no longer runs between the East and West – it is now between North and South. Northern Europe thrives economically, while most of Southern Europe is in financial crisis”.¹⁵ And there has been a clear reference to Latvia, illustrating it as a country which pursues a “northern” fiscal approach – aimed at sound fiscal policies and discipline.

The objective of the Latvian government to join the Eurozone (and promise of euro membership) was vital for keeping the course of fiscal consolidation and structural reforms during the crisis. And these efforts did pay off. Latvia was able to fulfil the Maastricht criteria and on 1 January 2014 it became the 18th member of the Eurozone. Eurozone membership and consequently Latvia’s further integration within the EU is also of geostrategic significance to Latvia. This argument has gained even greater importance in the light of the spring 2014 events in Ukraine. Hence, by joining the Eurozone, Latvia yet again has obtained a tool (besides the EU membership itself) to both ensure its security and to boost its prosperity and welfare thus getting closer to the fulfilment of the “European Dream”.

To sum up, Latvia in the first decade of its EU membership has still been portrayed as a “new” member state. At the same time Latvia has been characterized as becoming “northern” regarding fiscal discipline. Latvia has managed to pursue its greater integration within the EU by its accession to the Schengen area in 2007, and by becoming a member of Eurozone in 2014. Due to its integration with all of the EU structures, Latvia can now be regarded as being among the “core EU member states”. Thus it is possible to conclude that Latvia in its first decade of EU membership has embodied different identities – a “new” member state, a member state having a “northern” approach towards fiscal discipline, and finally also a member state at the core of the EU.

CHALLENGES IN FULFILLING THE “EUROPEAN DREAM”

Greater prosperity and welfare, as already described above, was one of the main expectations from EU membership. However, the economic and social convergence was not as fast as probably expected and desired. This subchapter gives an insight into how turbulent Latvia’s journey towards fulfilment of the “European dream” in the first decade of Latvia’s EU membership has been. In addition, a few aspects about the role of the EU are mentioned.

¹⁴ On 2 March 2012 Latvia became a Party of Treaty of Stability, Coordination and Governance in the Economic and Monetary Union (the Fiscal Compact) and ratified it quickly. Also Fiscal Discipline Law has been adopted by the Latvian Parliament at the end of January 2013.

¹⁵ Anders Åslund, *The Fiscal Lessons from the Baltic States Must Not Be Ignored* (1 May 2013).

The unfettered pursuit of the “European Dream” can be regarded as one of the driving forces behind the economic growth (2004-2007) and the following financial and economic crisis in Latvia. Society had a strong (and understandable) willingness to achieve economic and social well-being in a possibly short period of time. With Latvia joining the EU, the optimism only rose. So did the economy: Latvia enjoyed double-digit growth of an astounding average of 11% a year for the three years, 2005-2007, and in 2006 GDP rose by as much as 12%. The growth, however, was not sustainable. Latvia attracted large capital inflows, generating a huge credit expansion, which in turn fuelled a spectacular surge in real estate prices, rising inflation, and a substantial current account deficit¹⁶. After several years of relative capital deprivation, the Latvian government in the mid-2000s was reluctant to exercise large-scale control over the financial markets and to use fiscal or monetary measures for cooling the overheated economy. Thus the governments vividly ignored the rising trade deficits, internal consumption, two digit inflation rate, emerging real estate bubble and low productivity for the short-term gains of rising state revenues, falling unemployment figures, expanding public sector and increasing domestic political support. It can however be argued that the overheating of the economy to some extent was related not only to the domestic political and economic mismanagement, but also to the EU membership which sent clear signals that Latvia was a stable country, thus intensifying the capital inflow.

After the first booming years of EU membership, Latvia entered a financial and economic crisis (2008-2010). Latvia began to feel the heat from the global financial crisis in early 2007 through restriction of credit. In November 2008, Latvia, which heavily depended on foreign finance, faced a new financial situation when its largest non-foreign commercial bank (Parex bank) collapsed. The government had to nationalize and recapitalize it; the costs were massive¹⁷ and the Latvian government had to face the sovereign bailout through the assistance of the International Monetary Fund (IMF) and the Commission. The IMF-EU-Nordic bailout package to Latvia, agreed in December 2008, reached 7.49 billion euro; the EU committed the biggest share of 3.1 billion euro¹⁸. The assistance was released in several tranches taking into account Latvia’s progress in the implementation of the stabilization programme, which contained a number of commitments for fiscal consolidation and structural reforms.

¹⁶ Anders Åslund and Valdis Dombrovskis, *How Latvia came through the financial crisis*, Washington DC: Peterson Institute for International Economics, May 2011, 17.

¹⁷ Estimated amount of injected capital was 1.4 billion euro.

¹⁸ IMF – 1.7 billion euro, Nordics – 1.9 billion euro.

As regards fiscal consolidation¹⁹, three-quarters of the fiscal adjustment came from cuts in public expenditures²⁰. The rest of the fiscal consolidation was done through increasing taxes (for instance, VAT and personal income tax). In addition, Latvia also carried out structural reforms in a number of public sectors – in health and education in particular. It can however be disputed how meaningful (i.e., truly “reform-orientated”) these reforms were since, as observed by the IMF, savings were coming from reductions either in the quality or the scope of public services²¹. It was in 2010 when Latvia started to enjoy economic growth again²². The IMF-EU-Nordic bailout programme was officially ended in January 2012 and was declared a success, as Latvia used a fraction (60% or 4.4 billion euro) of the assistance²³.

From the point of view of financial stabilization, the IMF-EU-Nordic bailout programme was a success. However, it had its dark side. The policy undertaken during the crisis was socially very painful. Unemployment surged from 6.6% in 2008 (the second quarter) to 20.7% in 2010 (the first quarter). Also the applied tax measures fell disproportionately on the poor (for instance, increase of VAT without any proper compensation to the households)²⁴. The number of people at risk of poverty increased from 19.2% in 2005 to 25.7% in 2009. Thus, as regards the economic and social welfare, the

¹⁹ Fiscal consolidation had two imperatives: first, there would be no external (currency) devaluation; second, Latvia had to be in position to qualify for membership in the Eurozone by 1 January 2014. The quantitative target was to push the budget deficit below 3% by the end of 2012 (from 9.8% in 2008). The overall scale of fiscal consolidation undertaken by the Latvian government was estimated to be around 17% of GDP. Aldis Austers, “Latvia’s controversial ‘success story’”. *The Politics of Economic Sustainability: Baltic and Visegrad Responses to the European Economic Crisis*, ed. by Karlis Bukovskis, Riga: Latvian Institute of International Affairs, 2014, 21.

²⁰ The most popular budget adjustment were cuts of salaries and benefits of civil servants and state enterprise managers as well as the reduction of public service positions (the most affected: health, education and defence). The number of civil servants was reduced by one-third, and remuneration cut by 25%.

²¹ Aldis Austers, “Latvia’s controversial ‘success story’”. *The Politics of Economic Sustainability: Baltic and Visegrad Responses to the European Economic Crisis*, ed. by Karlis Bukovskis, Riga: Latvian Institute of International Affairs, 2014, 22.

²² The third quarter 2.9 % and 3.7% in the fourth quarter. The economic recovery was led by a sudden burst of exports which rose by 29.5% in 2010. The small manufacturing sector drove Latvia’s export surge, indicating that the structure of the economy has changed to become more sustainable. Construction, housing, and finance remained depressed, while manufacturing expanded by 14% in 2010. Anders Åslund and Valdis Dombrovskis, *How Latvia came through the financial crisis*, Washington DC: Peterson Institute for International Economics, May 2011, 103.

²³ Aldis Austers, “Latvia’s controversial ‘success story’”. *The Politics of Economic Sustainability: Baltic and Visegrad Responses to the European Economic Crisis*, ed. by Karlis Bukovskis, Riga: Latvian Institute of International Affairs, 2014, 8.

²⁴ Aldis Austers, “Latvia’s controversial ‘success story’”. *The Politics of Economic Sustainability: Baltic and Visegrad Responses to the European Economic Crisis*, ed. by Karlis Bukovskis, Riga: Latvian Institute of International Affairs, 2014, 21.

setback was very serious; it was largely all about survival and there was no room for even discussing about the “European dream” of prosperity and welfare.

One should not undermine also the visibly positive role of the EU during the financial and economic crisis in Latvia. First, stances taken by the Commission guaranteed a much stronger negotiation position for Latvia regarding the IMF and its conditionality principles. From Latvia’s point of view, some argue that without the Commission balancing the IMF, the international stabilization programme could easily have fallen apart already in June 2009²⁵. However, probably stronger and timelier leadership from the EU in the negotiations with the IMF would have been of greater help to Latvia. Second, the EU funding had a crucial role in Latvia’s economic revival; namely, during the financial and economic crisis EU grant funds were the only significant source for stimulating the economy and, bearing this in mind, the Latvian government maintained and increased matching funds to accelerate the absorption of the EU grant funds²⁶.

With all the above-mentioned measures taken, Latvia managed to go into the stage of post-crisis or recovery phase (2011 and onwards). The financial woes were successfully resolved. As already mentioned, by putting finances²⁷ in order, Latvia achieved its objective to become a member of the Eurozone on 1 January 2014. The economy grew steadily: 5.3% in 2011, 5.2% in 2012, 3.8% in 2013; it is forecasted that Latvia will grow by 3-4% in 2014, thus becoming again one of the fastest growing economies in the EU. However, a number of economic and social challenges remain: emigration²⁸, poverty²⁹ and inequality³⁰ are among the most serious issues. Also unemployment, although it has dropped, is still high – almost 9.8% (March, 2014); another challenge is youth employment of 23% (2013).

²⁵ Anders Åslund and Valdis Dombrovskis, *How Latvia came through the financial crisis*, Washington DC: Peterson Institute for International Economics, May 2011, 87.

²⁶ For instance, in 2009, a new export credits guarantee programme was started thus supporting entrepreneurship and export-orientated industries. In addition, the government allocated EU grant funding to social welfare programmes thus mitigating unemployment. *Ibid*, 76.

²⁷ Public debt has dropped from 44.5% in 2010 to 38.1% in 2013 (in 2003 it was however 14.7%); government deficit in 2009 reached 9.2% whilst in 2013 it was 1%; inflation rate in 2008 was 15.3%, in 2010 deflation of 1.2% was observed whilst in 2013 the inflation rate was 0% (Eurostat).

²⁸ According to the Central Statistical Bureau of Latvia, 167,000 persons have emigrated (in 2004-2012); there are however other estimations – that even 195,000-200,000 (almost 10% of Latvia’s population) has emigrated (in 2004-2011).

²⁹ In 2012, 36.2% of the total population were at risk of poverty or social exclusion (EU average – 24.8%); 25.6% of the population were severely materially deprived people (EU average – 9.9%).

³⁰ In 2012, the income of the 20% richest was 6.4 times bigger than those of the 20% poorest.

LATVIAN POLITICAL OUTLOOK OF THE FUTURE OF THE EU

When Latvia's future is considered, the general public and the largest and most significant political parties undoubtedly see Latvia as part of the EU. No clear alternatives have been discussed as viable options. Latvia's "pro-Europeanism" has been expressed both in its permanent support for and its own striving for deeper EU integration, including the joining of the Eurozone (when its future was widely questioned) and supporting the Lisbon Treaty as well as its preceding constitutional project. The European Parliament (EP) 2014 elections, ten years after Latvia joined the EU, lacked serious Eurosceptic political parties thus demonstrating the fundamental consensus on the role of the EU in Latvia's politics. According to the EP election results³¹, five political parties have gained seats in the 8th EP legislature (2014-2019). When examining the future of the EU, the programmes of these political parties ahead of the 2014 EP elections give some indications as to what rather wide spectrum of changes should be brought in.

The "Unity" (centre-right political party, gaining 46.19% in the EP elections and four out of eight seats at the EP) has proclaimed the principle of subsidiarity as being at the core of its programme: "more Europe in big matters and less Europe in small matters", explaining that Europe should not waste resources regulating matters which more effectively can be addressed at the member state level. The political party has listed matters on which the EU should focus in the next five years: growth and job creation, socially responsible policy and knowledge based economy. In the context of the necessary reforms in the EU, the "Unity" has referred to the Latvian example: Latvia has proved that reforms shall be undertaken rapidly and in a very decisive manner.

The "National Alliance" (right-leaning political party, gaining 14.25% and one seat at the EP) has emphasized that there should not be a "two-speed" Europe or Europe being divided into "core" and "periphery" where the "core" attracts most of the European labour force, increases incomes and fosters its welfare, whilst in the other parts of Europe an anaemic "buffer-zone" forms. A similar approach has been taken by the "Union of Greens and farmers" (centre-leaning political party, gaining 8.26% and one seat at the EP); the political party in addition has underlined that it stands against any further attempts to federalize the EU claiming that the concept of a nation state underpins the very existence of the EU. The "Harmony" (left-leaning political party, gaining 13.04% and one seat at the EP) has pointed out in its EP election programme the need to strengthen the social dimension: besides the Fiscal Compact, the Social Progress Compact also has to be implemented so that national budgets fulfil not only the criteria aimed at fiscal discipline but also those targeted at better social protection of EU

³¹ *Elections to the European Parliament 2014*. The Central Election Commission of Latvia, 02.06.2014., <http://cvk.lv/pub/public/30670.html>.

citizens³². Finally, the “Latvian Russian Union” (left-leaning political party, gaining 6.39% and one seat at the EP) as its main aim has mentioned protection of the minority interests within the EU (*inter alia* referring to Russian-speaking minority).

CONCLUSIONS

In the last 20 years or more, we have seen remarkable achievements – Latvia, after several decades of Soviet occupation, has been able to reintegrate in Europe quickly by becoming a member of the EU. Latvia has also gone through a severe financial and economic crisis and ultimately has managed to fulfil the required criteria and to become a member of Eurozone. Security, due to Latvia’s geopolitical situation, and fulfilment of the “European Dream” have been the main arguments in favour of Latvia’s membership of the EU and also the greatest expectations of the Latvian public. And they will continue to remain the central incentives for Latvia’s membership in the EU in the future. For instance, as regards the fulfilment of the “European dream”, this has clearly been reflected by the results of a survey: when asked to mention the main assets of the EU, 37% of Latvians referred to the standard of living of EU citizens (more than the EU average of 24%).³³

Yet, in the next decade it is an opportunity for Latvia to advance the usage of the instruments provided by membership in the EU. Latvia has to seize this opportunity to both respond better to the security challenges and to realise the “European dream”-related aspirations. It is clear that, in the light of the Ukrainian-Russian conflict, Latvia has to utilize the EU as a platform to address security concerns. For instance, particular attention has to be dedicated to energy security in order to decrease EU’s (and Latvia’s) dependence on Russian supplies. Strengthening of the EU and NATO cooperation also has to be one of the main tasks in the next decade. As regards Latvia’s pursuit towards fulfilment of the “European dream”, in 2014-2020, 7.48 billion euro from different EU funds will be available to Latvia which, if smartly used, will considerably promote economic and social cohesion by reducing disparities between Latvia and other EU member states. It is also clear that Latvia has homework to do by addressing the remaining structural inefficiencies. The latest country-specific recommendations of 2013, issued by the Commission, provides good guidance focusing on matters such as budgetary strategy, tackling long-term and youth unemployment and poverty, implementation of reforms in education, research and judiciary as well as improvement of

³² In its programme also, rather far-reaching (and controversial) examples have been provided – for instance, “Harmony” has stated that it will work to ensure that legal acts at the EU level will be elaborated in order to regulate the amount of minimal wages, pensions and social benefits; it has also referred to health care availability and quality.

³³ *Future of Europe* (Special Eurobarometer 413, March 2014).

energy efficiency, connectivity with EU energy networks and liberalization of the natural gas market³⁴.

Besides this, on 1 January 2015, Latvia for a six-month period will become the presiding member state of the Council of the EU thus having an exceptional opportunity to contribute to the EU agenda and lead the Council of the EU in reaching its decisions just ten years after EU membership and more than twenty years after the country regained its independence. This experience will test Latvia's political as well as civil service capabilities and might become a turning point for Latvia's ability to think in more European categories.

Latvia's ten-year membership in the EU has been characterized by self-inflicted economic turbulence, pursuit of the "European Dream", institutional and political integration and "membership learning curve" leading to increased political and economic competitiveness in the next decade. The expected fading of Latvia's "newness" within the next few years will depend not only on improved convergence with the EU average in economic and social aspects, but also on the country's ability to become a more proactive and more self-aware member state of the EU.

Asnate Kalnina obtained a M.Sc. in Law at the University of Latvia (2007) and MA in European Public Affairs at the University of Maastricht in the Netherlands (2010). She has worked in various Latvian government institutions (2004-2009) as well as gained professional experience in the Council of the EU (2010) and Council of Bars and Law Societies of Europe (2011-2012). Since 2013, she has been working for the upcoming Latvian presidency of the Council of the EU.

Karlis Bukovskis is the Deputy Director and researcher at the Latvian Institute of International Affairs (LIIA). He is also a guest lecturer on the global political economy and the economic diplomacy of the EU at universities in Latvia. He acquired master's degrees from the University of Latvia and the University of Helsinki, and has been a student at the University of Trier and Riga Stradins University. Bukovskis has also served as a senior desk officer at the Ministry of Foreign Affairs of Latvia, dealing with European Union institutional affairs and cooperation with the European Parliament. Currently he is also engaged in the preparation of the Latvian presidency of the Council of the European Union where he deals with the ECOFIN and institutional changes in the EU. His main points of interest are the international political economy, the international financial system, and European Union institutional affairs.

³⁴ *Recommendation for a Council recommendation on Latvia's 2013 national reform programme and delivering a Council opinion on Latvia's convergence programme for 2012 – 2016* (European Commission, 29 May 2013).

Ireland and the European Union

Paschal Donohoe

INTRODUCTION

Opening its 1988 survey of Ireland, *The Economist* exclaimed that we were “*the poorest of the rich...easily the poorest country in rich north-west Europe.*”

Nine years later, that same publication enthused that Ireland was “*Europe’s shining light...about as prosperous as the European average, and getting richer all the time.*”

A further nine years later, in 2008, *The Economist* was reporting that “*the Celtic Tiger decade of high growth and huge budget surpluses in Ireland has ended in a spectacular bust.*”

And again in January this year, *The Economist* noted that “*if further proof was needed that the euro crisis has ended as far as bond markets are concerned, it was provided by Ireland’s successful bond auction.*”

Though this cycle might portray apparent volatility, it should not overshadow steady Irish economic, social and political development and the solid progress which provided the platform for the Irish exit from an EU/IMF bailout programme. It is this progress which has created the framework within which we are dealing with our remaining challenges, notably unemployment.

ROLE OF THE EUROPEAN UNION

Our membership of the European Union has been, and continues to be, instrumental to our socio-economic progress. It enabled Ireland’s transformation from a closed and static economy to a dynamic society now re-creating an economy with diverse and multiple sources of economic growth. This national progress was achieved within a European framework.

The Ireland of 2014 is unrecognizable from that of 1973, the year in which we joined the European Economic Community (EEC). This change is on every level and is overwhelmingly positive. Our GDP forty-one years ago was a little over €15 billion. This was almost €5,000 per capita (average GDP per capita in ASEAN is \$3,745/€2,700). Today, despite the social and personal costs of the economic crisis, our GDP per capita is over €40,000. This is an increase of 700%.

Patrick Quill, in a review of structural change in the Irish economy, notes that since 1973, the economy underwent significant structural changes in a very definite direction. It has moved towards high-value added services, particularly in the information communications technology sphere and finance sectors.¹ We have gone from having a small export sector to being one of the most important hubs for the world's top companies.²

Our agricultural exports have massively grown through the achievement of excellence, with much of this achieved through participation in the European Single Market – the economic “jewel in the crown” of the European Union.

Economic growth is not the only change which occurred in Ireland either. Our society has modernized at an unprecedented pace. With over 55,000 people immigrating to Ireland, we have become a much more open, pluralist, multicultural country, welcoming and integrating diversity. And just as citizens of other countries have made Ireland their home, so too have our own citizens and businesses had the opportunity to work, live and study abroad.

Membership of the EU has allowed the realisation of these gains. It created a platform for Irish companies to prosper and for Irish citizens to advance their rights and opportunities. It also crucially created a platform that allowed Ireland to respond to our economic challenges.

This is not to say that the EU is perfect! Far from it. Like any organisation by human endeavour it has many flaws, difficulties and challenges. Design challenges within the Eurozone severely compounded mistakes by national governments. The Union has frequently moved slowly in response to pressing challenges, but integration has allowed European countries to respond to opportunities and problems more effectively than they could on their own.

Based on all of the above, this paper will identify key elements of recent Irish participation in the European project.

First, it will argue that a strong contemporary rationale pulses through the European Union and through Irish participation in European political, economic and social integration.

Second, key European and Irish factors in the economic crisis will be outlined.

Third, the European and Irish response to these issues will be reviewed. This is crucial in understanding how European integration has evolved to ensure present stability and future prosperity.

The paper will conclude with Irish views on the future direction of the EU. This will cover institutional, political and economic priorities.

¹ Quill, Patrick, “Structural Economic Change in Ireland 1957-2006: statistics, Context and Analysis”, *Journal of the Statistical and Social Inquiry Society of Ireland* Vol. XXXIX.

² Twelve of *Fortune* magazine's top twenty electronic companies and all of its top ten pharmaceutical manufacturers have a significant investment in Ireland.

A unifying theme of each stage of this paper is how European integration and Irish participation in this process is the best response to the economic, technological and social changes inherent in globalisation. This response takes place against the backdrop of structural demographic change.

A century ago, Europe accounted for approximately one quarter of the population of the world. Today it is approximately 12%. By 2050 it is estimated that it will be 7% of global population, and *an older* 7%. The EU is the best national vehicle for responding to this change, for the benefit of the people of Europe and broader global prosperity.

WHAT IT MEANS TO BE PART OF A UNION

Europe and Ireland must prosper within a deeply interconnected and interdependent world. Globalisation is a defining feature of the modern world with a multi-spectrum impact.

This interdependence is not new. The Scottish philosopher David Hume said that “*the mutual dependence of men is so great in all societies that scarce any human action is entirely complete in itself, or is performed without some reference to the actions of others*”. More recently the Nobel Laureate Joseph Stiglitz said that it could either be a success or a failure – purely depending on its management. He argues that “*globalisation has brought better health, as well as an active global civil society fighting for more democracy and greater social justice. The problem is not with globalisation, but with how it has been managed.*”

Things we now take for granted, such as Irish people ordering online from Qoo10, Rakuten or Alibaba or people from every part of Asia using Skype, WhatsApp or Facebook to connect with people in Europe, are very much the product a globalizing world.

It is the response to globalisation that is the contemporary rationale of the European Union as the Union offers the ability to structure and mediate this interdependence through its values and the rule of law. It attempts to mitigate the often impersonal consequences of interconnection through the very human efforts of negotiation, compromise and discussion. Due to this it creates the opportunity for countries to prosper by allowing access to wider markets and allows our citizens to understand and learn from other cultures and proudly share in a world where physical distance is made irrelevant by the power of digital communication.

Globalisation is, however, akin to the Greek god Janus or the Hindu god Ganesha – both of whom are of particular relevance for traders and merchants. Just like these gods, globalisation has many faces, each one looking out on different vistas with different opportunities and risks. The risks of globalisation are clearly severe. The cross-border contagion of economic crises, the threat of alienation, the spread of organised crime and terrorism and the possibility of the erosion of national traits are all also enabled by globalisation.

This is why the defining challenge that any state faces is how we respond to this transformative change – in Ireland’s case: how can a small island off the coast of Europe prosper within, and respond to, a globalised world?

Dani Rodrik, a Harvard-based economist, describes this challenge as the “political trilemma” – whereby countries cannot simultaneously achieve democracy, participate in economic globalisation and pursue national self-determination. At best, he believes, they can achieve two of these three priorities.³ Ireland’s strategic response to this paradox has been to embrace our membership of the European Union.

This is because there are some issues which are beyond the grasp of any state, small or big, to deal with effectively on its own. We have seen this played out before our eyes during the Eurozone crisis and the European response where the better states work together, the stronger their response to global challenges and opportunities.

The framework of the EU is also the best platform for the advancement of the Irish national interest as it offers a vehicle within which our interests can be expressed. In the space between nominal sovereignty and effective sovereignty resides our membership of the European Union. This is an active space where we Ireland collectively make decisions on issues that impact on us and the people of Europe. We have seen this in practice consistently over the past six years in every decision and every action taken by the EU in response to the Eurozone crisis.

What this signifies is that all twenty eight member states of the Union are more effective together. When we talk of banking unions, fiscal unions, transfer unions and political unions we are really talking about one Union of values and a continent that recognises the value of union.

However one element of this Union – currency and economic integration – created a series of crises for Ireland and Europe.

KEY ELEMENTS OF THE EUROZONE AND IRISH CRISIS

A defining objective of European monetary integration was the need to reduce and ultimately eliminate exchange rate uncertainty and mitigate the negative consequences of such volatility on national and European growth. This objective was of strategic interest and value to Ireland due to the historic difficulties facing Irish policy makers in first maintaining parity between the Irish Punt and British sterling and then participating in the Exchange Rate Mechanism (ERM).

It is not for this paper to summarise the manifold causes of the European economic crisis. Instead it will briefly note key causal factors, noting that for each macro factor there existed an Irish equivalent.

³ Rodrik, Dani, “The Globalisation Paradox: Democracy and the Future of the World Economy”, W. W. Norton & Company, 2012.

Key design factors in the crisis included:

- **Divergent national economic performances.** National monetary policies converged through the sharing of a currency. However national competitiveness and productivity levels did not converge, which led to a deep-rooted structural tension within the single currency zone.
- **Profound imbalances created by the uneven allocation of capital flows across the Eurozone.** Low interest rates accelerated public and private sector borrowing. Crucially, the surveillance mechanisms of the time (the Stability and Growth Pact, or SGP) focused on government deficit and debt levels only and worrying trends in private borrowing received little focus.
- **Poor design and implementation of fiscal oversight rules.** The SGP did not identify structural deficit risks and breaches of nominal deficit and debt targets were tolerated and robust correction plans were not implemented.

Each of these risks was mirrored in Irish economic developments:

- **Loss of national competitiveness.** Ireland experienced a 28.9 per cent loss in cost competitiveness (measured by the real harmonised competitiveness indicator (HCI)) between January 2000 and December 2008. This was driven by prices and costs in Ireland increasing out of line with trading partners.
- **Unsustainable increases in property and construction lending by Irish banks.** National banks absorbed regional and global capital flows to finance massive increases in lending. Between 2003 and 2008 lending by key Irish banks increased by 337%.
- **The development of a structural national budget deficit risk.** By 2008, property-related taxes contributed 18% of budgetary revenue. By 2009 this contribution moved to 3.4%, creating a funding shortfall of 12 billion euro.

As the Irish National Economic and Social Council identified, because of lack of member state buy-in, and weak EU Institutions and processes, *“the EU did not create an effective system of joint goal setting, monitoring and learning in several of the policy areas that most strongly shape member states’ economic and social performance...this is most starkly evident regarding fiscal policy coordination and banking supervision.”*

National mistakes were exacerbated by design flaws in economic integration and compounded by economic problems in other European countries. This created a policy “doom loop” for Ireland and Europe. The Eurozone faced successive existential crises through the risk of currency break-up and the vista of uncontrolled national defaults. Ireland faced a banking crisis, a fiscal crisis and an unemployment crisis which ultimately led to our entry and participation in an EU/IMF “Bailout Programme”.

However just as the challenges existed on both a national and European level so also did the policy responses.

KEY ELEMENTS OF THE EUROPEAN AND IRISH RESPONSE

Contagion, never a nice concept, had now acquired a powerful economic resonance through the economic crisis. Across a very difficult period both Europe and Ireland implemented important policy changes to create stability and a platform for future growth. Given the breadth of these developments this paper will summarise the key European and Irish responses.

A key backdrop to these responses was the role of the European Central Bank (ECB). Its commitment to support the efforts of national governments through potentially purchasing national sovereign debt under defined conditions in certain markets played a crucial role in influencing financial market expectations. This was a strategic intervention in the crisis which created an environment in which the below interventions would be more potent and effective.

Key responses at the European level included:

The Strengthening of European Economic Governance: The European Semester, introduced in 2010, ensures that member states discuss their budgetary and economic plans with their EU partners at specific times throughout the year. This allows them to comment on each other's plans and enables the Commission to give policy guidance in good time, before decisions are made at national level.

The Commission also monitors the efforts of member states in working towards the jobs, education, innovation, climate and poverty reduction targets in the EU's long-term growth strategy – Europe 2020. Peer review, at Ministerial and Head of State level, creates a mechanism for the adoption and implementation of proposals. Broader surveillance has been implemented through the monitoring of macroeconomic factors such as current account balance levels. The focus is on policy decisions that will impact on long-run economic performance.

Stronger Budgetary Co-ordination and Surveillance: The implementation of the Fiscal Compact Treaty allows for more in-depth monitoring of the euro area and for tighter surveillance of those countries facing serious budgetary difficulties.

Under this Treaty, from January this year, medium-term budgetary objectives must be enshrined in national law and there must be a limit of 0.5% of GDP on structural deficit – this is called the Fiscal Pact. It also provides for triggering of automatic correction mechanisms if the structural deficit limit is breached, which would require member states to set out in national law how and when they would rectify the breach over the course of future budgets.

This is accompanied by other measures that require the submission of member states' draft budgetary plans every October to the Commission.

Banking Union: As a prerequisite, the breaking of the funding link between banking and sovereign balance sheets was an effective response to the crisis. By

strengthening European-wide banking regulation, developing fairer and more effective mechanisms for dealing with national bank failure and implementing strong deposit guarantee schemes the banking Union became an essential response.

This focus has now seen the creation of the Single Supervisory Mechanism (SSM) implemented through the ECB, the Single Bank Resolution Mechanism (SRM) and the Single Bank Resolution Fund (SBRF). All of these measures represent a huge change in the regulation and wind-down mechanisms for European banks, strengthening our progress from a currency union to an economic union through the creation of Banking Union.

Focusing the EU Budget on Jobs and Growth: The Multiannual Financial Framework (MFF) for 2014-2020 has a total funding of €959,988 million across six years with highly focussed measures, and is supplemented by national budgets aimed at funding investment and training.

These huge changes created a framework for a determined national response. Across this period the Irish people implemented huge changes in our public finances, competitiveness and public administration.

Important national changes included:

- The adoption of the Fiscal Compact Treaty through a referendum and the strengthening of our national budgetary institutions.
- The recapitalising and restructuring of our banking system.
- Implementing a fiscal adjustment equivalent to 20% of our national income.
- Improving unit labour costs by a forecasted 21% against the Eurozone average.
- Public and civil servants fundamentally changing how they work while their wages were substantially reduced.

These difficult changes have yielded some important positive changes while we work hard to secure further changes, namely that Irish bond yields have reduced by ten percentage points and 60,000 jobs were created last year with our monthly unemployment rate falling for 21 months in a row. These changes enabled a successful Irish exit from the EU/IMF “Bailout Programme” in December last year.

THE FUTURE OF THE EU

The Eurozone crisis, and the wider crises which beset the global economy, demonstrated the symbiosis between the local, national and international. There are no islands when it comes to the modern world, with trade and communications virtually borderless, and though, as mentioned previously, there are many benefits to this globalisation, there are also inherent risks – problems can spread and multiply across boundaries faster than a local or national response alone can prevent.

What these crises have further demonstrated is that responses to these challenges must both be national and international as a failure in the global system cannot be repaired by a local measure alone. This is why Ireland's measures, namely the implementation of the single biggest structural adjustment to an economy in peace time, are complemented by the member states of the EU working together to create a package of tools, such as Banking Union and the Fiscal Compact Treaty, which will prevent such challenges from overcoming countries in the future and which will strengthen our ability to fully benefit from globalisation.

However, there are undoubtedly many difficulties inherent in the EU, primarily due to the need to reach agreement between the twenty-eight governments which represent nearly half a billion citizens.

However, just because there are problems, that does not mean that a new perfect model is available that will not have the same or even greater challenges. This, of course, is not the same as saying that improvements are impossible. They are far from it and should be pursued. The creation of the European Semester, the Fiscal Compact Treaty, Banking Union and the strong, practical focus of the EU's budget on addressing growth and jobs are all proof that the EU member states are striving for these improvements.

There is a popular criticism that the European Union has become an expensive, bureaucratic, intransparent leviathan of overregulation which has lost touch with its people and *raison d'être*. However, such criticism overlooks the fact that the European Union is not an entity acting within the world for its own ends – it is a Union comprised of twenty-eight member states working collectively.

What is also often forgotten is that the Union is only sixty-four years old – incredibly young in terms of the history of nation states, multilateral governance and international relations in general. The Union has evolved dramatically from its original conception as the European Coal and Steel Community in 1951, to the European Economic Community seven years later, to the European Union in 1993 and is continuing to evolve, with the introduction of the euro in 2001 and the Treaty of Lisbon in 2009.

Over this period, it has expanded from six to twenty-eight member states and Europe has gone from a war-torn, fragmented continent to an integrated single market and the world's largest economy. In short, the Union is constantly changing, reforming and adapting.

However, throughout this reform process, there are a number of essential elements of our Union which Ireland feels need to be protected and developed as we move into a new, post-crisis era of the EU:

The social sphere: the European Union was founded on the concept of freedom, enshrined in the so-called “Four Freedoms”: the free movement of goods, capital, people and services. These freedoms are manifest in the EU's most powerful asset – the Single Market – and Ireland believes that these ought to be further advanced and

developed. Each of these freedoms plays a vital role in creating the collective deal that is the European Union and it is not in Ireland's, or any member state's, interest to see these curtailed. The EU is first and foremost about the people of Europe and when Jean Monnet and Robert Schuman created the founding vision of the EU, they did so with the aim of bringing the people of Europe together. Though economics, in this case the pooling of heavy industry, underpinned this aim, the overriding rationale was to improve, and safeguard, the lives of citizens and this rationale has not weakened in the intervening years.

As we move towards a more genuine economic and monetary union, it is important that we continue to strive to ensure that the Union preserves the strength of its social cohesion and remains democratically accountable, through the EU's political sphere.

The political sphere: first among these is ensuring that we have a well-functioning and independent Commission, which is essential to the future of the Union. This principle is encapsulated in the so-called "Community Method", originating in the Treaty of Maastricht in 1993 and later further enshrined in the Treaty of Lisbon in 2009. What it means, in essence, is a Commission which is representative of the Union – one Commissioner per member state, which is endowed with the sole right of legislative initiative and with a role protected vis-à-vis the European Parliament and European Council.

The Community Method ensures that the Commission can maintain a level playing field across the Union, treating all member states objectively and equally with regard to the fulfilment of their obligations and ensuring that the benefits of Union membership are felt throughout the entire Union. An increase in the use of alternative decision making procedures, such as the intergovernmental method, whereby a number of member states of the Union work together bilaterally to bring forward initiatives, undermines the collegiality and fairness of what it means to be part of an effective and functioning Union.

A properly implemented Community Method also ensures that the Union's legitimacy and accountability is enhanced, with decisions taken at the most appropriate level. When President Barroso commented recently that the Union should be "big on big things and small on small things", he was talking about a focus of the Union's activities on those issues which are beyond the scope of individual member states to handle on their own, such as climate change, transnational financial regulation, mobile phone roaming charges, data protection, and cross-border banking fees and leave those issues which are not transnational and which can be handled at national level to member states.

Ireland is fully supportive of such a re-focusing of the Commission's activities, in particular the work which is underway through the Regulatory Fitness and Performance Programme (REFIT), which aims to reduce the regulatory burden of the Commission's activities as well as simplify EU laws.

Additionally, the Union currently has a significant legal toolbox at its disposal and which it can draw on to make any necessary reforms. The Treaty of Lisbon and the Fiscal Compact Treaty introduced some of the most robust governance initiatives in the Union's history, as well as greatly increased the powers of the European Parliament. These are relatively new initiatives and, in most instances, largely untested or under-utilised. As such, it is important that we take the time to use these tools and to make these existing Treaties work.

For instance, the call for more powers to flow to national parliaments must recognise that existing provisions under the Lisbon Treaty, such as reasoned opinions and yellow cards, could be used more. The yellow card system means that if one-third of the national parliaments raise an objection to a proposed Commission initiative on the basis that the principle of subsidiarity has been violated then the proposal must be reviewed. This is a powerful tool which has, thus far, only been invoked twice.

Furthermore, national parliaments can have a greater role in the European Semester process, and the national debate on Country Specific Recommendations. The European Union is not one dimensional in its approach to governance and political participation, but rather is multi-vector in its dynamics with opportunities for all its stakeholders – governments, parliaments and citizens – to be involved in all its processes. The tools are available but there is a need for them to be taken up more effectively.

In the economic sphere: inherent in the adaptation of the EU to the actualities of a globalised world is the realisation that in order to strengthen the defences of the Union against the type of economic crises which we have experienced in recent times, genuine coordination and governance of monetary, as well as fiscal, policy is required. The European Semester process, which is embedded within the provisions of the Fiscal Compact Treaty, is a key reform in this regard.

As referenced already, the Semester creates the space for the member states of the EU to coordinate their national policies towards the overall objectives of the Union as set out in the EU's growth strategy (Europe 2020). The Semester provides a structured process over the first half of the year for advance coordination of policies to improve the growth and social prospects of individual countries. The outcomes of this process – the so-called Country Specific Recommendations – are then reflected in the national budgetary cycles. Ireland believes that these initiatives will vastly enhance the ability of member states to generate sustainable growth across the Union and to combat destabilizing disparities before they can take hold.

Additionally, further efforts are required to deliver on the Single Market. This is the European Union's most important asset as, taken as a single economy, the twenty-eight member states of the Union represent over 500 million people and the world's largest economy. It has within it the capacity to generate long-term stability, jobs, growth and prosperity for all member states.

Since the first steps towards realizing this latent potential in 1987, with the entry into force of the Single European Act, the EU has undertaken significant reform in this area, particularly in relation to goods.

However, further political determination is required in order to fully implement the two most important initiatives, the Single Market Acts I and II, which have twenty-four action points between them. Full implementation of these Acts will unlock the possibilities of a true single market, in particular regarding services and the digital economy. For example, completion of the digital single market alone is estimated to produce an increase of approximately 4% in GDP. It is not feasible for such potential to remain untapped.

The work of the EU in completing free trade agreements with our trading partners across the world will also yield vast benefits. When completed, the EU-US Transatlantic Trade and Investment Partnership (TTIP) will benefit the EU's economy by approximately €116 billion per year, the EU-Japan Free Trade Agreement could boost the EU's GDP by almost one per cent and the EU-Canada Free Trade Agreement, once implemented, is expected to increase two-way bilateral trade in goods and services by 23% or €26 billion per year. These are just three of the negotiations underway at present, in addition to the thirty-four trade agreements already in place. In a globalised world, the ability to trade freely without arbitrary or unnecessary protectionist measures is essential if we are to increase economic growth and improve living standards.

Six years ago, when the economic crisis first descended, many commentators predicted not only the demise of the Eurozone but the break-up of the European Union as a whole. Neither of these predictions has come to pass and, if anything, the Eurozone and EU have been strengthened with a renewed commitment towards solidarity. With the realization in the coming years of the reforms now under way institutionally, politically and socially within the EU, Ireland is confident that the strength of the Union will be enhanced, thereby ensuring the prosperity of its member states.

Throughout the crisis and beyond, the very core of all our work at EU level – to make real and tangible differences to the lives of our citizens – has held firm. This is the overriding objective of the Union and which is why Ireland has always been firmly committed to the European project and it is why we will remain so.

Paschal Donohoe is the Fine Gael TD for Dublin Central and was appointed as the Minister for Transport, Tourism and Sport in July this year. Prior to this, he was the Minister for European Affairs at the Department of An Taoiseach and the Department of Foreign Affairs. Paschal was elected as a TD in February 2011, where he topped the poll in Dublin Central. Prior to his election, he was a member of Seanad Éireann from 2007 to 2011. He served as member of Dublin City Council from 2004 to 2007.

About the Konrad-Adenauer-Stiftung

The Konrad-Adenauer-Stiftung (KAS) is a political foundation of the Federal Republic of Germany. Founded in 1964, it was named after the first Chancellor of the Federal Republic of Germany, Konrad Adenauer. The KAS offers training activities, conducts research, grants scholarships to students, supports and encourages international understanding and economic development. With its international activities, it plays an active and substantial role in international co-operation.

The KAS headquarters is located in Berlin, capital of the Federal Republic of Germany.

In Asia, its offices are located in Cambodia, China, India, Indonesia, Malaysia, Mongolia, Kazakhstan, Korea, Japan, Pakistan, the Philippines, Thailand and Vietnam. In 2002, KAS set up its Regional Office in Singapore.

The Political Dialogue Programme of the KAS Regional office organises and sponsors international conferences and seminars around the ASEAN+3 Region with a focus on political and social development, political parties and civil society, social market economy, regional security, international cooperation and relations between Asia and Europe.

Through these events and partnerships, KAS regularly produces publications and newsletters, alongside this bi-annual journal *Panorama: Insights into Asian and European Affairs*.

CONTRIBUTORS

**"Finding a Role for the Asia-Europe Meeting (ASEM)
in a 'Crowded' Environment"**

Yeo Lay Hwee

**"The European Union's Involvement in Asian Security:
Not Enough or Just About Right?"**

Axel Berkofsky

"The New Power Balance in the 8th European Parliament"

Daniela Kietz and Nicolai von Ondarza

**"Poland in the European Union: Ten-Year Success Story
and Upcoming Challenges"**

Agnieszka Łada

"The Greek Turnaround: Mending the Fragility and at What Price"

Eleni Panagiotarea

"Sweden and European Integration after the Crisis"

Göran von Sydow

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"Ten 'European Dream' Years of Latvia's EU Membership"

Asnate Kalniņa and Karlis Bukovskis

"Ireland and the European Union"

Paschal Donohoe